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INTERNATIONAL FINANCIAL AND MONETARY PROBLEMS AND RELATED MATTERS - IMPLICATIONS FOR AFRICAN COUNTRIES - CONSIDERATION OF RECENT DEVELOPMENTS IN RESPECT OF THESE PROBLEMS

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I. INTRODUCTION

1. During recent years, economic, trends in most independent African developing countries have revealed the existence of a multifaceted crisis of development. This crisis reflects the impact of the serious economic imbalance between the developed and the developing countries, international monetary disorder, economic crisis, the stationary level of official development assistance, the growing burden of public debt and various other factors. Many African countries have found themselves faced with major economic events in recent times, including the quadrupling of oil prices, inflationary pressures, the rise of commodity prices, the shortage of food products and the depreciation of reserves. Those who relied to a large extent on imports were seriously hit, and recorded substantial balance-of-payments deficits.

2. A number of African countries feature among the low-income countries. They are characterized by poverty and an unfavourable export structure. Some have benefitted from the leap in prices of commodity exports, and have thus emjoyed a considerable influx of capital; but many of them have been passed by in this economic expansion or exposed to disasters. Their development programmes have been jeopardized, and their economic growth rates affected.

3. The Annual GDP growth rate in Africa in 1973 was only 4.7 per cent, against 5.6 per cent in 1972 - a deceleration of 0.9 percentage points. This rate was lower than the average for developing countries as a whole, and also lower than all the rates in the various regions of the world, including South Asia. In addition, the annual GDP growth rate per capita was 2.0 per cent, against 2.9 per cent, and was also well below the average for all developing countries and the average for the various regions of the world.

4. Table 1 indicates the annual total and per capita GDP growth rates of the various regions of the world, in constant prices.

Table 1: Total and per capita annual GDP growth rates in the various regions of the world, in constant prices

	1970		1971		1972		1973 a/	
	Total	per capita	Total	per capita	Total	per capita	Total	Per capita
Developing countries	6.7	4.0	5.5	3.1	5.4	2.8	7.8	4.8
Africa	8.3	5.6	3.5	1.0	5.6	2.9	4.7	2.0
Southern Europe	6.1	4.6	6.2	4.6	7.7	6.1	7.7	6.0
East Asia	7.5	4.9	7.5	4.7	5.6	3.2	11.1	8.5
Middle East	7.9	4.6	11.2	7.9	9.2	6.3	10.0	6.8
South Asia	4.8	2.2	1.0	-1.4	-1.5	-4.0	5.4	3.2
Western Hemisphere	6.8	3.8	6.3	3.3	6.8	3.8	7.0	4.0
Industrialized countries	2.7	1.7	3.3	2.4	5.2	4.2	6.2	5.3

Source: Annual Report 1974 (Washington, International Bank for Reconstruction and Development).

a/ Preliminary figures.

N.B. Some differences may be found between the figures relating to Africa drawn up by the ECA Statistics Division and those prepared by the World Bank.

5. Balance-of-payments difficulties have also spread and worsened in many African countries. Overall results for 1973, compared with those of 1972, clearly reflect the impact of these difficulties.

6. Table 2 recapitulates the main data relating to the balance of payments of African developing countries (other than the main oil producers) for the period 1971-1973 in thousand millions dollars. The overall balance of payments of these countries underwent considerable variation, and markedly deteriorated, falling from US $0.3 thousand million in 1972 to $0.9 thousand million in 1973, thereby reflecting the worsening of the current and capital account balances.

Table 2: Summary of the balance of payments of African developing countries (other than the main oil producers - Algeria, Nigeria and Libyan Arab Republic) 1971-1973

	1971	1972	1973
Balance on trade	-0.4	0.1	-0.4
Balance on services and private transfers	-1.3	-1.4	-1.3
Balance on current account	-1.7	-1.3	-1.7
Capital account balance	1.4	1.4	0.8
Allocation of SDRs	-	0.1	-
Overall balance	-0.2	0.3	-0.9

Source: Annual Report 1974 (Washington, International Monetary Fund, 1974).

Note: The balance on trade for 1973 has been corrected on the basis of the data provided in International Financial Statistics, Vol. XXVIII, No. 6 (June 1975). The balance on current account and the over-all balance have been corrected accordingly.

7. Prospects for the balance of payments of African developing countries other than the main oil exporters are gloomy, and give grounds for anticipating a worsening both of the balance on current account and of the overall balance. Difficulties with the trade balance and the general deficit on current account in most of these countries constitute a fundamental and almost permanent characteristic of their balance of payments. Improvements in some cases in the surplus on the overall payments balance results entirely from a rise in net inflows of capital, which also offsets the sometimes continuous deterioration in the balance on trade and on current account. The balance-of-payments position of most African countries reflects systematic efforts to accelerate the rate of socio-economic development and reduce the chronic shortage of domestic resources to meet financing requirements. Inflows of external capital and aid are necessary to ensure the formation of fixed capital. For that reason one of the countries' main objectives remains that of seeking inputs of external resources to remedy the imbalance of their payments.

8. The development of the total international reserves of the developing African countries since the beginning of 1974 has been impressive. Between 1972 and 1973, the increase was insignificant. In 1974 the total reserves had reached SDR 11.6 thousand million against 5.8 thousand million in 1973 - an increase of 100 per cent. A slight slowing down occurred at the beginning of 1975; the sums accumulated at the end of the first quarter of this year were SDR 10.6 thousand million, a fall of 10 per cent over the end of 1974.

9. This trend is due in particular to the movement of prices, which has swelled the reserves of the principal oil exporters (Algeria, Libyan Arab Republic and Nigeria). The share of these three countries alone in the total reserves of the African developing countries was 56 per cent in 1973, 77 per cent in 1974 and 80 per cent in the first quarter of 1975. Leaving aside the figures relating to those countries, the growth in international reserves in African countries between 1973 and 1974 was only 5 per cent, from SDR 2.6 thousand million to 2.7 thousand million, while the fall-back recorded at the end of the first quarter of 1975 compared with the end of 1974 was 9 per cent. These countries had international reserves totalling SDR 2.5 thousand million.

Table 3: International reserves of African countries (figures in millions)

	1972		1973		1974		1975 1st quarter	
	SDRs	$	SDRs	$	SDRs	$	SDRs	$
African developing countries	5 643	6 127	5 766	6 956	11 612	14 217	10 606	13 225
African developing countries other than Algeria, Libyan Arab Republic and Nigeria	2 140	3 324	2 564	3 094	2 682	3 283	2 458	3 060

Source: International Financial Statistics, Vol. XXVIII, No. 6 (June 1975).

II. FINANCIAL RESOURCES

10. The general survey of the conditions for growth in African developing countries other than the main oil exporters showed that such countries face serious problems in realizing their development and the imperative need to resort to the aid of external financial flows.

11. The latest economic reports on world growth trends have focussed on stagnant levels of official development assistance, the mounting debt burden of third world countries and growing disparities of progress. During the ten-year period from 1963 to 1973, DAC countries increased their national product by about two thirds in real terms, which means that the real income of each citizen of the DAC countries had increased by almost 50 per cent above 1963 levels in 1973. But during this ten-year period, the real value of official development assistance from DAC member countries fell. Worse, the rate of population increase in the third world was such that receipts of economic assistance per person represented a volume of real resources that was 30 per cent lower than a decade ago 1/.

The volume of aid

12. Recent indicators on the transfer of resources for development are, therefore, not propitious. They show that so far in the present decade, the volume of external official aid has been stagnant. At no time during this period has it kept pace with the growth of national product in the wealthy nations. It may be recalled that the United Nations General Assembly, which, in October 1970, proclaimed the second Development Decade and adopted the International Development Strategy as a plan of action anticipated that the Strategy would be implemented through an effort of co-operation on a world scale in order to eliminate economic and social disparities among nations. With regard to foreign aid, it retained the target of 1 per cent of GNP for ODA recommended in the report of the Pearson Commission. However, that target has not yet been fully achieved.

13. The erosion of aid has continued unabated. The volume of official development aid has remained relatively stagnant, in real terms, over the past decade. It is true that in the past six years official development assistance from the DAC countries increased from $6.6 thousand million to $9.4 thousand million, but if account is taken of the persistent inflation in the donor countries, the impact of the many large currency realignments, in adjusting the volume of such assistance, it becomes apparent that, in constant value terms, the real volume of such resources has actually declined by 7 per cent over the past 10 years, as was stressed above.

14. In particular, the United States share of total official development assistance dropped steadily throughout this period, from 58 per cent in 1962 to 53 per cent in 1967 and 32 per cent in 1973. In real resource value (constant 1967 dollars) United States concessional assistance declined sharply, from $3.5 to 2 thousand million. As a percentage of its GNP, United States concessional assistance almost halved from 0.43 per cent in 1967,

1/ *Development Co-operation: 1974 Review* (Paris, Organisation for Economic Co-operation and Development, 1974).

to 0.23 per cent in 1973. It should be added, however, that several DAC members improved their aid contribution significantly, assuming more of the aid burden.

15. Table 4 shows the net flow of financial resources from DAC member countries 1/ to the developing countries for the period 1970-1973, with data for 1963 given for reference purposes. It also shows total official development assistance (ODA) 2/ provided by the DAC countries. The total flow of resources reached $24.4 thousand million in 1973, as against 19.9 thousand million in 1972, a substantial increase of the order of 23 per cent in nominal terms. As a percentage it rose to 0.79 per cent as against 0.78 per cent of the gross national product of DAC member countries. Nevertheless, this increase, which was a little faster than that in GNP, was largely offset by price variations and exchange rate changes, so that growth in real terms more or less stagnated in 1973. The percentage of total flows was still far from the target of 1 per cent of GNP established for total flows. Only Belgium, France, Japan, the Netherlands and Portugal reached that target in 1973.

Table 4: Net financial flows from the DAC member countries

	Net disbursements				
	1963	1970	1971	1972	1973
Total flow in $ thousand million	8.6	15.7	18.0	19.9	24.4
Percentage of GNP	0.76	0.78	0.81	0.78	0.79
ODA in $ thousand million	5.8	6.8	7.8	8.7	9.4
Percentage of GNP	0.51	0.34	0.35	0.34	0.30

Source: Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

1/ The member countries of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) are: Australia, Austria, Belgium, Canada, Denmark, France, Germany (Federal Republic of), Italy, Japan, the Netherlands, New Zealand (which joined DAC in 1973), Norway, Portugal, Sweden, Swittzerland, the United Kingdom and the United States.

2/ Official development assistance (ODA) is defined as those flows to developing countries and multilateral institutions provided by official agencies, including State and local governments, or by their executive agencies each transaction of which meets the following tests:

(a) It is administered with the promotion of the economic development and welfare of developing countries as its main objective and,

(b) It is concessional in character and contains a grant element of at least 25 per cent.

16. Similarly, the sums disbursed under official development assistance rose to 9 4 thousand million in 1973, against 8 7 thousand million in 1972 - a rise of 8 per cent. However, in terms of GNP, these flows declined to the lowest recorded level of 0 30 per cent in 1973, against 0 34 per cent in 1972. This percentage still fell well short of the figure of 0 70 per cent recommended in the International Development Strategy for the Second United Nations Development Decade, which laid down that "each economically advanced country will progressively increase its official development assistance to the developing countries and will exist its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of Decade".

17. Compared with the total flow as a percentage of GNP in 1963, the figures for 1972 and 1973 represent an insignificant increase. Comparison of ODA as a percentage of GNP in those two years with the figures for 1973 shows a very marked deterioration. Table 5 shows the composition of the total net flow of resources from DAC countries to developing countries. The trend of the composition of the total net flow of resources is a matter of concern in view of the needs of the poorest countries. It is apparent that net flows from the public sector represented half of the total net flow of resources from DAC countries for the period 1970-1973.

18. Total nominal net official development assistance rose progressively between 1970 and 1973. Nevertheless, these totals, which represented a little less than half the total net flow of resources (43 per cent from 1970 to 1972) fell to 38 per cent to 1973. These proportions are markedly lower than those at the beginning of the 1960s (60 per cent in 1960 - 1962 and 67 per cent 1963). This deterioration is all the more worrying since ODA is the form of assistance on concessional terms. A large part of it is disbursed in the form of grants. The average interest rate of loans and the average period for repayment constitute favourable terms.

19. Bilateral flows loom large in the total flow. Their share, which was 96 per cent in 1963, fell during the early 1970s, and in 1970 and 1973 was only 88 per cent

20 Table 5 shows the composition of bilateral flows from DAC countries. Of the total of bilateral flows, grants, which made up 30 per cent in the early 1970s, represented only 27 per cent 1973. The share of concessional loans fell from 17 per cent in 1970 to 12 per cent in 1973. On the other hand, the share of export credits and other lending rose from 27 to 32 per cent. The share of direct investment rose from 25 to 29 per cent. If account could be taken of the terms of Euro-currency loans, the terms of the loans would be harder This trend has very marked consequences on the indebtedness of the developing countries.

21. Table 6, which shows the composition of net flows of resources from the DAC countries, indicates that private flows represented about half of net flows from DAC during the period 1970-1973. These flows play an important role in the development process as they contain a high proportion of direct investment -but for that reason they are aimed at the most developed countries of the third world, which have a capacity to attract such investment. The hardest-hit countries do not, therefore, derive great benefit from them.

Table 5: Composition of the net flow of resources - Total DAC countries - in US dollars thousand million

	1970	%	1971	%	1972	%	1973	%
I. Official development assistance, net	6.8	43.4	7.8	43.1	8.7	43.6	9.4	38.5
A. Bilateral official development assistance, net	5.7	36.3	6.4	35.5	6.8	34.1	7.2	29.5
1. Grants and grant-like contributions	3.3		3.6		4.4		4.5	
2 Development lending and capital, net	2.4		2.8		2.4		2.7	
B Contributions to multilateral institutions, net	1.1	7.0	1.3	7.2	1.9	9.5	2.3	9.4
1. Grants	0.5		0.7		1.0		1.0	
2 Capital subscription payments	0.5		0.6		0.9		1.1	
3 Concessional lending, net	-		-		-		0.1	
II Other official flows, net	1.1	7.0	1.3	7.2	1.6	8.0	2.6	10.6
A Bilateral other official flows, net	0.9	5.7	1.0	5.5	1.2	6.0	2.2	9.0
1 Official export credits, net	0.6		0.6		0.7		1.1	
2. Debt relief, net	-		0.2		-		0.1	
3 Equities and other bilateral assets, net	0.3		0.3		0.4		0.9	
B Contributions to multilateral institutions, net	0.3	1.9	0.3	1.6	0.4	2.0	0.4	1.6
1 IBRD	0.3		0.3		0.4			
2 Other	-		-		-		0.4	
III. Private flows, at market terms, net	6.9	43.9	8.1	45.0	8.6	43.2	11.1	45.4
A Private investment and lending, net	4.7	29.9	5.2	28.8	7.2	36.1	9.9	40.5

Table 5: Composition of the net flow of resources -- Total DAC countries - in US dollars thousand million (cont'd)

	1970	%	1971	%	1972	%	1973	%
1 Direct investment, net	3.5		3.7		4.4		6.7	
2 Bilateral portfolio investment and other, net	0.7		0.7		2.1		3.0	
3 Multilateral portfolio investment, net	0.5		0.8		0.7		0.3	
B Private export credits	2.1	13.3	2.8	15.5	1.4	7 0	1.2	4.9
1 Guaranteed private export credits, net	2.1		2.7		1.4		1.1	
2 Non-guaranteed ex port credits	-		0.1		-		0.1	
IV. Grants by voluntary agencies	0.9	5.7	0.9	5.0	1.0	5 0	1.4	5.7
Total official and private, net (I + II + III + IV)	15.7		18.0		19.9		24.4	
Total official, net (I + II)	8.0	50.9	9.0	50.0	10.3	51 7	12	49.1

Source: Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

Table 6: Composition of bilateral flows from DAC countries in 1970-1973 in US dollars thousand millions

	1970	1971	1972	1973
ODA grants	3.32	3.63	4.37	4.48
Private grants	0.86	0.91	1.03	1.36
ODA concessional loans	2.38	2.79	2.37	2.67
Direct investment	3.53	3.71	4.44	6.17
Export credit and other lending	3.79	4.57	4.70	6.83
Total bilateral flows	13.89	15.61	16.91	21.52

Source: Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

22. The total net flow of private capital other than grants rose by 29 per cent in nominal terms, from $8.6 thousand million in 1972 to $11.1 thousand million in 1973. The share in the total net flow of resources from DAC countries rose from 30 to 40 per cent. The components of such investment have developed in various ways. While direct investment rose by 50 per cent and bilateral portfolio investment by 43 per cent, a substantial fall in multilateral portfolio investment was recorded between 1972 and 1973. On the other hand, private export credits fell both in nominal terms and as a percentage of net flows of resources. Grants from private agencies rose slightly, from $1 thousand million in 1972 to 1.4 in 1973.

