

UNCTAD, Collective Self-reliance, Technical Assistance and the International Financial System

Reginald Herbold Green

No world body functions analogously to the makers of fiscal and monetary policy within individual countries . . . It is not evident that the lessons [of the 1930s] for international policies have yet been adequately appreciated.

Robert Solomon in [Franko and Seiber 1979:40]

The immediate concern with problem sectors, employment difficulties and policies for short-term 'damage limitation' has . . . the same defensive logic which moved governments and decision-makers in the 1930s. It carries risks of similar outcomes.

Commonwealth Secretariat [1982:133]

Now that the international monetary system . . . has become one of the two most important areas in the North-South dispute (the other is Northern protectionism) it is no longer possible to avoid a careful analysis of the complexities of the developing countries' interests in international monetary arrangements.

Helleiner [1982:149]

We seem at present to be backing into the future, one crisis at a time.

Helleiner [1984:364]

Role Conflict or Complementarity?

UNCTAD has historically sought to fulfil four roles:

- a) to provide a forum for dialogue and negotiation on major issues involving trade and development;
- b) to serve as an 'honest broker' in that dialogue and those negotiations;
- c) to develop and promote concepts and approaches to analysis and policy formulation;
- d) to provide technical assistance.

It has been heavily criticised in respect to its performance in each area and it would be idle to

pretend that the results have been uniformly good and the quality of work uniformly high (a claim no international or national body could make). However, part of the criticism seems to flow either from a refusal to accept the validity of the four roles (and to distinguish among them) or from a confusion between them and a fifth role which UNCTAD has at times seemed to seek to play and more often been accused of playing — partisan, uncritical mouthpiece for developing country governments.

This last role is clearly incompatible with the first two — and for that matter with UNCTAD's status as a global organisation. UNCTAD is not (and should not be) the Group of 77 (G77) — nor should the IMF be the Group of 10, which seems a more real danger. Nor can UNCTAD be the secretariat for the Non-Aligned or the G77 in any normal sense of that word because it is not responsible to them alone. Despite occasional lurches (more in corridor discussion than practice) in such a direction — often caused by Group B (OECD) and D (CMEA) refusal to take UNCTAD seriously in any of its roles — UNCTAD has recognised this fact.

The role of forum has been very weak — especially from 1979 onward, more especially in the conferences themselves and most of all in respect to serious negotiations. Basic rethinking is needed — not so much about UNCTAD background and supporting papers, but rather about how to rebuild non-binding dialogue and exploration (in which UNCTAD has, until recently, been a viable forum); how Group B might be induced to put forward a set of positive, operational, negotiable proposals and not simply deadbat all proposals, whether from the Secretariat or the G77; how a process of interaction between a global frame setting and validation plenary and smaller, more technical, 'representative' groups can be set up on articulation and hard negotiation as in the Law of the Sea negotiating process). But the basic impasse of non-negotiation on major issues is not of UNCTAD's making nor unique to its fora — it reflects a general lack of consensus on how, as well as where, to proceed.

UNCTAD has been unable to establish itself as an 'honest broker' because of a Group B perception that its proposals are partisan. In the sense of being pro Third World at the expense of the 'Global System' or the North this is not objectively true of its major efforts, at least in intent. The Integrated Commodities Programme, for example, quite overtly seeks to serve global interests, and responds to a line of northern analysis running from Keynes through Kaldor on the net costs (negative sum game) of commodity instability, and on the analysis of most economists who support it would, as proposed, give absolutely larger net gains to OECD than to G77 economies.¹ However, the fact that major northern economies — especially the USA, the UK and Federal Germany — do see UNCTAD as biased does gravely limit its success as an 'honest broker'. Again the problem is broader than UNCTAD — very few global organisations which are not strictly technical are viewed today as unbiased 'honest brokers' — certainly the IMF and World Bank are not so perceived in the South.²

Developing and promoting approaches to analysis and policy formulation is critical to keeping dialogue creative (and to leading it toward productive negotiations?), to reinforcing and reinvigorating existing institutions and processes, to keeping open the interaction among theory — research — action. UNCTAD's record here is uneven. First, it certainly has produced (by consultation reports, by in-house studies, by consultancies) a large number of illuminating ideas on topics ranging from landlocked least developed countries to technology transfer. But it has also produced a large volume of quite dispensable material, and in total churned out so much, with so little in the way of guide maps on relationships and priorities, as to limit its impact.