23. For flows of private capital as a whole, while investment and loans more than doubled between 1970 and 1973, with a rise from 30 to 40 per cent of the share in total net flows of resources from the DAC countries, private export credits substantially decreased during the same period. Their share in the total fell from 13.3 to 4.9 per cent.

Distribution of the flows of resources

24. Table 7 shows the geographical distribution of financial inputs from the DAC countries and multilateral agencies in 1970-1973. The table shows that the net sums received by Africa rose from US$3,078,230,000 in 1970 to $4,073,160,000 in 1973 - a rise in nominal terms of the order of 30 per cent, compared with a rise of 65 per cent for the total net sums received by America, 60 per cent for Asia, 30 per cent for Europe, 37 per cent for Oceania and 55 per cent for the

rise in the over-all total. In addition, Africa's share in the over-all total was well below the shares of America and Asia during the entire period 1970-1973. The yearly figures show the worsening situation. From 21.2 per cent of the total, in 1970, it fell to 18 per cent in 1973, while America's share rose during the same period from 28.7 to 30.5 per cent, and Asia's share rose from 35.7 to 37 per cent. Accordingly, Africa's share in the over-all total fell, while the shares of America and Asia improved. The reduction in Africa's share was substantial in the sums received by the countries north of the Sahara, while the sums received by those south of the Sahara, as well as their share, increased.

Table 7: Recorded net flow of resources to various regions, 1970-1973 - Total flow from DAC countries and multilateral agencies in millions of US dollars

	1970		1971		1972		1973	
	Amount	%	Amount	%	Amount	%	Amount	%
Africa, total	3,078.23	21.16	3,760.27	22.46	3,547.84	19.82	4,073.16	18.08
North of the Sahara	1,036.15	7.12	1,255.02	7.49	816.46	4.56	584.47	2.59
South of the Sahara	1,793.31	12.33	2,206.20	13.18	2,543.85	14.21	3,391.19	15.05
America	4,167.99	28.66	3,957.58	23.64	4,745.27	26.51	6,879.47	30.54
Asia	5,198.95	35.74	6,267.36	37.44	6,164.14	34.44	8,353.78	37.09
Europe	1,097.64	7.54	1,244.68	7.43	1,266.55	7.07	1,441.89	6.4
Oceania	442.98	3.04	389.51	2.32	499.23	2.78	607.33	2.69
Over-all, total	14,542.5		16,738.20		17,894.4		22,520.40	

25. Table 8 shows the distribution of net total ODA from DAC countries in the form of concessionary inputs from multilateral agencies for 1970-1973. Expressed in nominal terms the sums granted to Africa rose by 42 per cent - a figure higher than the rates of increase in the sums for America and Asia. In comparison with the over-all total of such net total ODA, Africa's share, which represented 26 per cent in 1970, rose to 28 per cent in 1973, while those of America and Asia had fallen. This trend is in general favourable to Africa. African countries north of the Sahara benefited little from the trend, while those south of the Sahara were substantial beneficiaries.

Table 8: Net receipts by region of ODA from DAC countries and resources at concessional terms from multilateral agencies in millions of US dollars

	1970 Amount	%	1971 Amount	%	1972 Amount	%	1973 Amount	%
Africa, total	1,682.35	25.79	1,961.93	26.33	2,101.57	26.78	2,396.02	27.63
North of the Sahara	372.94	5.7	398.78	5.35	366.57	4.67	415.07	4.78
South of the Sahara	1,270.39	19.48	1,529.37	20.53	1,700.69	21.67	1,937.87	22.35
America	962.06	14.75	929.04	12.47	953.62	12.15	1,004.67	11.58
Asia	3,088.80	47.36	3,597.97	48.30	3,528.44	44.96	3,990.03	46.02
Europe	178.38	2.73	223.26	2.99	278.34	3.54	223.76	2.58
Oceania	263.05	4.03	284.12	3.81	368.14	4.69	428.56	4.94
Over-all, total	6,521.40		7,448.90		7,846.50		8,670.00	

26. Tables 9 and 10 below show the distribution of net total bilateral ODA and the net amounts of bilateral and multilateral technical co-operation expenditure for 1970-1973. In connexion with the data in these tables, the same trend as that stressed above may be observed. This trend is all the more favourable to Africa since ODA is the form of assistance which includes the most concessionary terms granted by the donors.

Table 9: Net receipts by region of bilateral ODA in millions of US dollars

	1970 Amount	%	1971 Amount	%	1972 Amount	%	1973 Amount	%
Africa, total	1,305.16	22.86	1,525.19	23.75	1,653.32	24.43	1,830.60	25.58
North of the Sahara	314.83	5.51	328.43	5.11	290.07	4.28	309.45	4.32
South of the Sahara	966.18	16.92	1,165.25	18.14	1,333.93	19.71	1,478.34	20.66
America	867.38	15.19	819.31	12.76	854.88	12.63	891.79	12.46
Asia	2,818.21	49.37	3,219.80	50.14	3,158.23	46.67	3,287.61	45.94
Europe	150.86	2.64	186.13	2.89	262.58	3.88	206.54	2.88
Oceania	257.72	4.51	275.38	4.28	360.78	5.33	422.48	5.90
Over-all, total	5,707.40		6,420.90		6,766.50		7,155.00	

Table 10: Net receipts by region of bilateral and multilateral technical co-operation expenditure in millions of US dollars

	1970 Amount	%	1971 Amount	%	1972 Amount	%	1973 Amount	%
Africa, total	705.86	36.78	808.81	38.71	911.28	38.74	1,103.49	38.21
North of the Sahara	118.63	6.18	117.44	5.62	134.28	5.70	186.98	6.47
South of the Sahara	551.19	28.72	661.64	31.67	744.29	31.64	881.39	30.52
America	332.71	17.33	387.59	18.55	398.51	16.94	457.04	15.82
Asia	543.15	28.30	545.60	26.11	532.09	22.62	605.23	20.95
Europe	39.82	2.07	37.76	1.80	41.77	1.77	44.61	1.54
Oceania	25.39	1.32	33.04	1.58	43.86	1.86	149.99	5.19
Over-all, total	1,918.92		2,088.95		2,351.73		2,887.71	

27. Table 11 indicates the distribution of bilateral ODA and flows from multilateral agencies received by 101 receipient countries classified by income bracket, 1969-1972 average. The table shows that ODA and flows at concessional terms from multilateral agencies decline rapidly and regularly as one moves across the table from the lower to the higher income groups. The poorer countries, represented by the first two groups, covering the least developed countries and those with per capita income lower than $200, including most African countries, received more ODA during the period 1969-1972. ODA and multilateral concessional flows represented fairly high shares as a percentage of imports for those two groups. The same can be said for the distribution of the total flows per capita. In general it may be concluded that during the period under review aid to the developing countries had been aimed at the lowest income groups.

Table 11: Distribution of bilateral ODA and flows from multilateral agencies by income bracket of 101 recipient countries, 1969 - 1972 average

	Least developed countries a/	Others under \$200	\$200 to under \$375	\$375 to under \$700	\$700 to under \$1,000	Gross disbursements \$1,000 and over	Gross disbursements All recipients
Number of countries	21	20	25	15	7	13	101
Total population 1971 (million)	143	934	319	203	93	83	1,825
a) As a percentage of GNP of recipient group:							
- ODA	2.9	2.0	1.5	0.4	0.2	0.1	1.0
- Concessional multilateral	1.1	0.3	0.2	0.1	-	-	0.2
- Other multilateral	0.2	0.1	0.2	0.3	0.2	0.1	0.3
- Total	4.2	2.4	2.2	0.7	0.5	0.2	1.6
b) As a percentage of imports of recipient group:							
- ODA	17.5	25.2	8.7	2.3	1.2	0.4	7.2
- Concessional multilateral	7.0	3.8	1.2	0.3	0.2	0.1	1.1
- Other multilateral	1.4	0.6	1.2	1.6	1.2	0.3	1.4
- Total	25.9	29.6	12.4	4.2	2.6	0.8	9.7
c) Dollars per capita:							
- ODA	2.7	2.2	4.3	1.8	1.6	1.1	2.9
- Concessional multilateral	1.0	0.3	0.6	0.2	0.2	0.2	0.4
- Other multilateral	0.2	0.1	0.6	1.2	1.6	0.7	0.7
- Total	3.9	2.6	6.1	3.3	3.5	2.0	3.8

a/ Excluding Botswana, Laos and the Maldives which are among the 39 recipients with a special relationship.

Financial resources from various donor countries other than DAC countries[1]

28. There are grounds for believing that, up to and including 1973, the financial flows provided by the DAC countries made up 90 per cent of the official and private capital received bilaterally by the developing countries (Euro-currency borrowing not included) On the other hand, the share of DAC countries in the supply of financial resources (official and private) to the multilateral institutions declined below that percentage. Apart from bilateral flows from the DAC countries, some member countries of OECD which are not members of DAC provided financial flows to the developing countries. The second largest group in size comprises the communist countries, with 5 per cent of the total flows and 10 per cent of the official flows. The group of OPEC members made official disbursements of the order of $700 million in 1973, as well as private flows. However, the importance of that group's pledges and commitments during the first nine months of 1974 (over $10,000 million) will change the order of the suppliers of capital to the developing countries. Euro-currency lending should also be mentioned.

29. Among OECD countries other than the DAC members, some provide substantial assistance to the developing countries. Finland has an aid programme in the proper sense. Its ODA disbursements rose from $7 million to $28 million over the period 1970-1973, and the major part is made up of bilateral grants, representing more than half in 1973. So far the recipient of this aid have been the United Republic of Tanzania, with 30 per cent of total bilateral assistance, Peru, Ethiopia, Kenya, Nigeria and Bangladesh.

30. Ireland's development assistance is still very modest. It is provided through multilateral channels and voluntary agencies. Ireland had increased its contributions to UNDP and had decided to participate in the third IDA replenishment.

31 Spain provides an increasing amount of resources through multilateral organizations, technical assistance, export credits and private investments. It had decided to participate in the third and fourth IDA replenishments. In 1973 it joined the African Development Fund with a capital subscription of $2.4 million.

32. Yugoslavia, an associate member of OECD, provides aid to other developing countries through technical assistance, joint ventures and export credits. It participated in the third and fourth IDA replenishments, and contributed $2.4 million to the African Development Fund In early 1974, it made available a large amount for a power station in the United Republic of Tanzania.

Communist countries

33. The financial flows from communist donor countries to the developing countries are difficult to estimate. A tentative estimate would suggest that the flow has fluctuated between $1.4 thousand million and $1.6 thousand million annually

1/ Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

over the years 1970 to 1973. In 1973, Soviet flows declined by $120 million while Chinese aid increased by about $200 million. East European flows have largely remained unchanged at about $300 million. Estimated net flows from the USSR decreased from $870 million in 1970 to $750 million in 1973, or from 0.27 to 0.16 per cent of the estimated GNP. China makes the most important aid effort. Its net disbursements are likely to have exceeded $500 million in 1973, corresponding to 0.3 per cent of GNP. In contrast from aid to the USSR, Chinese aid continued to be very concessional. China provided a $10 million general support grant to Zambia, and a $28 million grant, mostly wheat, to Egypt. In 1973, Chinese aid was concentrated on Africa. The largest loan recipients were Zaire ($100 million), Cameroon ($75 million), Chad, Senegal and Upper Volta with close to ($50 million) each. This geographical concentration on Africa seems to be continuing in 1974.

34. Available statistics concerning total capital pledged on a bilateral basis by the communist countries to the developing countries end in 1972. For that year, the total pledged was $1,492 million, of which 38 per cent was destined for Africa, 10 per cent for Latin America and 52 per cent for Asia. African recipients were Algeria, Egypt, Mauritius, Sudan and Tunisia.

Major oil exporters

35. Over the period 1970 to 1973, OPEC member countries provided official assistance to developing countries fluctuating between $400 million and $500 million annually. Since the end of the 1967 Middle East war disbursements of aid have increased; most have gone to Arab countries, though some amounts have gone to African countries south of the Sahara. During the first seven months of 1974, commitments by the OPEC member countries reached a total of $12.2 thousand million, including $6.2 thousand million in bilateral commitments, taking into account the $3.1 thousand million offered to the IMF in connexion with its oil facility and $1 thousand million made available to the World Bank. In 1974, one third of bilateral commitments (about $2.1 thousand million) went to the most seriously affected countries as listed by the United Nations, and some $4.1 thousand million to other developing countries. As regards disbursements, they might have been of the order of $2 thousand million, including $600 million for the most seriously affected countries.

Financial resources from multilateral institutions

36. Apart from bilateral flows, net flows of resources received by the developing countries include flows from multilateral institutions. 1/ The assistance provided by such institutions occupies an important place in the total flow of financial assistance to the developing countries

37. Table 12 shows net disbursements by multilateral agencies to developing countries in the period 1970-1973. The total of such flows rose from $1,560,000,000 in 1970 to 2,020,000,000 in 1971, 1,970,000,000 in 1972 and 2,330,000,000 in 1973. During those years, the percentage of grants was 41, 36, 40 and 37 per cent respectively of the total loans and grants.

1/ Multilateral institutions include the World Bank group, regional banks, the financial institutions of the EEC and a number of agencies, programmes and special funds of the United Nations.

38. The World Bank has extended its activities in Africa over recent years. During the fiscal year ending in June 1972, new loans and credits approved by the Bank and the Association (IDA) brought the total sums granted to Africa to 581 million, against 474 million in 1971, out of an overall total of 2,966,000,000 in 1972 and 2,505,000,000 in 1971 for all regions. At the end of the 1972 fiscal year, the cumulative total of Bank loans and IDA credits to Africa was 3,654,000,000.

39. Table 13 shows Bank loans and IDA credits approved in 1973-1974. The IDA credits represents 25 per cent of the total. Of the over-all total, Africa's share was 25 per cent; Africa, which had received 22 per cent of Bank loans, compared with 22 per cent for Asia and 28 per cent for Latin America and the Caribbean, received only 34 per cent of the IDA credits compared with 60 per cent and 3 per cent respectively for the other two groups.

40 The African Development Bank substantially increased its loans during the 1974 financial year. Its loans rose from 25,560,000 UC 1/ in 1967-1970 35,750,000 UC in 1973 and 73,450,000 in 1974. The number of member States which had received Bank loan rose to 33, against 29 at the end of 1973. The year 1974 was a starting-up period for the African Development Fund. During that year, the Fund approved 11 projects and 6 studies, representing a total commitment of 42 million UC.

41. Table 14 shows contributions from UNDP and United Nations organizations to developing countries in 1970-1973. It will be noted that such contributions have increased by about 40 per cent.

Financial terms and conditions of official development assistance

42. In October 1972, the DAC adopted a new Recommendation on financial terms and conditions of assistance to replace the previous recommendations on the same subject dating from 1965 and 1969. It entered into force on 1 January 1973. Accordingly, that year was the first for which donors' terms policies were assessed under the new Recommendation. The Recommendation provides for financial conditions a single over-all goal, expressed in the form of a minimum grant element 2/ applicable to the whole ODA programme of each country. In order to soften the overall financial terms of their official development assistance, the member countries will be expected to use their best efforts to reach and maintain an average grant element in their total official development assistance of at least 84 per cent.

43. In 1973, the grant element for total ODA commitments extended all by DAC members reached 87 per cent, against 84 per cent in 1972. This indicates a softening of the over-all terms. The improvement was due to an increase in the share of grants in total ODA commitments from 63 to 66 per cent and a softening of the grant element of ODA loans. For the DAC countries as a whole, it may be noted that the average financial terms for ODA loan commitments to some extent improved between 1970 and 1973. The maturity rose from 30 2 to 32.6 years, the interest rate fell from 2 8 to

1/ One unit of account (UC) is equivalent to 0 88867088 grams of fine gold. It is equal to US$1.20635.

2/ "Grant element" is defined as the face value of a financial commitment less the discounted present value of the amortization plus interest payments (using a 10 per cent discount rate).

Table 12: Net disbursements by multilateral agencies to the developing countries 1970-1973 in millions of United States dollars

	1970	1971	1972	1973
Loans:				
IBRD	395	569	614	613
IDA	158	283	278	608
IFC	67	56	41	98
IDB	263	291	-27	10
AfDB	-2	-6	-6	-1
AsDB	-15	47	39	83
EDF	10	14	10	14
EIB	37	31	28	45
Total loans	913	1,285	1,177	1,470
Grants:				
EDF (gross)	174	218	222	323
United Nations	472	513	570	538
Total grants	646	731	792	861
Total loans and grants	1,559	2,016	1,969	2,331

Table 13: World Bank loans and IDA credits approved in 1973-1974 in millions of United States dollars

	Bank Loans		IDA credits		Total	
	Number	Amount	Number	Amount	Number	Amount
Africa	30	703.7	38	370.4	68	1,074.1
Eastern Africa	10	209.9	20	198.5	30	408.4
West Africa	10	160.7	14	121	24	281.7
North Africa	10	333.1	4	50.9	14	384.0
Europe, Middle East	25	913.4	4	41.1	29	954.5
Asia	23	715.4	22	646.4	45	1,361.8
Latin America and the Caribbean	27	885.9	5	37.3	32	923.2
Over-all total	105	3,218.4	69	1,095.2	174	4,313.6

Source: World Bank Annual Report 1974

Table 14 : Contributions by UNDP and United Nations organizations to developing countries - Disbursements, number of fellowships and experts, 1970-1973

	1970	1971	1972	1973
I. Disbursements, total (millions of US$)	288	325	350	397
A. United Nations organizations	88	85	86	135
1. Regular programme	53	44	48	60
2. Other Funds	35	41	38	75
B. UNDP	200	239	267	262
1. Technical assistance	51	56	...	...
2. Special Fund	150	184	...	...
II. Fellowships (number)	11,765	11,708	10,055	
A. United Nations	5,296	5,165	4,431	
B. UNDP	6,469	6,543	5,624	4,388
1. Technical assistance	4,620	4,118	...	...
2. Special Fund	1,849	2,425	...	...
III. Experts (number)	11,240	12,605	12,858	
A. United Nations	2,131	2,062	2,129	
B. UNDP	9,109	10,543	10,729	10,151
1. Technical assistance	2,846	3,356	...	...
2. Special Fund	6,263	7,187	...	...

2.5 per cent, the grace period rose from 7.3 to 8.6 years and the grant element of loans accordingly rose from 57 to 62 per cent.

44. Table 15 shows the average terms of loan commitments and the grant element in loans and grants for Africa and other regions in the period 1970-1972. Total loan commitments rose by 41 per cent. Between 1970 and 1972, a general hardening of the average terms for such commitments could be observed. Maturities fell to 17.5 years, against 19.8; the grace period fell to 4.5 years, compared with 5.2; the interest rate rose to 5.2 per cent, as against 5 per cent; and the grant element fell to 31 per cent, instead of 35 per cent. The proportion of grants in the total loan commitments, which was 21 per cent, fell to 19 per cent, and the grant element of loans and grants fell from 46 to 43 per cent. For Africa, between the two years 1970 and 1972, total loan commitments barely increased, the average maturities of loans fell from 24.1 years to 22.3, the grace period fell from 5.9 years to 5.8, the interest rate rose from 3.4 to 4.1 per cent and the grant element deteriorated, falling from 48 to 42 per cent. Total grants rose substantially, as did the proportion of grant element of loans and grants. It should be noted that the grant element of loans and grants to Africa was lower during the years 1970-1972 than that recorded in South Asia, but higher than the levels in the other regions. It is of interest to stress that in 1972 total grants were higher in Africa than elsewhere, representing 38 per cent of total grants. In relation to loan commitments, total grants represented 61 per cent in Africa, against 28 per cent in East Asia, 8 per cent in the Middle East, 30 per cent in South Asia, 4 per cent in Southern Europe, 7 per cent in the western hemisphere and 19 per cent for the average of those regions.

Debt problems

45. The total indebtedness of developing countries is assuming impressive levels. At the end of 1972 the debt outstanding of 86 developing countries - external public debt outstanding, including undisbursed - reached almost $100 thousand million which, together with some $50 thousand million of private foreign investment, constitute their total foreign exchange liabilities. The accumulation of so many external liabilities by developing countries is at the origin of debt problems. The cost of indebtedness and the burden of debt servicing vary depending on the importance of the elements making up the debt: IDA debt, ODA debt, export credit debt and private bank debt. In 1970, 70 per cent of the $100 thousand million of debt were made up of public bilateral and multilateral debt, as against 30 per cent for private debt. The softness of certain debt components is shown in their share in debt service. At the end of 1972, bilateral ODA loans from DAC amounted to $28 thousand million, or 37 per cent of the total dispersed external public debt, but accounted for only $1.8 thousand million in debt service, or 20 per cent of that service. In contrast, debt arising from suppliers' and other commercially termed credits accounted for about one half of the debt outstanding, but accounted for over two thirds of the debt service.

46. In sum, the debt outstanding of the developing countries under sums disbursed at the end of 1972 represented about 75 thousand million and 9 thousand million of debt service, including 2.6 thousand million for interest payments (3.5 per cent as a percentage of debt outstanding) and 6.4 thousand million for amortization payments (8.5 per cent as a percentage of debt outstanding).

Table 15: Average terms of loan commitments and grant element of loans and grants, by region, 1970-1972
Amounts in millions of United States dollars

	Loan commitments							
	Amount	Maturity (years)	Grace (years)	Interest (per cent)	Grant element (per cent)	Grants (amounts)	Grants element of loans and grants (per cent)	Amount of loans used for terms calculation
Africa								
1970	2 197	24.1	5.9	3.8	48	879	63	2 179
1971	1 622	19.7	5.2	4.1	40	998	63	1 593
1972	2 175	22.3	5.8	4.1	42	1 333	65	2 091
East Asia								
1970	1 726	21.5	5.6	5.1	35	819	56	1 726
1971	2 201	21.4	5.9	4.4	40	806	56	2 201
1972	3 119	20.4	5.7	5.0	35	908	50	3 119
Middle East								
1970	1 540	11.4	2.8	5.8	21	68	24	1 450
1971	1 186	10.7	2.6	5.3	22	83	27	1 186
1972	1 547	12.2	2.7	4.7	27	113	32	1 547
South Asia								
1970	2 104	32.7	9.8	2.2	66	372	72	1 955
1971	1 627	33.7	7.8	2.2	65	494	73	1 572
1972	1 732	33	7.9	1.7	69	562	77	1 671
Southern Europe								
1970	1 146	14.9	4.4	5.4	27	99	33	1 147
1971	1 756	14.3	3.8	6.1	22	99	27	1 756
1972	2 377	14.5	3.4	4.8	30	82	32	2 271
Western Hemisphere								
1970	4 023	14.9	3.4	6.7	19	449	27	3 982
1971	4 989	13.8	3.6	6.5	20	471	27	4 894
1972	6 907	13	3.4	6.6	18	466	23	6 782
Total								
1970	12 647	19.3	5.2	5.0	35	2 688	46	12 439
1971	13 382	17.9	4.6	5.2	32	2 951	44	13 203
1972	17 857	17.5	4.5	5.2	31	3 465	43	17 482

Source: World Bank Annual Report 1974.

47. Table 16 shows the distribution of debt outstanding and debt service by income group for the period 1970-1972. The figures are converted at current exchange rates. Accordingly, the increase in debt and debt service includes the effect of recent currency realignments. It may be observed that, with the exception of the oil producers, the relative debt service burden increases for countries in higher income groups.

Table 16: Debt outstanding, including undisbursed, of 86 developing countries, 1970-1972 (in thousand million dollars)

End of year	Total	Oil Producers	Other countries High income	Medium income	Low income
1970	72.9	12.1	29.0	12.6	19.2
1971	85.1	15.0	34.5	14.5	21.1
1972	99.4	17.7	41.9	16.7	23.1
Debt service of these countries					
1970	6.1	0.7	3.4	1.1	1.0
1971	7.0	1.0	3.6	1.1	1.2
1972	8.3	1.5	4.2	1.4	1.2

Source: Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

48. Table 17 shows the distribution of the external public debt outstanding by region and by type of creditor on 31 December 1972. Africa's share of the debt is 16 per cent. Bilateral official loans and credits and multilateral loans and credits with a high grant element made up 17 per cent of the total in the case of Africa, as against 75 per cent for East Asia, 66 per cent for the Middle East, 93 per cent for South Asia, 70 per cent for southern Europe and 53 per cent for the western hemisphere This means that the components of Africa's public debt were less favourable in terms of their impact on debt service than those of East and South Asia, and that they included a higher proportion of debt contracted on hard terms.

Table 17: Distribution of external public debt outstanding of 86 developing countries, by region and type of creditor, on 31 December 1972 (in millions of US dollars)

Region	Disbursed only	Total	Including undisbursed Bilateral official	Multilateral	Suppliers	Banks	Other
Africa	10,900	16,248	8,662	2,966	2,525	1,163	933
East Asia	9,665	13,824	7,558	2,725	1,955	979	608
Middle East	7.782	11,036	6,400	842	1,216	1,033	1,544
South Asia	15.050	18,384	13,098	3,999	1,125	154	81
Southern Europe	7,031	10,308	5,179	1,918	758	1,735	718
Western Hemisphere	21.458	29,576	8,198	7,314	4,608	5,888	3,568
Grand total	71,887	99,376	49,095	19,763	12,186	10,953	7,379

Source: Annual Report 1974 (Washington, International Bank for Reconstruction and Development).

Euro-lending

49. Mention should also be made of the effects of Euro-lending. Table 18 shows the published syndicated Euro-currency loans in 1971, 1972, 1973 and the first half of 1974. It is clear that Africa's share is poor since it was only 5 per cent in 1971 and 1972, 9 per cent in 1973 and 3 per cent in the first half of 1974. The cost of these loans is relatively high and varies according to the competitive situation in the market. The debt servicing costs vary parallel to movements of the six month Euro-dollar rate. From about 7 per cent in 1970, it rose to about 14 per cent towards the end of 1974. The advatange of these loans lies in the fact that they are united, but their relatively high cost add importantly to the debt service burden of the borrowers. If the borrowers continue, under pressure from balance-of-payments problems, to resort to the use of such funds, developments in the market will decide on the continued availability of Euro-currency for developing countries.

Table 18: Published Euro-currency loans to developing countries, 1971, 1972, 1973 and first half 1974 (millions of dollars)

	1971	1972	1973	First half 1974
Algeria	120	257	1,353	22
Angola	-	-	10	-
Egypt	-	-	-	130
Gabon	10	25	64	67
Guinea	-	40	-	-
Ivory Coast	22	-	95	60
Kenya	-	15	5	-
Liberia	-	-	-	38
Malawi	-	-	5	-
Mauritania	8	-	-	-
Senegal	-	-	65	20
Sudan	-	-	-	200
Swaziland	-	3	-	-
Zaire	55	90	287	105
Zambia	-	25	150	-
Total Africa	215	455	2,034	642
Total developing countries	1,475	3,888	9,348	6,203
Other countries	2,645	4,633	12,675	13,534
Grand total	4,120	8,522	22,023	19,737

Source: Development Co-operation: 1974 Review (Paris, Organization for Economic Co-operation and Development, 1974).

Recent economic developments- effects of inflation and currency realignments

50. In the context of debt problems, stress should be laid on the effects of inflation and currency realignments on the debt and debt servicing of the developing countries. To the extent that the interest rate is not indexed to the inflation rate, inflation is beneficial to the debtor. This is the case for ODA loans, export credits and Euro-currency lending. The effect of inflation is felt on the terms of trade of the developing countries. Inflation has a beneficial effect on debt service for those countries whose export prices have risen sharply. Even with no change in the terms of trade following the rise in import prices, the debt service is paid with money whose value has fallen as result of inflation.

51. The debt of developing countries is denominated in various currencies: about 50 per cent in United States dollars, about 10 per cent in German marks and about 4 per cent in Japanese yen. Currency realignments and the floating of some currencies have had complex repercussions on the value of debt outstanding and the cost of debt service. According to the World Bank, the United States dollar value of all external debt increased by 3.6 and 3.1 per cent due to the 1971 and 1973 realignments. IMF

estimated the effect of the 1973 alignment to be close to 5 per cent. The effect of the realignments was least pronounced for the African countries and countries in Latin America, whose debt is largely dollar-denominated. The increase in dollar prices of developing countries' exports helped to reduce in real terms their debt outstanding.

52. Higher commodity prices, and particularly oil prices, added a further dimension to the already differentiated geographical pattern of LDC indebtedness. While the exporting countries gained in terms of their balance-of-payments position, and the possibility of making pre-payments of their debt, others, whose development prospects were already precarious before the crisis, were affected by higher commodity prices without any compensating gains for their exports. This situation had two effects on their debt: one, immediate, on their balance-of-payments, and the other, slightly retarded, resulting from the need to resort to external borrowing. This resource inflow causes new indebtedness and service charges are created.

53. Table 19 shows service payments on external public debt as a percentage of exports of goods and services for 1970-1972 for various African countries. In 1972, the effects of these payments exceeded 10 per cent of exports of goods and services in five countries of the 38 referred to in the table. They varied between 5 and 10 per cent in 17 countries, and were lower than 5 per cent in 16 countries.

Table 19 - Service payments on external public debt as percentage of exports of goods and services, 1970-72

	1970	1971	1972
Africa			
Algeria	10.1	15.2	14.2
Botswana	2.3	1.9	2.3
Burundi	2.0	1.8	7.1
Cameroon	4.0	5.1	5.4
Central African Republic	3.2	2.1	1.5
Tchad	3.2	7.7	4.8
Congo	8.0	7.6	8.5
Dahomey	2.8	4.1	2.7
Egypt	26.2	19.4	31.5
Ethiopia	11.7	10.6	8.7
Gabon	5.5	6.7	7.3
Gambia, The	0.7	1.1	1.6
Ghana	4.7	6.6	3.0
Ivory Coast	6.0	7.0	7.4
Kenya	5.3	5.8	5.6
Lesotho	8.5	7.1	5.1
Liberia	8.0	7.0	6.6
Madagascar	4.0	4.7	4.1
Malawi	8.9	9.1	7.8
Mali	1.7	0.7	1.3
Mauritania	3.2	3.1	5.8
Mauritius	3.7	5.1	2.1
Morocco	8.4	10.3	8.5
Niger	3.9	6.1	6.5
Nigeria	4.0	2.8	2.5
Rwanda	1.4	1.8	2.3
Senegal	2.3	6.0	4.2
Sierra Leone	9.0	8.3	8.7
Somalia	2.1	2.5	3.0
Sudan	9.1	12.0	12.3
Swaziland	4.6	5.2	9.0
Togo	3.2	2.8	5.0
Tunisia	19.5	16.6	16.2
Uganda	4.6	6.5	6.0
United Republic of Tanzania	6.7	7.4	9.6
Upper Volta	6.9	5.0	4.4
Zaïre	4.1	4.7	n.d.
Zambia	5.1	9.8	10.3

Source: Annual Report 1974 (Washington, International Bank for Reconstruction and Development).

54. Table 20 shows external resource flows and service payments on external public debt, by region 1970-1972. Net flows represented disbursements on loans, grant and grant-like loans minus amortization on loans. Net transfers represented net flows minus interest on loans. The table demonstrates the importance of debt service and its influence on total flows. In 1972 debt service made up 35 per cent of loans, grants and grant-like loans to Africa. The proportion was 28 per cent for East Asia, 54 for the Middle East, 50 per cent for South Asia, 52 per cent for southern Europe, 54 per cent for the western hemisphere and 45 per cent for all regions. In other words, debt service absorbed more than one third of external resource flows for Africa and more than half of such flows for other regions (with the exception of the South Asia region) during the year under consideration.

55. This situation has constantly worsened during recent years, accentuated by the impact of the recent energy crisis and upsets in the terms of trade. The debt problems of the developing countries have created a worrying situation, and led to considerable work by the World Bank, IMF, OECD, UNCTAD and others, with the objective of suggesting appropriate measures to prevent the serious difficulties arising from the debt problem from representing a handicap to the economic development of the developing countries and the international resource transfer from the richer to the poorer countries. Serious efforts have been undertaken to re-organize debts, particularly as regards the most seriously affected countries.