Second, its annual *Trade and Development Reports* clearly are comparable in quality with those of the IMF and World Bank — and have a better post-1979 short term projection record. However, they are much less read, cited or used; perhaps because — unlike those of UNCTAD — the ideas of the Fund and Bank are seen as having an institutional weight behind them which makes them significant quite apart from intellectual or empirical quality. Third, UNCTAD has had little luck in presenting an articulated, interacting set of concepts and proposals. Its practical specifics and global priority proposals tend to appear as separate baskets, and while correct in identifying

¹ This is independent of whether the proposals are theoretically sound and/or practicable to negotiate and implement. The issue here is bias.

² In a sense they are in this respect a mirror image of UNCTAD. The IMF and World Bank do believe that their prescriptions are/would be beneficial to Third World countries. The issues are whether this belief is correct at micro, macro, systemic and theoretical levels.

commodities as a crucial area in 1974, it was arguably neither adequately original nor incisive in seeking to articulate an analytically based set of policy approaches, as well as too stubborn in nailing its flag to the Common Fund mast long after even sympathetic critics queried the relevance and viability of this strategy.

Technical assistance is arguably one of UNCTAD's strengths. The criticism that it is offered only to some members is an odd one: first, this is true of all technical assistance by global bodies and second, one assumes that the basic reason that the G24 and not the G10, Tanzania and not the USA, Third World regional groups and not the EEC, the Group of 77 and not the OECD, receive technical assistance (ta) is that the former request it and the latter do not.³ The criticism that not all ta is well done is valid — as it is for all ta dispensors with which the author has personal experience; but it is arguable that UNCTAD has a better quality ratio than most. However, questions do arise as to how well ta and conceptual work are melded, as to whether UNCTAD ta is so designed as to be self concluding (or *de facto* self perpetuating) and whether it supplements the capacity of national and southern organisation in as coherent a way as possible.

Financial System Forum?

UNCTAD can claim with some justice that it has a record — as a forum — of initiating dialogue on a number of financial institution concepts and issues which subsequently moved into dialogue and negotiation elsewhere — eg the Bank and Fund circles and even OECD. This, paradoxically, was probably helped by the fact that UNCTAD has never been seen as a forum for hard financial system negotiations and, therefore, is a safe place for exploratory talks and even statements of intent [see Lawrence's article in this *Bulletin*]. However, from 1979 on this role seems to have diminished as the impasse in North-South negotiations extended to a breakdown of serious exploratory dialogue in global fora, and as UNCTAD itself came to be seen (rightly or wrongly) as a less and less useful forum.⁴

In operational terms UNCTAD can claim credit for one real, if limited, success; one near miss and one very ambiguous process. The first is the shift by most DAC members of official development assistance to least developed and certain other poor countries to a more

³ If the latter did want UN family technical assistance on any significant scale doubtless different payment arrangements would be required for their access, but no problem of principle would arise.

⁴ On the part of many G77 states this attitude reflected their recognition that if Group B declined to take UNCTAD and UNCTADs seriously then little could be accomplished at them; meaningful dialogue requires active and broad and serious participation.

fully grant or near grant basis and, more particularly, the retrospective write-off of substantial amounts of debt incurred on earlier credits on less favourable terms. This concept of 'retroactive terms adjustment', was promoted by UNCTAD in the late 1970s, agreed there in 1978 and subsequently implemented by most of its Group B members following further discussion in OECD's DAC.

The near miss was the 'link' between SDRs and development finance. While not the originator of this approach, UNCTAD did help to articulate and promote it and did provide a forum more conducive to serious dialogue than either the IMF Board or annual general meetings. The 'link' was squarely on the agenda of the ill-fated Group of 20 (Morse Commission) on reform of the international monetary system, and would probably have won at least a toe-hold in its final recommendations and their implementation had not the series of convulsions beginning with the US 'going off the gold standard' in 1971 and culminating in the 1973-74 external balance shocks and the general abandonment by major currencies of fixed, adjustable exchange rates swept away its somewhat belated efforts to avert precisely such a weakening of the functioning of the 1945-70 Bretton Woods system.

In 1979 UNCTAD's work toward acceptance of the need for special measures to accommodate the objective realities of 'least developed' countries resulted in an agreed resolution to take steps to increase and to examine the nature of net financial flows to them. With a lag UNCTAD set up a major exercise of technical assistance to those individual countries seeking it and sub-regional 'least developed'/'donor' consultations organised and serviced by UNCTAD leading to a global conference in Paris in 1981. The results were and are ambiguous. While some pledges were made and the Paris Conference conclusions do call for both more aid and a higher proportion of all aid to the 'least developed', questions as to true additionality make the former hard to evaluate, while the number of national exceptions and interpretations of the latter render it more platitudinous than operational. Since 1981 real transfers to the 'least developed' probably have risen — although the savage cutting of the real level of the next IDA three-year programme and the poor prospects for even real *per capita* aid level maintenance in the next ACP-EEC Convention raise doubts as to how lasting that increase will prove to be. More critical, the 'least developed' and other very poor countries are clearly the group of developing countries most seriously affected by post 1979 international financial system evolution (or disintegration) and those to whose problems major international crisis management

programmes give the lowest priority [eg G24 Expert Group Report, and Helleiner 1982:160-2].

This rather meagre record is arguably by no means solely UNCTAD's fault. It has attempted to promote other concepts — eg in respect to debt levels and rescheduling, which, whatever one thinks of their specific formulation, could have led to useful dialogue and perhaps to a more holistic approach than the present 'thumb in the dyke' approach to rising Third World debt levels and resultant leaks in major bank credibility/viability. However, one may, on that as on other topics, wonder whether UNCTAD did take a broad enough approach and give adequate sustained priority to articulating it. The 1983 *Trade and Development Report* gives no sense of how crushing the debt burden was to become nor of how dangerous it was likely to be to world financial system stability a year later, despite warning signs that the 1982 patching jobs were unlikely to hold [see Green 1984].

UNCTAD and the Group of 24

One of UNCTAD's continuing technical assistance relationships has been with the G24 — the central bank 'sub-committee' of the G77. The G24 is — up to a point — a success story among Third World specialised institutions. They hold regular meetings, set practicable (at least potentially negotiable) objectives and publish them in communiqués, carry out and sponsor research and related studies on financial system issues and perspectives on which they feel IMF, G10 and international bank work is likely to be inadequate, or informed by interests and objectives different from those of developing economies, and act as a caucus for developing country members of the IMF. The G24 has earned a reputation for sobriety and preparation, avoidance of confrontation and desire to negotiate — although some sympathetic critics might argue that it had gone too far in being 'reasonable' in the face of exclusion from any really satisfactory negotiating forum, and of polite refusal to date to explore its major proposals for reform with any sense of priority or urgency.⁵

UNCTAD has — at the request of the G24 — completed 29 technical assistance studies over the past decade [UNCTAD 1976-83]. These have covered topics ranging from proposals for a medium term IMF facility (TA 2) to financial cooperation among developing countries (TA 17) and from compensatory

⁵ In principle the G24 can mobilise enough votes to veto many major IMF decisions, but it has never sought to use or even threaten that tactic, even when it was deeply opposed to the 'agreed' proposals put to the IMF membership. This measure of self discipline is not exercised by some of the IMF's major industrial economy members. It will be interesting to see whether, following the Cartagena Summit (of major Latin American debtors) the G24 does adopt a somewhat tougher line.

financing (TA 22) to low income countries and the international financial system (TA 27).

One of the major studies was the nine country comparative review of developing country adjustment to 1973-74 financial system shocks [TA 5, Dell and Lawrence]. This demonstrated substantial success in adjustment in most cases through 1977. While it was ironic that it should appear in 1979 as the hard won gains were swept away, it did serve to demonstrate that 1973-83 was not a non-adjusting rake's progress for most developing countries and set a benchmark against which to compare the far less successful 1979-83 adjustment efforts. The latter are the topic of an ongoing more formally modelled study, again covering nine countries (three in Africa, three in Asia, three in Latin America) but this time to include specific projections to the end of the decade.