Table 20 – External resource flows and service payments on external public debt, by region 1970-1972 (in millions of United States dollars)

	Disbursements			Debt service				
	Loans	Grants and grant-like	Total	Amortization	Interest	Total	Net flow	Net transfer
Africa								
1970	1,669	1,002	2,670	642	262	904	2,028	1,766
1971	1,839	1,102	2,941	691	296	987	2,251	1,954
1972	2,195	1,442	3,637	926	341	1,267	2,711	2,370
East Asia								
1970	1,228	819	2,047	458	177	636	1,589	1,411
1971	1,433	806	2,239	507	240	747	1,732	1,492
1972	2,223	908	3,130	580	288	868	2,550	2,262
Middle East								
1970	1,471	95	1,566	494	139	633	1,072	933
1971	1,887	104	1,990	596	224	819	1,395	1,171
1972	2,222	162	2,384	1,032	269	1,301	1,352	1,083
South Asia								
1970	1,452	372	1,824	481	289	771	1,343	1,053
1971	1,815	494	2,309	623	312	935	1,685	1,374
1972	1,317	562	1,879	596	349	945	1,283	934

Table 20 - External resource flows and service payments on external public debt, by region 1970-1972 (in millions of US$) (cont'd)

	Disbursements			Debt service				
	Loans	Grants and grant-like	Total	Amortization	Interest	Total	Net flow	Net transfer
Southern Europe								
1970	939	99	1,038	477	228	706	567	332
1971	1,153	99	1,252	563	237	800	689	451
1972	1,563	82	1,646	587	273	861	1,059	785
Western Hemisphere								
1970	3,761	449	4,210	1,742	748	2,489	2,468	1,721
1971	3,564	471	4,035	1,850	817	2,667	2,185	1,368
1972	5,192	466	5,658	2,138	946	3,084	3,521	2,575
80 developing countries								
1970	10,521	2,835	13,356	4,295	1,845	6,134	9,062	7,217
1971	11,691	3,076	14,767	4,830	2,126	6,956	9,937	7,811
1972	14,713	3,622	18,335	5,859	2,466	8,325	12,475	10,009

Source: Annual Report 1974 (Washington, International Bank for Reconstruction and Development).

The Development Committee

56. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (Committee of 20), having concluded its work on international monetary reform, agreed on a programme of immediate action. The programme includes a recommendation for the "establishment of a joint ministerial Committee of the Fund and the World Bank to carry forward the study of the broad question of the transfer of real resources to the developing countries and to recommend measures". Following this recommendation, the Board of Governors decided, during its meetings in September and October 1974, to set up a Development Committee under its terms of reference:

(a) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to the developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfilment of its suggestions;

(b) The Development Committee shall establish a detailed programme of work, taking account of the topics listed in annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for co-ordination with other international bodies;

(c) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance-of-payments difficulties in the current situation.

57. The Development Committee held its inaugural meeting in October 1974, and examined the situation arising from its terms of reference and adopted its initial programme of work. The Committee held its second meeting in Washington on 17 January 1975; its Executive Secretary presented several reports on the situation of the most seriously affected developing countries, measures to adjust to the new outlook in commodity prices and the future work programme of Committee.

58. The members of the Committee engaged in a general exchange of view regarding the present situation and prospects of the developing countries. Members noted that many developing countries found themselves in serious difficulties as a result of substantial adverse changes in their terms of trade and an adequate flow of external capital The Committee agreed that the industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets and to improve the real volume and the quality of official development assistance. The industrialized countries should also avoid trade restrictions that could negatively affect developing countries exports. The members of the Committee also stressed the

importance of continued and expanded co-operation, particularly in the transfer of technology and management skills, between the industrialized and surplus oil-producing countries.

59. The Committee felt that the oil-producing countries should seek to continue and expand their assistance in accordance with their financial capacity to do so.

60. The Committee agreed that the situation of the most seriously affected countries required urgent treatment. In that context, it welcomed the action taken by the Interim Committee with a respect to a continuation and expansion of the oil facility and the establishment of a Special account in order to reduce for the most seriously affected members the burden of interest payable by them. The Committee invited the Executive Boards of the Bank and the Fund to study the desirability of creating a special trust fund that would provide additional highly concessional resources for the most seriously affected countries.

61. The Committee also invited the Executive Board of the Bank to undertake a study of the concept of "third window" lending by the Bank on terms intermediate between those of the Bank's loans and those of the IDA's credits.

62. The Committee instructed the secretariat to propose such measures as might be considered to promote increased use of capital markets by developing countries and to facilitate their access to such markets.

63. The Committee also agreed that the future work of the Committee should focus on the basic long-term needs of the developing countries. It instructed its Executive Secretary to initiate a broad and continuing review of the question of the transfer of real resources in order to formulate recommendations as to how the required transfers of real resources might be met through existing or new financial mecanisms and arrangements.

64. The Committee was glad to note the announcements made at the meeting of actions which permit the full effectiveness of the IDA fourth replenishment, and urged sympathetic consideration of the proposals recently put forward by the World Bank for an increased programme of Bank lending.

65. At its third meeting, held in Paris on 12 and 13 June 1975, the Committee reviewed the present situation and the medium-term and long-term prospects of the developing countries. It broadly endorsed the conclusion of the World Bank study that, if the developing countries are to achieve adequate growth rates in the remaining years of the decade, they will require substantial increases in capital flows, both official and private, and that among other things they will to undertake at the same time efforts to increase domestic resource mobilization and to expand exports. The requirements of the low-income countries should be met on a priority basis. The Committee recommended urgent steps to meet the balance-of-payments needs of the most seriously affected countries.

66. In the light of that situation, the Committee re-emphasized the urgency of improving the real volume and quality of official development assistance, both bilateral and multilateral, and reviewing its distribution in favour of the poorest countries. The Committee noted that the existing quantum of aid was still far below the 0.7 per cent of GNP target for the middle of the Second Development Decade. In that connexion, the Committee noted that negotiations for the fifth replenishment of IDA were scheduled to start later that year.

67. The Committee agreed that there should be an expansion of the lending programmes of the World Bank and the regional development banks. The Committee decided to lend its unanimous support to the establishment for one year of a new intermediate lending facility in the World Bank known as the Third Window. There will be need for eligibility criteria which will favour the developing countries with an annual *per capita* income of less than $375.

68. The members of the Committee agreed to urge the Executive Directors of the Fund to consider all aspects of the establishment of a Trust Fund as well as to continue the study of all possible sources of financing.

69. The Committee appreciated that private capital flows must continue to play a substnaital role in helping to meet the over-all capital needs for development. It noted the importance of measures to facilitate and expand the access of developing countries to capital markets, and recommended expanded technical assistance to developing countries seeking such access.

70. The Committee recognized the seriousness of fluctuations in the prices and earnings of commodities and the need for effective measures to reduce such fluctuations. It also expressed its earnest hope for maximum progress in trade liberalization during the ongoing multilateral trade negotiations.

III. MONETARY ISSUES

Evolution of the main international monetary events 1973-1975 and their impact on trade and development in African countries

71. The study presented to the Association of African Central Banks at its third regular meeting (International financial and monetary issues - their implications for African trade and development (E/CN.14/AMA/40)) had traced the principal international monetary events from the beginning of 1971 to mid-1973 after the second devaluation of the United States dollar against gold on 12 February 1973, the agreement of 17 March of the same year on fluctuations of European Community currencies and the revavulation of the German mark. It was concluded that despite all those measures, the upheavals had not been stopped and that the exchange markets were far from recovering their stability.

72. Indeed, it was noted that short-term interest rates in Europe were continuing to rise sharply, reflecting a general shift in the stance of European monetary policy induced by the intensification of inflationary pressures. Investment of funds in United States dollar assests declined. Speculation was also reduced, and both the foreign exchange and the gold markets were comparatively quiet. There was renewed weakness of the United States dollar against most European currencies. In mid-July 1973, the currencies in the narrow-margins agreement, the Swiss franc and the Austrian schilling had appreciated against the dollar by amounts ranging from 9 per cent to 18 per cent in comparison with early May rates. This depreciation of the dollar in the foreign exchange markets was reflected in a new wave of speculative activity in the international gold markets.

73. International exchange developments during the year 1973 yielded to a number of very serious events on the world economic and financial scene: accelerated inflation and the rise in oil prices.

74. The high rates of price inflation that accompanied the expansion of economic activity during the latter part of 1972 and early 1973 made themselves increasingly felt. The counter-inflationary policies that had been widely adopted in the industrial countries did not slow the advance of prices in 1973. The inflationary upsurge in 1973 was by no means confined to the industrial countries. It also affected the developing countries, where the acceleration of price advances was sharp and pervasive.

75. The international economic situation and outlook were strongly affected by a sequence of developments relating to oil late in 1973. Since then, oil developments, especially the incidence of their cost-raising influences, have affected many price movements and the direction of development. The international payments system was upset by the rise in oil prices. All importing countries had to carry out fundamental adjustments to adapt to the new shape of the oil market. There followed changing currency relationships and substantial shifts in the external current account balances of individual countries, leading to major changes in the magnitude and direction of international capital flows. These changes were accompanied by pressure on the exchange markets, which was absorbed through fluctuations in floating rates.

76. Towards ~~the end of 1973 and the beginning~~ of 1974, the United States dollar began to firm against most leading currencies, largely as a result of improvement in the United States balance of payments on current account. However, towards the beginning of 1974, a number of steps were taken to ease controls on capital flows in the United States and several countries in continental Europe. This was followed by renewed appreciation of most other major currencies against the dollar. The dual exchange markets in France and in Italy were terminated. Towards the end of May, another reversal occurred, marked by a moderate firming of the dollar and relatively steady exchange rates. These reversals, in one direction and another, were repeated throughout 1974 and the first half of 1975, generally reflecting the weakness of the dollar as a continuing fact.

77. The impact of monetary problems and adjustments on the trade and development of African countries was stressed in the document mentioned above. The period since that document was prepared has been particularly marked by constant fluctuations in the exchange rates of the principal currencies. The new situation of greater exchange rate flexibility posed new problems of adaptation for the developing countries. Highly variable relationships among the major currencies are a source of uncertainty and instability for the developing countries. They affect the exchange rates of such countries in ways which do not always meet their own needs, and make an appropriate exchange rate response on their part particularly difficult. This state of affairs is an additional burden for the developing countries, which run the risk of losses in exports through depreciation of foreign currencies in which sales contracts have been invoiced. Similar considerations apply to the values of foreign financial assets, or external debts incurred by developing countries uncertainty caused by floating exchange rates has a profound impact on economic management and planning in the developing countries, where budgetary revenues are often highly dependent on export levies and import duties, and may be affected by exchange rate fluctuations. The possibility of hedging transactions in forward markets represents a new cost burden for these countries, and obliges them to resort to new market facilities. In sum, in all the ~~problems~~ posed by uncertainty in the monetary situation and exchange rate policy decisions, the developing countries most often suffer a comparative disadvantage in relation to other countries.

78. IMF has put into effect a set of Guidelines for the Management of Floating Rates, and has recommended that members should use their best endeavours to observe them. They are intended to provide criteria that members would observe in performing their undertakings. They are based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates; (b) to offer a measure of resistance to market tendencies in the slightly longer run; (c) to form a reasonable estimate of the medium-term norm for a country's exchange rate; and (d) to take account of members' reserve positions 1/. The guidelines are of a tentative and experimental character.

1/ Annual report, 1974 (Washington, International Monetary Fund, 1974).

79. Table 21 shows the exchange rates of most African currencies against the United States dollar, and the evolution of such rates between 13 August 1971 and the end of March 1975. The table also indicates percentage variations in these rates between the two dates. Only two currencies, those of Egypt and Ghana, depreciated more than the US dollar. The currency of seven countries: Kenya, Liberia, Malawi, Uganda, the United Republic of Tanzania, Sudan and Zaire - devalued with the dollar, thus aligning their rates with the United States currency. Most African currencies were revalued against the United States dollar. The extent of revaluation differed from country to country, and varied from a mininum of 0.83 per cent to a maximum of 37.6 per cent. It may be noted that the most substantial revaluations affected the currencies of African countries in the franc zone, whose rates continue to be fixed against the French franc, and those of certain other countries: Algeria, Zambia, Tunisia, Ethiopia and the Libyan Arab Republic.

80. Most exchange rates in African countries are still fixed against a foreign currency. The rates established against the United States dollar are those of Egypt, Ghana, Kenya, Uganda, the United Republic of Tanzania, Sudan, Zaire, Rwanda, Burundi, Zambia, Somalia, Libyan Arab Republic and Ethiopia. Those fixed against the pound sterling are those of Sierra Leone, Mauritius and the Gambia. The currency of the French-speaking African countries which are members of the West African Monetary Union and the Central African Monetary Union remain linked to the French franc, which is their intervention currency.

81. The recent period has witnessed several events of great importance in the monetary and economic field. The development of world inflation, the oil crisis, the Declaration on the Establishment of a New International Economic Order and the report on the interdependence of problems of trade, development finance and the international monetary system are particularly worth stressing.

The problem of inflation

82. The world economy has been dominated in recent years by a succession of monetary crises and upsots, but recently, and especially during the years 1973 and 1974, it was in the throesof widespread inflation. This set of events and situations constitues the most serious problem to confront the economy and growth of the international community and national Governments for more than thirty years. Currently, both in the developed world and in the developing world, inflation is the most serious problem of economic policy with which governments are dealing and to which they are attempting to find satisfactory solutions. The world-wide efforts which resulted in the formulation of the International Development Strategy are called upon to make concentrated and concerted efforts to prepare an international strategy against inflation.

83. In fact, inflation existed throughout the world, and particularly in the industrial countries, from the 1950s and 1960s. At the beginning of the 1960s, the average price increase experienced by those countries was about 2.5 per cent; but, at the time, those who were alarmed at what was then

Table 21 - Exchange rates for African currencies in United States dollars and percentage change between 13 August 1971 and the end of March 1975

	National currency units per United States dollars				Percentage change against the United States dollar between 13 August 1971 and end March 1975
	13 August 1971	After 18 December 1971	End February 1973	End March 1975	
					I. Countries whose currency has been devalued more than the dollar
Egypt a/	0,348	...	...	0,391 b/	-10.9
Ghana a/	1,020	1,974	1,149	1,149 b/	-11.2
					II. Countries whose currency was devalued with the dollar
Kenya	7,143	7,143	7,143	7,143 b/	
Liberia	1,000	1,000	1,000	1,000 b/	
Malawi c/	0,833	0,768	0,806	0,833 d/	
Sudan a/	0,348			0,348 b/	
Uganda	7,143	7,143	7,143	7,143 b/	
United R. of Tanzania	7,143	7,143	7,143	7,143 b/	
Zaire	0,500	0,500	0,500	0,500 b/	
					III. Countries whose currency has been revalued against the dollar
Sierra Leone	0,833	0,768	0,806	0,826 e/f/	+0.8
Mauritius a/	5,556	5,117	5,360	5,549 e/	+1.3
Botswana c/	0,714	0,750	0,750	0,671 d/	+6.4
Lesotho c/	0,714	0,750	0,750	0,671 d/	+6.4
Swaziland	0,714	0,750	0,750	0,671 d/	+6.4
Nigeria c/	0,357	0,329	0,658	0,613 d/g/	+7.5
Rwanda	100,000	92,105	82,900	92,800 b/	+7.8
Morocco a/c/	5,060	4,661	4,195	4,680 d/	+8.1
Burundi	87,500	87,500	78,750	78,750 b/	+11.1
Zambia	0,714	0,714	0,643	0,641 b/	+11.4
Somalia a/	7,143	6,925	6,233	6,295 b/	+13.5
Libyan Arab Republic	0,357	0,329	0,296	0,296 b/	+20.6
Ethiopia	2,500	2,303	2,072	2,072 b/	+20.7
Tunisia c/	0,525	0,484	0,435	0,435 d/h/	+20.7

Table 21 (Cont'd)

	National currency units per United States dollars				Percentage change against the United State dollar between 13 August 1971 and end March 1975
	13 August 1971	After 18 December 1971	End February 1973	End March 1975	
					III. Countries whose currency has been revalued against the dollar
The Gambia	2,083	2,083	2,000	1,666 e/	+25.0
Algeria a/ c/	4,937	4,547	4,093	3,857 d/	+28.0
Mali	555,419	511,570	460,410	421,500	+31.8
Cameroon	277,710	255,790	230,210	201,750 i/	+37.6
Central African R.	277,710	255,790	230,210	201,750 b/	+37.6
Chad	277,710	255,790	230,210	201,750 i/	+37.6
Congo	277,710	255,790	230,210	201,750 i/	+37.6
Dahomey	277,710	255,790	230,210	201,750 i/	+37.6
Gabon	277,710	255,790	230,210	201,750 b/	+37.6
Ivory Coast	277,710	255,790	230,210	201,750 i/	+37.6
Madagascar	277,710	255,790	230,210	201,750 i/	+37.6
Mauritania c/	277,710	255,790	230,210	201,750 i/	+37.6
Niger	277,710	255,790	230,210	201,750 i/	+37,6
Senegal	277,710	255,790	230,210	201,750 i/	+37.6
Togo	277,710	255,790	230,210	201,750 i/	+37.6
Upper Volta	277,710	255,790	230,210	201,750 i/	+37.6

Source: Annual Report (Various years) (Washington, International Monetary Fund); Monthly Bulletin of Statistics, Vol. XXIX, No. 5 (May 1975).

a/ State maintaining multiple currency practice and/or dual exchange market.
b/ Exchange rate fixed against the dollar.
c/ State which has notified the Fund that its currency is not being maintained within specified margins.
d/ Market rate.
e/ Exchange rate fixed against the pound sterling.
f/ February 1975.
g/ On 1 January 1973, the Nigeria (£N1 = $3.04) was replaced by a new currency, the naira, equal to ten Nigerian shillings, i.e. £N1 = N2. The naira is thus equal to $1.52. After 14 February 1973, the value of the naira expressed in dollars has not changed, which amounts to saying that the naira has been devalued with the dollar.
h/ January 1975.
i/ Exchange rate fixed against the French franc.

called inflation ~~could observe that the phenomenon~~ was accompanied by an expansion of production and a rapid improvement in levels of living. The price of inflation did not appear to be too high, since inflation helped to promote real annual growth in most economies.

84. Since the middle of the 1960s and the beginning of the 1970s, the main industrial countries have encountered serious difficulties in seeking to continue to reach their growth and employment targets while at the same time containing price rises. These difficulties were generally manifested in the continuation of high levels of inflation together with a rapid expansion of production and a rise in capacity utilization rates. However, the expansion of economic activity between 1972 and 1973 was accompanied by high rates of price inflation, which led the authorities of many industrial countries to introduce or tighten policies of financial restraint. The impact of such policy actions has begun to take effect in several countries. For the industrial countries as a group, the growth of real GNP dropped from an annual rate of 8 per cent in the first half of 1973 to about 3 per cent in the second half; but the counter-inflationary policies that have been widely adopted in the industrial countries did not slow the advance of prices in 1973. Indeed, the upward movement of prices was accelerating, reinforced by shortfalls in agricultural production, a steep upsurge in primary commodity prices and other factors. The annual rate of price increase in the second half of 1973, compared with the first half of the same year, was 10 per cent, which represented an extremely high and very serious level of inflation.

85. The inflationary upsurge in 1973 also accelerated, both in the more developed primary producing countries and in the developing countries. In the latter group, the acceleration of price advances was sharp and unprecedented. The percentage change in consumer prices between 1972 and 1973 was about 25 per cent; but the figure for the African continent was substantially less alarming, since it had not exceeded 7 per cent. Nevertheless, it should be stressed that this acceleration took place against a background characterized by a remarkable expansion of the developing countries' export earnings, sharp increases in the foreign currency costs of their imports and an effective depreciation of their currencies since 1971.

86. The end of the year 1973 was marked by the oil crisis, which tripled the average export prices for crude oil and occurred at a time when, for various other reasons, economic prospects for 1974 showed signs of a slowdown in growth and an increasingly serious average rate of inflation. 1974 was characterized by negligible average growth, or even decline, of GNP in certain industrial countries. Everywhere there was a slowdown in economic activity, or even a recession. At the same time, price statistics showed that the inflation rate was constantly rising; the counter-inflationary policies adopted by the insutrial countries did not succeed in slowing the advance of prices. In the industrial countries, growth in GNP fell while the deflator surpassed the 12 per cent rate observed at the end of 1973. Compared with the first quarter of 1973, the first quarter of 1974 saw percentage changes in consumer prices reaching 37 per cent for all less developed countries and 14 per cent for Africa.

87. Towards ~~the end of 1974 the situation at~~ the international level was marked by a distinct drop ~~in industrial production linked~~ with a rapid increase in unemployment and ~~accelerated~~ price rises. This ~~ill-omened~~ phenomenon, known as "stagflation", presents those responsible for economic policy with a cruel dilemma. It is agreed that prospects are poor and very complex; there are very few factors which are likely to buoy up the economic situation in the industrializod countries during coming months; counter-inflationary policies have been strengthened everywhere, disparities in balance of payments are more and more substantial, and there are fears of a marked deterioration in the economic situation in those countries. Nevertheless, in all countries the fight against inflation is regarded as a priority objective, while attempts are made to counter-inflation in a flexible manner, in order to avoid a sharp recession.

88. The Interim Committee of the International Monetary Fund, which held its second meeting in Washington on 15 and 16 January 1975, examined world economic prospects and expressed great concern as to the intensity and duration of the current recession. It urged the pursuit of anti-recession policies, without, however, any break in the struggle against inflation, especially in those countries with relatively strong balance of payments positions.

89. It appears that current inflation was, in origin, the normal manifestation of surplus demand. In all the developed countries, economic activity accelerated sharply and aggregate demand rose to high levels. It should also be recalled that during the upsurge of global demand in 1972-1973, rates of monetary and credit expansion permitted by prevailing monetary policies were excessive from the standpoint of controlling inflation. There was a laxity in the conduct of monetary and fiscal policies which, no doubt, over-stimulated economic growth in many countries.

90. The ~~pressures~~ of demand are thus at the origin of current inflation, and the rises in price of numerous commodities and food products should be regarded in themselves as an aspect of inflation induced by demand. However, those pressures were, of course, accelerated by factors encouraging rises in costs, such as the increase in the price of crude oil. These factors of cost inflation themselves produced this combination of inflation and recession. Mention should also be made of the restructuring of prices due to wage claims and the indexation of many wages and social benefits, as well as the application of "profit margins".

91. Thus with the development of the degree of inflation since the 1950s and 1960s, the character of inflation has also changed, with the factors of cost-push playing an increasingly large role.

92. Several developing countries and primary producers are suffering the effects of this inflationary situation. Because of slower expansion in the industrial world, the rise in their export volume and in their rate of growth has been sharply reduced. In the economically least developed countries, the percentage change in real GNP compared with the previous year constantly fell between 1969 and 1971. The share of the volume of exports

to the developed countries was 10.1 in 1969, 8.9 in 1970, 6.4 in 1971 and 6.7 in 1972. Several of these developing countries will be affected by the deterioration in their terms of trade. The volume of imports essential for their development will probably be reduced because of the upsurge in external prices.

93. The oil-exporting countries are perhaps in a very different situation, but there too inflation is becoming a threatening problem because of the rise in imports and pressures on their foreign exchange earnings.

94. The conditions linked to the situations prevailing in the industrial countries also affect the developing countries. Any improvement or worsening in economic policy in the industrial countries has repercussions on inflationary pressures on the developing countries.

95. In Africa, inflation continues to be the greatest preoccupation. A trend towards inflation began to be felt in most African countries in the middle 1960s. It is reflected by the consumer price indices. Between 1965 and 1970, the annual average price rise for all African countries was 4 per cent. Between 1971 and 1973, the change over the previous year was 6, 5, and 7 per cent. The change between the first quarter of 1973 and the first quarter of 1974 was sharp, reaching 14 per cent, which indicates a general and marked increase in inflation rates. Although these figures are alarming, their order of magnitude was generally lower than half the changes recorded for economically less developed countries as a group.

96. Compared with 1970, the cumulative rates of the consumer price index represented 11 per cent at the end of 1972, 21 per cent at the end of 1973 and 40 per cent at the end of the first half of 1974.

97. Similarly, the money supply increased during the years 1970-1973 in developing countries in Africa at a high rate. The average annual rates of increase were often 2 to 3 times higher than the rates of increase in output at constant prices 1/. This large expansion derived from the rise in foreign assets and the expansion of bank credit.

98. Thus in 1973 and 1974, Africa, which for a long time was an area sheltered from inflation, experienced large-scale widespread and continued inflation linked partly to world inflation and the rise in oil prices and partly to factors inherent in the nature of African economies. Consumption on the spot in rural areas, diversities in food consumption, which fragment the market and limit the spread of price rises, the weak links between the marketing of food products and the marketing of industrial products, dependence on outside, large-scale State intervention, schemes for the fixing of prices for producers, and so on are so many factors which make it fairly complicated to analyse the problem of inflation in Africa. Indeed, several types of inflation may be identified on the basis of origin. Imported inflation is a type of widespread inflation which originates outside the country. It is

1/ Survey of economic and social conditions in Africa, 1974 (E/CN.14/632).

common to all ~~countries; it affects the external market for~~ products, with disparities arising from its combination with other types of inflation. Price rises are continuous and regular. Another type of inflation is that caused by increased demand, and is more marked in relatively prosperous countries. The rise in price of raw materials exported by certain African countries represents the internal cause of such inflation. These substantial rises had increased the resources of marketing organizations and the fiscal revenue in certain countries, expanding public and private demand. The unevenness in this rise partly explains the disparities in the trend of national price indices. Together with price rises, wage rises and expansion in monetary policy were noted. A special type of inflation is inflation caused by the serious deterioration in conditions for production in the African countries affected by the tragedy of the Sahel. This is a seasonal type of inflation characterised by very pronounced gaps in changes in the prices of food products. It is fairly difficult to discern, since it occurs principally in rural areas.

99. These types of inflation reflect the diversity of the economic situation in African countries. Nevertheless, the growth of demand remains the essential element, and African countries are still not sufficiently well equipped to combat inflation. Structural reasons cannot be quickly dealt with, and monetary policy is not yet sufficiently effective to neutralize the effect of world market factors.

100. At the same time, it is clear that the application of the principles of economic policy in the developing countries will take account of the special circumstances in those countries and differences between them. Some countries are not experiencing balance of payments constraints and can permit themselves a policy of maximum balanced growth. This is the case for the oil producers and the primary producers, which have succeeded in recording balance of payments surpluses. These countries can cope with the growing burden of the rise in import costs. Nevertheless, they will need to balance their growth rates with the accumulation of reserves, assign high priority to the adoption of non-inflationary monetary and budgetary policies and give special attention to their real exchange rates. Other countries with low income levels will find it difficult to cope with reductions in imports or in domestic production. They will have to reduce the pressures on their overall capacity and resort to sources of concessional finance.

101. Inflation has eaten away the value of reserves in African countries, and has obliged them to use their reserve assets to a greater extent. Inflation has also boosted import prices and to a certain extent reduced the value of assistance to them, which has in any case declined. If in addition inflation has benefited almost all developing countries by reducing the burden of debt servicing compared with the value of their exports, it should be stressed that for several such countries, and notably the poorest African countries, this gain is still smaller than the loss resulting from the deterioration in their terms of trade.

102. Inflation is a world-wide problem and, accordingly, all countries should be expected to contribute to its solution before it gets further out of hand.

It is on the industrial countries that the chief responsibility falls. Efforts already undertaken should be transformed into a clear-cut strategy to maintain balance between supply and demand; demand management policy should aim for a lower rate of inflation; at the same time, supply conditions should be improved to strengthen productive capacity and to alleviate cost pressures.

103. One fact characterized the development of the economic and monetary situation in all industrial countries during the last months of 1974 and the first half of 1975. This was the appearance of clear signs of a slowdown, regarded as a general economic reversal. Although throughout 1974 inflation remained the dominant problem, there was concern everywhere at an international deflationary context resulting from both serious balance of payments deficits and the counter-inflationary measures in force in most western countries. Towards the end of 1974, the economic situation in the industrialized countries was marked by the simultaneous occurrence of exceptionally strong inflationary pressure of between 15 and 20 per cent in 1974, a trend towards a slowdown in economic activity with a fall in industrial production, and increase in unemployment and a substantial deficit on foreign trade in most of these countries. At the beginning of 1975, prospects were markedly less favourable. Economic indicators in most western countries recorded a substantial aggravation of recessionary trends. Despite continued price rises, it was recognized in the United States that the period should be given over to the fight against recession, and not against inflation as previously. In the other western countries, the fight against inflation ceased to be the exclusive concern, and yielded to selective measures of reflation. The dominant concern was henceforth to limit the worsening in the level of employment, while at the same time avoiding a fresh burst of inflation. At the end of the first quarter of 1975, it was noted that recessionary trends had worsened in almost all the western economies. In the sphere of monetary policy, the central banks had lowered their discount rates and facilitated access to credit. These measures fell within a framework of governmental policy to maintain economic activity. Inter-bank interest rates fell. Nevertheless, the rapid rise in unemployment continues, the inflation rate stayed at a high level, and even, as in Italy and the United Kingdom, continued to accelerate. At the end of the first half of 1975, the recession was continuing in most western countries, while the inflation rate had been falling markedly since the beginning of the year. According to OECD estimates, the GNP of its 24 member countries during the first half of 1975 will record a fall of 3 per cent in volume compared with the second half of 1974. Since the end of 1973, unemployment has practically doubled. On the other hand, the inflation rate, which still stood at 15 per cent on average at the end of 1974, substantially fell to about 10 per cent in April 1975.

104. It may thus be expected that inflation in Africa, which is largely dominated by external factors, will in the coming months be influenced by new world economic trends.

The oil crisis

105. During the last quarter of 1973, while the world economy was in the throes of tension produced by widespread inflation and food shortages, the oil crisis occurred, with the quadrupling of oil prices, affecting all the countries of the world which imported that commodity. Flows of financial earnings were totally reversed; financial flows were so large as to tax the international monetary system. The dramatic situation caused by these events represented a veritable challenge to international co-operation, since it affected all importing countries, though to different degrees. The industrial countries found themselves faced with serious balance of payments and adjustment problems, which they were able to overcome thanks to co-operation in the financial management of their economies. The developing countries are in an equally serious situation, but have not yet succeeded in reaching the most propitious solutions. From the point of view of energy resources, the developing countries which are the main oil exporters found methods of accelerating their development. They were inevitably able to accumulate considerable additions to their reserves, and became exporters of capital. The over-all total of oil income for the OPEC countries rose to $90 thousand million in 1974, agaist 23 thousand million in 1973. These countries are therefore in a position to assist the oil-deficit developing countries. Substantial commitments of bilateral assistance and important contributions to international agencies have been made. In particular, financing has been made available to IMF for the operation of a special facility, the oil facility, which will be able to assist the developing countries to cope with the increase in the cost of their imports of oil and petroleum products. Within the framework of a special emergency operation the United Nations is seeking to co-ordinate assistance, notably through a United Nations Special Fund to benefit the most seriously affected countries.

106. The other developing countries are affected by the repercussions of the rise in oil prices. The burden of adjustment falls on their domestic economies, and they need financial resources to cover their oil import requirements, met from their reserves and from loans. Access to financial markets to secure loans and the terms of such loans pose new problems for them.

107. African countries other than the oil exporters are among the countries faced with such problems. The impact of oil price rises for some of them takes on vast proportions. The additional cost of oil made up 26 per cent of imports in the case of Senegal, 20 per cent for Ethiopia and 15 per cent for Uganda. Their energy consumption is not sufficiently elastic to allow a certain reduction. The expansion of their export/s/ can provide no immediate relief. It is the duty of the international community to come to their help, and particularly to the help of those which are among the most seriously affected.

Declaration on the Establishment of a New International Economic Order

108. The sixth special session of the United Nations General Assembly closed its discussions by adopting a Declaration on the Establishment of a New International Economic Order (/resolution/ 3201(S-VI)) and a Programme of Action for its implementation (/resolution/ 3202(S-VI)).

109. In view of the continuing ~~severe economic~~ imbalance in the relations between developed and developing countries, ~~and in~~ the context of the constant and continuing aggravation of the imbalance of the economies of the developing countries and the consequent need for the mitigation of their current economic difficulties, urgent and effective measures need to be taken by the international community to assist the developing countries, while devoting particular attention to the least developed, land-locked and island developing countries and those developing countries most seriously affected by economic crises and natural calamities leading to serious retardation of development processes.

110. With a view to ensuring the application of the Declaration on the Establishment of a New International Economic Order,1/ it will be necessary to adopt and implement within a specified period a programme of action of unprecendented scope and to bring about maximum economic co-operation and understanding among all States, particularly between developed and developing countries, based on the principles of dignity and sovereign equality.

111. The Declaration sets out 20 guidelines on which the new international economic order should be founded. The Programme of Action comprises ten sections. Section II, relating to the "International monetary system and financing of the development of developing countries", is reproduced below:

International monetary system and financing of the development of developing countries

1. Objectives

"All efforts should be made to reform the international monetary system with *inter alia*, the following objectives:

(a) Measures to check the inflation already experienced by the developed countries, to prevent it from being transferred to developing countries and to study and devise possible arrangements within the International Monetary Fund to mitigate the effects of inflation in developed countries on the economies of developing countries;

(b) Measures to eliminate the instability of the international monetary system, in particular the uncertainty of the exchange rates, especially as it affects adversely the trade in commodities;

(c) Maintenance of the real value of the currency reserves of the developing countries by preventing their erosion from inflation and exchange rate depreciation of reserve currencies;

(d) Full and effective participation of developing countries in all phases of decision-making for the formulation of an equitable and durable monetary system and adequate participation of developing countries in all

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1/ Resolution 3201(S-VI).

bodies entrusted with this reform and, particularly, in the proposed Council of Governors of the International Monetary Fund;

(e) Adequate and orderly creation of additional liquidity with particular regard to the needs of the developing countries through the additional allocation of special drawing rights based on the concept of world liquidity needs to be appropriately revised in the light of the new international environment; any creation of international liquidity should be made through international multilateral mechanisms;

(f) Early establishment of a link between special drawing rights and additional development financing in the interest of developing countries, consistent with the monetary characteristics of special drawing rights;

(g) Review by the International Monetary Fund of the relevant provisions in order to ensure effective participation by developing countries in the decision-making process;

(h) Arrangements to promote an increasing net transfer of real resources from the developed to the developing countries;

(i) Review of the methods of operation of the International Monetary Fund, in particular the terms for both credit repayments and "stand-by" arrangements, the system of compensatory financing, and the terms of the financing of commodity buffer stocks, so as to enable the developing countries to make more effective use of them.

2. Measures

All efforts should be made to take the following urgent measures to finance the development of developing countries and to meet the balance of payment crises in the developing world;

(a) Implementation at an accelerated pace by the developed countries of the time-bound programme, as already laid down in the International Development Strategy for the Second United Nations Development Decade, for the net amount of financial resource transfers to developing countries; increase in the official component of the net amount of financial resource transfers to developing countries so as to meet and even to exceed the target of the Strategy;

(b) International financing institutions should effectively play their role as development financing banks without discrimination on account of the political or economic system of any member country, assistance being untied;

(c) More effective participation by developing countries, whether recipients or contributors, in the decision-making process in the competent organs of the International Bank for Reconstruction and Development and the International Development Association, through the establishment of a more equitable pattern of voting rights;

(d) Exemption, wherever possible, of the developing countries from all import and capital outflow controls imposed by the developed countries;

(e) Promotion of foreign investment, both public and private, from developed to developing countries in accordance with the needs and requirements in sectors of their economies as determined by the recipient countries;

(f) Appropriate urgent measures, including international action, should be taken to mitigate adverse consequences for the current and future development of developing countries arising from the burden of external debt contracted on hard terms;

(g) Debt renegotiation on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium, rescheduling or interest subsidization;

(h) International financial institutions should take into account the special situation of each developing country in reorienting their lending policies to suit these urgent needs; there is also need for improvement in practices of international financial institutions in regard to, *inter alia*, development financing and international monetary problems;

(i) Appropriate steps should be taken to give priority to the least developed, land-locked and island developing countries and to the countries most seriously affected by economic crises and natural calamities, in the availability of loans for development purposes which should include more favourable terms and conditions."

Resolution 256(XII) of the ECA Conference of Ministers

112. Similarly, in resolution 256(XII) adopted at its third meeting, held in Nairobi from 24 to 28 February 1975, the ECA Conference of Ministers, recalling General Assembly resolutions 3201(S-VI) and 3202(S-VI) and Economic and Social Council resolutions 1896(LVII) and 1911(LVII) concerning the Declaration and the Programme of Action on the Establishment of a New International Economic Order, requested the Executive Secretary, as a matter of priority, to take immediate steps to institute action-orientated programmes for the realization of objectives in specific fields. Under the heading Monetary and Financial Problems, the objectives are:

(a) The channelling of existing available finance in Africa and the Third World for the rapid economic and social development of African countries and the countries of the Third World;

(b) The full and effective participation of African countries in all phases of decision-making for the formulation of an equitable and durable international monetary system in the light of the new international economic order;

(c) Arrangements to facilitate the flow of development financing on concessional terms to African countries from the international financing agencies, including the allocation of additional special drawing rights.

Interdependence of problems of trade, development finance and the international monetary system

113. The interdependence between the systems of international trade, payments and finance has many facets and may take a number of forms, since the systems are component parts of the interdependent world economy. The functioning of each is intimately related to that of the others; and arrangements in the three spheres must be viewed in terms of the requirements for economic expansion and structural change in the world as a whole. An improperly working adjustment process may exert deflationary or inflationary pressures, and encourage restrictions on flows of goods and finance; rigidities in trade patterns may generate chronic instability in currency markets; the capacity to service accumulated debt may be impaired by an inadequate rate of growth in the export markets of debtor countries. Any tension between the established international economic mechanism and the dynamics of economic growth will be reflected in difficulties in the monetary, financial and commercial spheres. A malfunctioning in any one of these spheres will generally produce stresses in the others also. In this way, when acute problems rise in a country or group of countries in the form of commercial, financial or monetary imbalances, it may easily be seen that such difficulties are intimately related to concomitant problems in other countries. It may then be realized that adequate, over-all solutions are required in the interest of all countries. A report by the Secretary-General of UNCTAD,1/ drawn up pursuant to resolution 95(XII) of the Trade and Development Board, sets out briefly the principal points at which the convergence of monetary, financial and trade questions is of particular importance to the developing countries, and their relevance to the current negotiations on monetary reform and the multilateral trade negotiations. The report ends with the following conclusions:

(i) International monetary, trading and financial relations cannot, of course, be expected to establish all the conditions required for successful development: principal responsibility in this sense lies with individual member countries themselves. The external environment may, however, either facilitate or hamper the efforts of individual countries, depending on the nature of that environment. It has been shown that in a number of ways external conditions are, at the present time, such as to constrain the economic growth of many developing countries below otherwise attainable levels. This occurs particularly because of obstacles to exports and to structural changes in the pattern of exports, and on account of inadequacies in the flow of capital.

1/ Interdependence of problems of trade, development finance and the international monetary system: Report by the Secretary-General of UNCTAD (TD/B/459).

(ii) The ~~various elements of the monetary~~, trading and financial systems are closely intertwined. An improvement in the balance of payments adjustment process requires an increase in the access of developing countries to external markets, and measures to stabilize conditions in commodity trade. An improvement in the volume and terms of financial flows to developing countries would not only help to offset the obstacles to the export growth of developing countries, but would also facilitate the establishment of a stable and viable monetary order in which the current account and trading objectives of the major countries would be compatible. Improved financial and commercial conditions for developing countries are also necessary to help sustain a more viable external balance in these countries and to allow them to meet their problems of balance-of-payments management with greater strength and resilience.

(iii) Some of the remedial measures required are within the scope of IMF itself, such as providing integrally for the transfer of real resources to developing countries within the framework of the international monetary system, and facilitating access to international credit, and to capital markets. Other measures, in the trade field, lie within the competence of GATT and of UNCTAD. But even as regards the latter, there is need for recognition that action in the trade and monetary fields are part of a single process and that the success of efforts in either one of these fields will depend on complementary measures adopted in the other and the financial field.

(iv) In addition, measures adopted separately in the several spheres should, in the final analysis, be regarded as part of a co-ordinated over-all settlement of current tensions in the world economy. It is in the nature of the case that some elements of that settlement will appeal most to some countries, other elements to others. There is a danger that if each measure were acted upon by itself, countries might feel free to accept or reject the various component parts one by one instead of taking a view of the entire settlement as a whole. This in turn could lead to an unbalanced outcome. The interdependence of problems and solutions in the various fields calls for agreement on a comprehensive approach that could bring balanced benefits to all countries and groups of countries.

African countries and reform of the international monetary system

114. In the section of the document prepared by the secretariat (E/CN.14/AMA/40) mentioned above which deals with monetary issues, it was stressed that the monetary upheavals that have taken place since 1971 spelt an end to the Bretton Woods system, which effectively disappeared on 15 August 1971. The document recalled the circumstances which followed those events, the decisions which were adopted and the work undertaken to reform the international monetary system.

115. In short, it was the United Nations Conference on Trade and Development which, after taking into consideration the various aspects of the internnational

monetary situation, had adopted, at its third session in Santiago from 13 April to 20 March 1972, resolution 84(III) which, inter alia, invited the Fund to give consideration to the creation of a Committee of 20 of the Board of Governors to advise the Board on the reform of the international monetary systems.

116. The secretariat document mentioned above provided an over-all view of the special report on the reform of the monetary system prepared by the Board of Governors of IMF and submitted to the General Assembly of IMF at its meeting in September 1972. It reproduced the views then current on the reform of the international monetary system and summarized the work within the Committee of 20 at both the deputies' and the ministerial level. The document also described progress in the work of the ministers in the intergovernmental Group of 24 established by the Group of 77 to participate in the search for a solution to the international monetery crisis. Finally, it listed the recommendations of the African Ministerial Conference on Trade, Development and Monetary Problems, held in Abidjan in May 1973, and the principles contained in the Declaration adopted by the Conference of Heads of State and Government of OAU at its tenth session in Addis Ababa in May 1973. Those principles lay down the position of African Governments on the international monetary situation.

117. After those steps, two events should be stressed among efforts made by African countries in terms of work on the reform of the international monetary system, namely, the work of the third regular meeting of the Association of African Central Banks and the work of the Round Table Conference of African and International Experts on the Reform on the International Monetary System and the African Interest.

<u>Statement on the principles of the reform of the international monetary system - the Association of African Central Banks' stand</u>

118. The Assembly of Governors of the Association of African Central Banks at their Third Regular Meeting in Lagos, Nigeria (20 - 24 August 1973) reviewed in detail developments in the international monetary system and, in particular, efforts being made to reform it. The Assembly of Governors note with satisfaction the creation of the Committee of Twenty which goes some way to meeting the need expressed by them at their Second Regular Meeting in 1971 that the reform of the international monetary system should be the responsibility of all countries - developed and developing, rich and poor.

119. The Association agrees that there is need for a one world monetary order based on co-operation and consultation within the framework of a strengthened International Monetary Fund. The aim of international monetary co-operation must continue as laid down in Article I of the Fund, as the encouragement of the growth of world trade, full employment and economic development. The Association has also recognized that the new system should be so devised as to support national efforts throughout the world to promote monetary stability and counteract inflation and its adverse effects.

120. With respect to the main issues of the reformed system under discussion, the Assembly Governors unanimously agree as follows:

Adjustment Process

121. A better working of the adjustment process is vital for the stability of the international monetary system.

122. To that end they emphasize:

(a) That care should be taken to ensure that the International Monetary Fund is strengthened and can effectively enforce the agreed rules on all countries - developed and developing, those in deficit, and those in surplus;

(b) That account must be taken of the special circumstances of the developing countries in assessing the need for adjustment;

(c) That decisions on the enforcement of pressures require international consultations within set guidelines and that these decisions be taken only at the level of Governors of the International Monetary Fund;

(d) That the flow of resources to developing countries should not be impeted by any adjustment decisions adopted by developed countries and that such decisions should not be detrimental to trade and other current transactions of the developing countries;

(e) That major trading currency countries come under rigorous surveillance with respect to their external and domestic economic policies.

123. The Assembly of Governors reassert the need for an early return to an exchange rate system based on fixed (but adjustable) parities. Any special need for the temporary adoption of floating rates must be determined and approved by the International Monetary Fund. Parity changes should not be used to shift the burden of ajustment to other countries, especially the developing countries.

124. Because of its adverse effects on their economies, the Association of African Central Banks consider that the problem of price inflation in the developed economies must be rigorously controlled in the reformed system.

Convertibility

125. The Association of African Central Banks consider that there should be an early return to convertibility. The Governors affirm that there should be a <u>full asset settlement system</u>, which should be under the surveillance of the International Monetary Fund.

126. The Association of African Central Banks consider that the swap facilities operated between developed countries would be detrimental to the long-run stability of the reformed system. They are, in particular, likely to delay the need for adjustment. The impact of these arrangements on the international monetary system, and particularly the agreed need for internationally managed changes in world liquidity, should be studied with a view to bringing them under international surveillance.

127. The Association of African Central Banks consider that the multi-currency intervention system will work adversely against the recognized need to bring movements in world liquidity under the control of the international community.

128. The over-hang of reserve currency balances continues to be a major source of international monetary instability. A solution must be found to this problem of excess currency holdings. Careful consideration should be given to the appropriateness of consolidating them, either bilaterally or multilaterally, in such a way that the consolidation system adopted would not endanger the viability of the reformed system.

Primary Reserve Assets

129. The Association of African Central Banks welcomes to consensus that the special drawing rights should be the principal and main reserve asset of the reformed system. With respect to the valuation of, and interest on, the special drawing rights, the Association believes firmly that the value of the special drawing rights should be based on those of the average of a representative basket of currencies, and that it should attract interest rates that are averages of that basket of currencies.

130. The Assembly of Governors welcomed the consensus that gold should play a diminishing role in the international monetary system. They are of the view that:

(a) Monetary authorities should gradually surrender their gold stocks to a substitution account in the Fund, in exchange for special drawing rights at an agreed price;

(b) The Fund should regulate the gold market; and

(c) The gains made by the Fund in this operation be at the disposal of the international community.

Development Assistance and Trade

131. The Association notes that the technical arguments against a link between the allocation of special drawing rights and development finance have been disposed of. They reaffirm that the link must be an integral part of the reformed system and would find it difficult to recommend to their governments ratification of new articles of the Fund which did not provide for this.

132. They consider that allocations of link-special drawing rights should be made direct to member countries and weighted in favour of the least developed of the developing countries.

133. Rules will be adopted to ensure:

(i) That link funds are directed solely to development purposes; and

(ii) That they are used in such a way they will not be a source of inflationary pressures on any one of the developed countries.

134. On trade, the Association considers that the reformed system must include a mechanism to ensure stability in the prices of primary commodities and other products of developing countries.

Reserve Management

135. The Association considers that new policies on reserve balances must take into account the following, which give special consideration to the interests of the developing countries:

(a) The need for an increased rate of growth in the developing countries;

(b) The need to have balances in financial centres where developing countries borrow;

(c) The fact that developing countries have to hold balances where they service their debts;

(d) The need to ensure that the balances of developing countries which depend on depletable natural resources, should have special consideration.

Structure of the Fund

136. (a) The Association supports the strengthening of the Exeutive Board of the Fund to ensure that it has political stature and strength to perform its functions in the new reformed system;

(b) Regarding Fund membership, the Association endorses the view that there is need for a monetary order that encompasses the whole world on the basis of co-operation and consultation within the International Monetary Fund;

(c) Regarding quotas, the Association considers that the quota structure and voting system of the Fund, which were designed in 1944, no longer reflects the present day realities of the international monetary community, and thus needs fundamental review.

Round Table Conference of African and International Experts on the Reform of the International Monetary System and the African Interest

137. At the invitation of the United Nations Economic Commission for Africa a Conference of African and international experts on the reform of the international monetary system and the African interest met in Addis Ababa on 21 and 22 January 1974. IMF and UNCTAD staff representatives attended as observers.

138. A number of issues arising out of the status and prospects of the reform exercise were discussed from the point of view of the African countries and the need to articulate positions and approaches which would protest and promote their interests without prejudice to the international community at large.

139. The Conference recommended that ECA, in consultation with the Association of African Central Banks (AACB), IMF, the World Bank and UNCTAD should endeavour to develop special studies in aid of policy formulation on problems of monetary and financial management. It examined the implications of recent increases in oil prices and their bearing on the prospects and content of the international monetary reform. ECA was recommended to organize expeditiously the study of certain aspects of the subject.

140. The Conference noted that significant increases have also taken place in the recent past in the prices of commodities originating from the industrialized countries; it found the economic management of the latter countries as having contributed to an environment of inflation and of uncertainty in exchange markets leading to highly de-stabilizing consequences for the African as well as other developing countries. The Conference invited the appropriate international organizations to seek the adoption of measures that would have the effect of stabilizing the terms of trade of the less developed primary producers vis-à-vis the industrialized countries.

141. The Conference reviewed a number of technical issues in the reform field, with particular attention to the valuation and yield of SDR, the implications of generalized floating, the revision of the structure of the Fund and the work of the Technical Group on the Transfer of Real Resources. As regards SDR, it was concluded that the African countries, as a whole, would most likely be net users of SDR and that this would indicate a preference for certain characteristics of the principal reserve asset in the reformed system that would protect their position as debtors. The need of these countries for larger reserves was emphasized as justifying a larger share for them in future SDR allocations.

142. The Conference noted with some concern that a regime of generalized floating was likely to persist for some time. Attention was directed to ways of alleviating the peculiar disabilities of non-trading currencies in such a regime. ECA was recommended to undertake a study in consultation with the Association of African Central Banks and the IMF on the following aspects:

(a) elucidation of the policies and tactics adopted by African monetary authorities in the management of their exchange markets in the recent past;

(b) assessment of the costs and benefits of these policies and practices with reference to the management of their reserves, the use of monetary instruments, marketing arrangements for their export commodities, the application of capital controls and the burden of servicing external debts;

(c) investigation of the possibilities for establishing forward exchange markets; and

(d) examination of the problems of regional trade and payments co-operation in view of the linkage of various African currencies to different floating intervention currencies.

143. The Conference emphasized the importance and urgency of African countries developing expertise in the management of exchange markets and its application along with the instruments of monetary policy and exchange control so as to minimize the adverse effects of a regime in which major trading currencies are floating.

144. On the proposed revision of the structure of the Fund, the Conference considered the establishment of an interim council or committee of Governors as a welcome development provided it resulted in the concentration of discussion of international monetary issues within this forum and the eschewing by the major industrial countries of decisions on these matters within more restricted groupings. The Conference reiterated the importance of preserving the effectiveness of a resident Executive Board of Directors given the prospect that unresolved reform issues would be remitted to the Fund for future study and preparation of decisions, a strong African voice was considered vital for the successful participation of the continent at all levels in the Fund. In this connexion, the Conference recommended the study of the possibility of increasing the number of African representatives on the Executive Board, the revision of the quota structure and the distribution of voting power and the introduction of African representation in the top management levels of the Fund and at other levels.

145 The Conference welcomed the broadening of the scope of the work of the Technical Group on the Transfer of Real Resources and urged the speedy undertaking of studies by African countries and organizations with a view to strengthening the contribution of African representatives in the Technical Group on matters of direct and vital interest to them, in particular commodity stabilization and price regulation arrangements.

146. Finally, the Conference noted that the pace of monetary reform may be slowing down and requested a study that would identify those areas of particular interest to African countries which required immediate implementation so that they would be dealt with before the winding up of the Committee of 20.

Work of the Committee of 20, the Group of 24 and the Interim Committee

147. With developments on the monetary and economic scene towards the end of 1973, it was felt that a number of goals previously regarded as essential in the work on reform should yield priority to others, which had become more urgent and more fundamental. Following the tenth meeting of the Deputies of the Committee of 20, held in Washington from 27 to 29 March 1974, the Chairman of the Deputies assessed the status of the effort towards reform, and said that, in view of such developments as the world-wide pace of inflation and the uncertainty arising from the higher level of oil prices, the Committee of 20 had given the Deputies' work a new direction. Under the evolutionary process, some aspects of reform should be pushed forward and implemented early, while other aspects could be developed over time. The steps to be taken without delay would mark the beginning of the process of evolution. A list of measures had been drawn up and examined, including: the establishment of a new small Council of Governors, the establishment of an interim system of evaluation of the SDR, the preparation of guidelines for floating exchange rates, the adjustment process and the management of international liquidity and possible ways to assist developing countries.

148. The Committee of 20 planned ~~to complete its~~ work on reform ~~of the inter-~~ national monetary system at its sixth meeting, in Washington on 12 and 13 June 1974. The Deputies had scheduled a meeting in Paris from 7 to 9 May for the purpose of putting their revised Outline of Reform into final shape for consideration by the Committee of 20. That document contained, inter alia, the results of the work of the four technical committees established in Nairobi to concentrate on specific problems of adjustment, settlement, global liquidity and the transfer of resources from developed to developing countries.

149. The Committee of 20 held its sixth and final meeting, at which it agreed on the framework for a proposed reformed monetary system and interim measures to serve during an evolution to the new arrangements. The communiqué issued by the Committee announced that:

(i) "The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of 20) held its sixth and final meeting in Washington on 12 and 13 June 1974;

(ii) The Committee concluded its work on international monetary reform; agreed on a program of immediate action; and reviewed the major problems arising from the current international monetary situation.

(iii) The program of immediate action is as follows:

(a) Establishment of an Intermim Committee of the Board of Governors of the Fund with an advisory role, pending establishment by an amendment of the Articles of Agreement of a Council with such decision-making powers as are conferred on it.

(b) Strengthening of Fund procedures for close international consultation and surveillance of the adjustment process.

(c) Establishment of guidelines for the management of floating exchange rates.

(d) Establishment of a facility in the Fund to assist members in meeting the initial impact of the increase in oil import costs.

(e) Provision for countries to pledge themselves on a voluntary basis not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures.

(f) Improvement of procedures in the Fund for management of global liquidity.

(g) Further international study in the Fund of Arrangements for gold in the light of the agreed objectives of reform.

(h) Adoption for an interim period of a method of valuation of the SDR based on a basket of currencies and of an initial interest rate on the SDR of 5 per cent.

(i) Early formulation and adoption of an extended Fund facility under which developing countries would receive longer-term balance of payments finance.

(j) Reconsideration by the interim Committee, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, of the possibility and modalities of establishing a link between development assistance and SDR allocation.

(k) Establishment of a joint ministerial Committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures.

(l) Preparation by the Executive Board of draft amendments of the Articles of Agreement for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

These measures are described in more detail in the statement attached to this communiqué.

(iv) Members of the Committee expressed their serious concern at the acceleration of inflation in many countries. They agreed on the urgent need for stronger action to combat inflation, so as to avoid the grave social, economic and financial problems that would otherwise arise. They recognized that, while international monetary arrangements can help to contain this problem, the main responsibility for avoiding inflation rests with national governments. They affirmed their determination to adopt appropriate fiscal, monetary, and other policies to this end. In the discussion Members of the Committee urged that the multilateral trade negotiations in the framework of GATT should continue to be regarded as a matter of priority.

(v) The Committee noted that, as a result of inflation, the energy situation, and other unsettled conditions, many countries are experiencing large current account deficits that need to be financed. The Committee recognized that sustained co-operation would be needed to ensure appropriate financing without endangering the smooth functioning of private financial markets and to avert the danger of adjustment action that merely shifts the problem to other countries. Particular attention was drawn to the pressing difficulties of the most severely affected developing countries. Members of the Committee therefore strongly emphasized their request to all countries with available resources and to development finance institutions to make every effort to increase the flow of financial assistance on concessionary terms to these countries."

150. The recommendations of the Committee of 20 were adopted by a composite resolution approved by the Executive Directors of the Fund and submitted to the Board of Governors. The Committee of 20 thus concluded its work on international monetary reform, agreeing on a programme of immediate action. It also reconsidered a number of areas in which no agreement was reached, and which were not incorporated in the Committee's final report, but annxed to it. Substantial divergencies of view remained on important aspects. It was therefore agreed that the Interim Committee would study those points further. On a specific point, the "link", it is important to note that, while the technical feasibility of establishing the "link" was recognized, the hardening of positions continued. The outcome will depend on the attitudes of certain industrial countries which are still opposed to it.

151. The views of the developing countries were set out in a communiqué issued by the Intergovernmental Group of 24 after its seventh meeting, in Washington on 9 and 10 June 1974.

152. The Ministers take note that Part I of the Outline of Reform represents a broad conception. Consequently, while they do not consider that it represents an adequately balanced approach which takes account of the interests of the developing countries, they refrain from elaborating upon these reservations at this time. They reaffirm their understanding that no decision will be taken to implement any element of Part I without the explicit endorsement of the entire membership of the Fund and expect that the concerns of all countries will be accorded due consideration in giving final shape to the international monetary reform.

153. On the basis of their discussions, the Ministers affirm their position that the immediate reform package should reflect in a balanced manner items of reform which are of interest to both the developed and the developing countries.

154. According to the communiqué, the immediate reform package should include measures relating to the link and international liquidity, the extended Fund facility, quotas and voting power, the Joint IMF/IBRD Ministerial Committee and Interim IMF Committee. The Ministers also attach particular importance to the following points; guidelines for floating, the rate of interest of the SDR and of charges on Fund drawings, the transfer of real resources, controls and the rules governing the use of the SDR.

155. The Group also held its eighth meeting in Washington on 28 September 1974, and issued a communiqué expressing the concern of the Ministers at the difficult and complex problems facing the international community, which included generalized inflation and the prospects of recession, and the problems confronting the developing countries specifically. The Ministers took note of the draft composite resolution concerning the recommendations of the Committee of 20. They reiterated their view that the recommendations of the Committee do not represent an adequately balanced approach. The Ministers took note of the draft parallel resolutions of the Boards of Governors of IBRD and IMF establishing a Joint Ministerial Committee for the Transfer of Real Resources. They felt that the text did not fulfil the expectations of the developing countries either with regard to the mandate of the Committee

or its procedures. The Ministers ~~pointed out~~ that the proposed Interim Committee of IMF would also need to give urgent and continuing attention to the transfer of real resources, in the context of the adjustment process. The Ministers welcomed the establishment of the Extended Fund Facility, and reaffirmed their view that this facility could not be considered as a substitute for the "link" and emphasized once again that a final decision to establish the "link" should be taken without further delay. Finally, the Ministers remained emphatic on the need to revise the quota system of IMF.

156. The institutional arrangements proposed by the Committee of 20 include the establishment of an Interim Committee of the Board of Governors of the Fund with an advisory role. Its task would lie principally in supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connexion reviewing developments in global liquidity and the transfer of real resources to developing countries, considering proposals by the Executive Directors to amend the Articles of Agreement and dealing with sudden disturbances that might threaten the system. Following its first meeting in Washington on 30 October 1974, the Committee also held its second meeting on 15 and 16 January 1975, during which the discussion centred on the adjustment process, the continuation of the oil facility for 1975, the general review of the quotas of the members of the Fund and amendments to the Articles of Agreement of the Fund, including amendments relating to gold and to the "link". On this latter point, there continued to be a diversity of views; nevertheless, it was hoped that a convergence could be obtained and that the Committee could approve certain amendments on gold and on the link at its next meeting, scheduled to be held in Paris in June 1975. It was hoped that, after the ministerial meeting in June, recommendations concerning quotas and the questions of reform will be submitted to the Board of Governors of the Fund, which would take a decision to be communicated to member countries for acceptance.

157. At the same time, the Group of 24 held its ninth meeting in Washington on 13 and 14 January 1975. The Ministers reviewed the world economic situation and expressed concern at the adverse impact that the recessionary trends in the industrialized countries /were having/ on the developing countries. They reiterated their view that the International Monetary Fund was the appropriate organ for agreement on international monetary questions. They agreed that there was a continuing and increased need for official financing facilities and supported the continuation of the oil facility in 1975. They saw an urgent need for interest relief for the most seriously affected low-income countries purchasing under the facility. The Ministers considered that the trust fund proposal before the Interim Committee was not a realistic mechanism for this purpose, nor was it acceptable as an alternative to the Link. They urged the activation of the Extended Fund Facility, and stressed the need for longer-term development finance. They reiterated their view concerning the problem of gold. They considered that an increase in quotas was urgently needed and should not be delayed. The Ministers reiterated their position that they would accept only a package of amendments that achieved a fiar balance between the interests of developing countries and other countries. In that connexion they reaffirmed their strong support for the establishment of a link consisting of direct allocations of "linked" SDRs to developing countries. The Ministers also discussed other proposals for amendment of the Articles of Agreement of

the International Monetary Fund and expressed their views in that regard. They exchanged views on the issues before the forthcoming meeting of the Development Committee, and discussed various points concerning the financing of the needs of the developing countries, concerning which they expressed their views.

158. The Interim Committee of the Board of Governors of the International Monetary Fund held its third meeting in Paris on 10 and 11 June 1975. It received opinions on the world economic outlook and its implications for the management of domestic policies and international financial relationships. It noted the decision concerning the continuation of the Fund's oil facility in 1975, and welcomed the progress that had been made towards the establishment of a subsidy account to assist the members of the Fund most seriously affected to use the oil facility.

159. The Committee held a detailed discussion of the role of gold, and there was widespread agreement that a solution would have to be based on certain principles.

160. The Committee also discussed the exchange arrangements that members of the Fund should observe. There was widespread agreement that members should have a basic obligation to collaborate with Fund and with other members in order to promote exchange stability. The Committee reiterated its agreement that provision should be made for stable but adjustable par values and the floating of currencies in particular situations.

161. The Committee endorsed the principle of the improvement of the Special Drawing Account and the General Account. It Agreed that a standing Council should come into being when a decision was taken by the Fund for that purpose under an appropriate amendment. It considered various proposals to assist members in dealing with problems arising from sharp fluctuations in the prices of primary products.

162. The Committee considered the question of the increases in the quotas of members as a result of the sixth general review of quotas. The Committee noted that progress had been made in that direction and agreed that for the quota increases, members should be given an option to pay 25 per cent of the increase in quota in SDRs, the currencies of certain other members, subject to their concurrence, or in the member's own currency. The Committee invited the Executive Directors to prepare and submit as promptly as possible to the Board of Governors, for consideration at its annual meeting in September 1975, a resolution including proposed increases in the quotas of individual members and provisions on the payment of corresponding subscriptions on the basis of the understandings reached by the Committee.

163. Some felt that the third meeting of the Interim Committee was only a relative success. Others felt that it was a disappointing meeting, especially in comparison with the great hopes and anticipations at the end of the second meeting. There is no attempt to hide the continuing disagreement on monetary reform which is exacerbating the world's economic malaise. The twenty Ministers of Economy and Finance in the Interim Committee were obliged to

face the facts and recognize that they disagreed. In fact, they did not reach agreement either on the reform of the Articles of Agreement of the Fund as regards gold and the exchange system, or on the distribution of quotas among the member countries on the occasion of the next increase in those resources. Only at the Committee's next meeting, scheduled for September, will it be possible to see whether progress has been made.

164. The Ministers of the Intergovernmental Group of 24 held their tenth meeting on 8 and 9 June 1975, also in Paris. They expressed grave concern at the adverse impact of inflation and the continuing recession in several developed countries and the sharp deterioration of the terms of trade of the developing countries. In view of those considerations, the Ministers stressed that additional external resources were required by low-income developing countries and by all other developing countries. In that context, they emphasized the need for international co-operation in all fields - monetary, trade and financial.

165. On gold, the Ministers recommended that the amended Articles should oblige each member of the Fund to undertake to collaborate with the Fund and with other members regarding the policy of the member with respect to gold. They indicated that no arrangements with regard to gold would be acceptable that were not designed to raise substantially the flow of financial resources to developing countries.

166. The Ministers saw a need to finalize the sixth general review of quotas in line with the agreement reached by the Interim Committee at its January meeting. They agreed that the present representation of developing countries in the decision-making bodies of the Bank and of the Fund should be substantially improved and the broad geographical representation of developing countries should not be adversely affected.

167. The Ministers expressed support for amendments envisaging a return at the appropriate time to a system of par values, containing provisions for the establishment of central rates, and empowering the Funds to authorize individual countries to continue the float thereafter in particular circumstances.

168. The Ministers welcomed the continuation of the oil facility and stressed that the conditionality governing use should be relaxed when the facility came under review in July. They agreed that, in view of the massive deficit in prospect for the developing countries, it was necessary for the oil facility, possibly broadened in its objectives, to continue for a longer period than had originally been envisaged. They urged that all countries in a position to contribute to the subsidy account should do so early.

169. The Ministers saw a need for improvement in IMF facilities. They reaffirmed their support for the early establishment of a link between allocation of SDRs and development finance. They expressed the hope that the Development Committee would come forward quickly with concrete recommendations to deal with the problems confronting all developing countries, and emphasized that developed countries should take steps to increase the net flow of official development assistance and make progress towards meeting the agreed ODA target

of 0.7 per cent of GNP. The Ministers emphasized the need to enlarge the lending of the World Bank and the regional banks and endorsed the expanded five-year lending programme proposed by the management of the World Bank. They expressed their support for the immediate establishment of the Third Window in the Bank, and stressed the need for the establishment of a Trust Fund financed from a number of sources. They agreed that eligibility for both the Trust Fund and the Third Window should take into account the needs of low-income developing countries and other developing countries.

170. The Ministers emphasized that priority should be accorded to IDA, which assists the poorest countries, and recommended that the next IDA replenishment should offset the effects of inflation and provide for a substantial increase in real terms.

171. The Ministers were of the view that the deterioration in the terms of trade of developing countries due, among other factors, mainly to the declines in commodity prices, emphasized the need for measures to safeguard in real terms the export earnings of developing countries.

172. The Ministers also recommended to the Development Committee that it should consider other preposals before it to meet capital requirements of all the developing countries. They therefore suggested that a special working group be establsihed to develop proposals in detail on improved access to capital markets. In particular, the working group should consider the feasibility of a multilateral guarantee fund.

SUMMARY AND CONCLUSIONS

173. The launching in 1970 by the General Assembly of the United Nations of the International Development Strategy for the Second Development Decade was acclaimed as the international community's single most concerted, comprehensive and creative engagement on the development issue. It soon became apparent, however, that the objectives of the Strategy, which were formulated within the context of the old international economic order, were not being achieved and the development issue was again discussed in various international forums as early as the Fourth Conference of Heads of State or Government of Non-aligned Countries in Algiers in September 1973.

174. In 1974, the concern of the developing countries led them to take the initiative in convening the sixth special session of the General Assembly of the United Nations which adopted a Declaration and a Programme of Action on the Establishment of a New International Economic Order, which represented a fundamental revision of the relationship prevailing between the developed and the developing countries. Subsequently, the need for a new international economic order has been reaffirmed in such international forums as the Conference of Developing Countries on Raw materials, held in Dakar in February 1975; the meeting of the Council of Ministers of the Organization of African Unity, held in Addis Ababa in February 1975; the second Ministerial Meeting of the Group of 77, held in Algiers in February 1975; the Conference of Ministers of the United Nations Economic Commission for Africa, held in Nairobi in February 1975; and the Second General Conference of the United Nations Industrial Development Organization, held in Lima in March 1975.

175. The analysis carried out in the present study makes it possible to identify the main problems facing African developing countries which are awaiting solution in the context of international discussions and negotiations:

(a) The annual GDP growth rate in Africa in 1973 was only 4.7 per cent, against 5.6 per cent in 1972. The growth rate *per capita* was 2 per cent, against 2.9 per cent. The 1973 rates were well below the average rates of 6 per cent and 3.5 per cent respectively laid down as targets in the International Development Strategy adopted by the United Nations General Assembly. Africa, which included the largest number of least developed countries, now accounts for about two thirds of the countries classified by the United Nations as most seriously affected.

(b) The over-all balance of payments of African developing countries (other than the main oil producers) markedly deteriorated, falling from $US0.3 thousand million in 1972 to $US-0.9 thousand million in 1973. The striking change was the very heavy fall in net capital inflows, the balance of which fell from $1.4 thousand million to $0.8 thousand million between the two years. The year 1974 was marked by an exceptional imbalance.

The deficit in ~~the trade balance of African countries other~~ than the main oil producers increased eightfold between 1973 and 1974, from $US 0.4 thousand million to $3.3 thousand million.

(c) In 1973, the relationship of reserves to imports in African countries (other than the main oil producers) was 26 per cent, enough to cover only three months' imports.

(d) Africa's share in the net total of resources from the DAC countries and multilateral agencies is constantly falling. In 1973, it was 18 per cent, against 20 per cent in 1972. Since 1970, it has been markedly lower than the figure in the 1960s. The increase in Africa's share in total net bilateral ODA is insignificant. Its share in total net bilateral and multilateral technical co-operation has fallen slightly.

(e) Of total World Bank loans and IDA credits approved in 1973-1974, Africa's share was 25 per cent. Its share in IDA credits was relatively low: 34 per cent, against 60 per cent for Asia.

(f) The Bank began programme loans to Africa in 1975, but has granted such loans to only three countries. Similarly, during the same year, a slight increase in the financing of expenditure in local currency was noted, but the share of the financing of such expenditure compared with over-all Bank commitments remained very low.

(g) Despite a trend towards an increase in the grant element of loans, loan terms are still in general hardening.

(h) The accumulation by African countries of so many external liabilities brings them up against problems which weight heavily on their development. Debt servicing absorbs a good part of the financial resources flowing towards Africa.

(i) Recent economic and monetary events have had a profound effect on African economies. These countries feel more that ever than international co-operation should promptly arrive at fair solutions to the problems affecting them.

Resource flows and their terms

176. African countries other than the main oil exporters have a greater need than ever of foreign capital to finance their development. The concerns identified in this study bring out the need to improve existing financing machinery and to bring into play other financing machinery through which there can be a greater flow of financial resources to these countries. It is clear that the official financing facilities and arrangements no longer meet the requirements of the situation created by the new world economic circumstances. The provision of funds to the

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countries most seriously affected by recent economic developments, and the need to grant aid on concessional terms and aid in the form of grants, are problems which are both serious and urgent.

177. Taking into account developments in, and the current status of, transfers of resources to Africa, African countries should make a thorough review of the philosophy and concept of aid which they receive, as advocated by the ECA Conference of Ministers. A study should be undertaken of the economics of aid. A strategy for the transfer of financial resources to Africa should be drawn up.

178. The DAC countries have not yet honoured their outstanding commitments within the framework of the 1 per cent target laid down for the transfer of resources to the developing countries. The target of 1 per cent of GNP, including 0.7 per cent for ODA, was recommended by UNCTAD, set out in the International Development Strategy, recommended by the OAU Assembly of Heads of State and Government in Addis Ababa in 1973 and reaffirmed in the resolution on the establishment of a new international economic order and in the resolution adopted by the ECA Conference of Ministers at its third meeting. This target laid down for 1972 or for 1975 has not been reached. At the end of 1973, the respective positions were 0.79 and 0.30. These proportions of GNP represented by aid were still far below the target laid down for the middle of the Second Decade. In view of the current situation, the industrialized countries should increase the real volume of their aid, and particularly that of bilateral and multilateral ODA, to reach the target laid down. The grant element should be maintained above the norm laid down.

179. The socialist countries have not yet defined the target and the level of their aid; it is desirable that such a task should be carried out as soon as possible.

180. The recent trend in oil and commodity prices has resulted in the creation of new economic circumstances throughout the world. It has raised the assistance requirements of the developing countries. The volume of assistance should be increased substantially; its distribution and composition should be revised to benefit such countries. Nominal rises should be considered in the light of the level of inflation; an additional effort should be made for a real increase in resources. The group of countries identified by the United Nations (/in/ resolution 3202 (S-VI)) as most seriously affected by price rises, of which African countries make up more than half, should benefit from special measures on the part of donors in the form of an increase in inflows of foreign capital, emergency aid or lightening of the debt burden. The increase should include a higher share of inputs of funds in the form of grants. These countries should be classified as priority recipients. Private credits should be expanded and offered on the basis of criteria compatible with the goals of sound development.

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181. Analyses prepared by IMF on the short-term balance-of-payments outlook of developing countries, and World Bank studies on the capital requirements of developing countries to the end of the decade, revealed the deterioration of the position of most of the developing countries. IMF concluded that the balance-of-payments needs of the most seriously affected countries would continue to be large in 1975 and 1976. The World Bank concluded that, if developing countries were to achieve adequate growth rates in the remaining years of the decade, they would require substantial increases in capital flows, both official and private, and would at the same time have to undertake efforts to increase domestic resource mobilization and to expand exports. The Development Committee, meeting in June 1975, recommended urgent steps to meet those needs through existing and new mechanisms. It was noted that negotiations for the fifth replenishment of IDA were scheduled to start later in the year. African Governments should ensure that such measures enter into force as soon as possible, and that the fifth replenishment of IDA is carried out without delay. The replenishment should be effective in real, and not only in nominal, terms.

182. African Governments should also give their full support to the decisions of the Development Committee at its June 1975 meeting aimed at helping achieve acceptable rates of growth for developing countries, namely:

(a) Expansion of the lending programmes of the World Bank and the regional development banks, consistent with their capital structure and the availability of funds, and review of the capital base of such institutions. At the same time, the Bank should soften its criteria for action with regard to programme loans;

(b) Unanimous support for the establishment for one year, and during the period beginning on 1 July 1975, of a new intermediate lending facility in the World Bank (known as the Third Window) to lend on terms intermediate between those of IDA credits and those of World Bank loans. Since such funds would be limited, there would be a need for eligibility criteria which would favour the developing countries with an annual per capita income of less than $375; that facility should be expanded. Eligibility criteria for its facilities which are similar to those adopted for IDA should be revised so as to allow many African countries ineligible for IDA assistance to have access to assistance from the Third Window;

(c) Establishment of an interest subsidy fund to lower rates to an average level for which some of the industrialized and oil-exporting countries have offered contributions;

(d) Proposals to create a special Trust Fund to be administered by IMF to provide additional highly concessional resources to meet the balance-of-payments needs of low-income developing countries for the next few years;

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(e) Expanded technical assistance to developing countries seeking access to capital markets in order to facilitate and expand the access of developing countries to such markets in view of the importance of private capital in the over-all capital needs for development.

183. In addition, and taking into account the serious difficulties facing these countries in ensuring the flow of resources essential for their financing needs, African Governments should seek urgent action:

(a) To re-organize and even cancel public debts contracted on hard market terms by the countries most seriously affected by the current economic situation. International action to reduce the adverse impact of the burden of this debt should be envisaged with goodwill by the developed countries. Debts should be renegotiated on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium, rescheduling or interest subsidization.

In its resolution 59(III) on the increasing burden of debt servicing in developing countries, UNCTAD invited international financial and credit institutions and the developed creditor countries concerned to review and revise the criteria and procedures for re-scheduling of external debt of the developing countries, particularly those with serious debt servicing problems, so as to ensure that re-scheduling did not interfere with the orderly process of development planning in debtor countries and was systematically designed to prevent both disruption of their long-term development plans and the need for repeated re-scheduling.

(b) The improvement of the terms of aid. It will be recalled that UNCTAD and the DAC countries had adopted recommendations on the interest rates on official development loans, the maturity periods of such loans, the grace periods and the proportion of grants in total assistance. UNCTAD resolution 60(III) had urged the donor countries to reach an international agreement on general untying of aid at the earliest possible date. The OAU Assembly of African Heads of State and Government recommended that the developed countries should take immediate measures to soften the terms of external assistance with a view to making them comparable to the terms favoured by IDA and to untie their financial aid to African countries so as to enable them to make purchases at the best price.

(c) The immediate establishment of a link between special drawing rights and additional financial resources for the development of the developing countries, a link compatible with the monetary characteristics of special drawing rights.

184. Other, less short-term, measures or long-term measures should be sought and pursued:

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(a) African Governments should support a classification scheme for development assistance with countries divided into three groups according to their level of GNP and their ability to pay for their imports. Special measures favouring the least developed countries should continue and be reinforced. In addition, middle-level countries should give up their claims on resources transferred on concessional terms in favour of the least developed countries. Middle-level countries should have access to aid through the "third window" on the terms referred to above. They should also have access to developed countries' capital markets at subsidized interest rates, financed out of contributions made by developed countries and by the revaluation of the IMF gold holdings.

(b) In light of the increasing efficiency and effectiveness of multilateral institutions such as the World Bank, African Governments should urge that more resources should be channelled through them. The World Bank should at the same time increase the percentage of grants in total loans and credits. This percentage rose slightly between 1974 and 1975, but it has remained at about one third of the total. They should support the Bank's efforts to redirect its assistance to rural areas in developing countries, they should request that the paid-in capital of the Bank be increased, and they should ask that the criteria of population, per capita income and per capita aid flow used by the Bank for differentiating between developing countries be reformulated in order to take into account more accurately the economic conditions in developing countries.

(c) African Governments should urge that a more liberal policy should be sdopted towards local cost financing including for national experts.

(d) African Governments should support any mechanisms to combine the surplus funds of the oil producers and the technology of the industrialized countries for the development of non-oil-producing developing countries, e.g.

(i) By the rich countries or institutions in the rich countries borrowing from the oil producers at commercial rates and lending to the poor at subsidized rates; or

(ii) By interest rate subsidies financed either by the profits or revaluation of the gold holdings of IMF, or by the combined direct contributions from industrialized nations and oil producers.

185. The African countries are concerned about the question of a more equitable geographic distribution of transfers of resources. In its resolution 218(X) on Africa's Strategy for Development in the 1970s, the ECA Conference of Ministers recommended that "within the 1 per cent target for financial resources transfers from developed to developing countries, measures should be taken to ensure a more equitable distribution so that the region as a whole, and in particular the least developed among African

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countries, will obtain an adequate share of these transfers." The OAU Assembly of African Heads of State and Government thought that the World Bank Group should distribute its loans in such a way that Africa would receive an increasingly large share of the resources of IDA and that it should provide for a more equitable geographic distribution of its assistance.

186. If it is true that more aid should be furnished to those countries with the lowest incomes and the least favourable prospects for developing, Africa's claim to an increasingly large share of international aid is well founded. IDA should follow the recommendations of the OAU Assembly of African Heads of State and Government, adapting its loan policies and procedures to the economic conditions and special characteristics of each African country and increasing its financial support of the least developed among the developing countries. The World Bank Group should provide all the financing in connexion with the development projects of these countries.

The international monetary situation

187. The international monetary situation has continued to have a profound effect on the way in which African economies are managed and on their development effort. The reform of the international monetary system is the most important and most urgent problem. It is essential that reform should be formulated within a short period. The full and effective participation of representatives of African countries in all phases of decision taking for the formulation of an equitable and durable monetary system should be ensured. Negotiations on the reform of the international monetary system should be held and decisions taken within IMF and its subsidiary bodies. Representation of African countries within the Fund and its subsidiary bodies should be broadened by giving them a greater number of seats and by raising the number of votes allotted to each country.

188. African Governments should support the amendments envisaging a return at the appropriate time to a system of par values, containing provisions for the establishment of central rates, and empowering the fund to authorize individual countries to continue the float thereafter in particular circumstances.

189. African countries welcomed the renewal of the oil facility for 1975, and recognized the useful contribution that process had made to the adjustment process, both for developed and developing countries.

190. Nevertheless, they feel that the terms governing the use of the facility should be liberalized. Its objectives should be broadened. It is necessary to retain the facility for a longer period than had originally been envisaged in view of the massive deficit in prospect for the developing countries. On gold, it is essential to ensure the gradual reduction of its role

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in the international monetary system, and the strengthening of the role of the SDR. No arrangements with regard to gold would be acceptable that are not designed to raise substantially the flow of financial resources to the developing countries, without imposing a loss on any individual developing country. SDRs should be assigned more attractive terms.

191. International liquidity should be controlled by IMF and by an international agency with effective participation by the developing countries. The creation of international liquidity should not serve only the interests of a small number of countries but should be placed under the control of the international community so as to avoid the creation of liquidity beyond all control. The allocation of SDRS should be maintained, but linked to the needs and requirements of thedeveloping countries. The establishment of a link between allocation of SDRs and development finance remains an incontestable necessity.

192. The sixth general review of quotas in IMF should be carried out promptly, doubling the share of the major oil-exporting countries and giving the developing countries a fair and equitable share. In the view of the African countries, and given their need for the Fund's facilities, the increase in their quotas is totally inadequate. Flexibility should be provided in the means of payment for quotas.

193. International inflation seriously threatens the economies of African countries. Measures to safeguard the interests of those countries both from inflation and from recession should be planned. Arrangements within IMF should be put into effect to prevent the transfer of inflation to the developing countries. Measures should be envisaged to lessen the effects that existing inflation in the developed countries has on the economy of the developing countries. Such measures should not affect growth and full employment in African countries.

194. The facilities of the Fund should be improved and its resources increased. Apart from the creation of the enlarged medium-term aid facility, the Fund should provide other aid and assistance. In the light of the prospects for balance-of-payments deficits in 1976, concessional financing in foreign currency is a means of adjustment valid for most African countries. It is therefore important that the idea of a trust fund should meet with agreement from all. African countries also need assistance from the Fund for their access to capital markets and in the recycling of petrodollars. A guarantee system allowing such countries access to capital markets should be considered.

195. In short, the above considerations, which are but a summary of the facts and targets, make up a framework for broader action to reverse a trend still regarded as fatal towards a development crisis in a large number of African countries. This framework is based on a policy of

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international co-operation, since the problems and the dynamics of current events fall within a global context. Nevertheless, it should also be recalled that the pursuit of traditional and new local policies should go hand in hand with action on the international level. These efforts, concerted on the two levels, should be transformed into a clear-cut strategy. This policy has become a fundamental necessity for the resumption of growth in African countries.