Several salient points stand out in this body of work:

i) a clear view of the financial system (nationally and internationally) as logically the handmaiden of 'real' economic activity and of financial problems as the result, as much as the cause, of deficient overall economic performance;

ii) an emphasis on the role of exogenous shocks in Third World (and systemic) problems and of its implications for the appropriate pattern, time scales and burden sharing for adjustment;

iii) an emphasis on the role of the 1979-82 industrial economy depression in weakening the monetary system, increasingly tied to a cautionary appraisal of why the 1983-88? industrial economy recovery is unlikely by itself to undo past damage;

iv) specific attention to the particular problems of low income countries (G24 Expert Group Report) which are the most severely affected by post 1978 events but, because they do not (at least individually) pose any threat to the world financial system's viability, receive little attention in northern discussion of, or action on, remedial measures;

v) attention to how the IMF could serve its stated objectives better within its present broad institutional parameters, albeit perhaps with inadequate exploration of how its supposed 'seal of approval' multiplier effect could be made stronger, faster and more automatic, especially for countries whose basic non-IMF sources of external finance are aid, the World Bank and official export credits.

The exploration of what forms of resource transfers are appropriate under what circumstances has been moving toward greater conceptual rigour. From an early intuitive support for interim balance of payments assistance to rehabilitate existing capital

stock and restore output it has moved to include exploration of the conflict between output and capacity growth objectives under conditions of binding external balance constraint.⁶

The UNCTAD/G24 relationship is a successful one. It is UNDP funded and coordinated by Sidney Dell of UNCTAD jointly with Roger Lawrence of UNCTAD, and is thus a good example of effective cooperation among UN agencies. The G24's data base and ability to secure conceptual and empirical research as well as evaluation of proposals put by others has been enhanced. The body of Third World expertise on the financial system has been expanded as the majority of the consultancy work has been undertaken by Third World nations (8½ out of 9 country cases in the ongoing 1979-83 adjustment study). Several of the papers have produced new empirical or conceptual findings, most have been of high quality and all have related to issues of real importance.

UNCTAD Technical Assistance on Debt

UNCTAD technical assistance on debt has covered rescheduling, debt recording and debt management. It has largely been at individual country level but has also included a major review of the causes, levels, management and prospects for African external debt and support for the 1983 Tunis Conference on African external debt problems in the 1980s and the African Centre for Monetary Studies (ACMS) — (the applied research and training wing of the African Association of Central Banks).

The rescheduling work appears to have flowed from earlier conceptual studies and the — abortive — attempts to secure global guidelines for debt rescheduling and major adjustments to the approaches to individual cases taken by the Paris (governments) and London (commercial banks) Clubs. The work on recording has led to the articulation of a coherent, articulated, multi stage approach to building up complete, retrievable and analysable data bases on external debt — something a majority of developing countries lack. The system is very much better than now exists, can be built up step by step and, so far as data management goes, is probably as good as those provided (for higher fees) by international merchant and commercial banks. Its major drawback, which it shares with other actual and proposed recording systems and with all standard international debt statistics, is lack of adequate coverage. Short term financial institution credits, non-bank external credit

⁶ This is not the standard Keynesian 'paradox of penury'. It results from the empirical fact that the direct and indirect import component of fixed investment is substantially higher than that of GDP as a whole in almost all developing economies. As a result, under conditions of external balance constraint, increasing fixed investment requires a larger decrease in other components of GDP.

(eg import credit direct from non-financial firms and open book credit to subsidiaries), arrears to non-financial institutions including commercial bills and invisibles (eg airline remittances of ticket sale proceeds) and — oddly — IMF drawings, are not covered. As these represent — especially but not uniquely in sub-Saharan Africa — a very large proportion of total external debt, one whose volatility can give rise to severe problems and often the source of massive arrears (eg in Nigeria \$7,000 mn at one point, and in both Zambia and Tanzania at least half of all external debt excluding that on highly concessional terms), their omission is a major defect of the system as now proposed, and one whose remedy deserves priority attention.

The work for ACMS has provided a new awareness of Africa's level of external indebtedness — over \$150,000 mn — and of how heavy the debt service burdens of a majority of African economies are (on average over 25 per cent excluding reduction of arrears). It has also provided a review of causes and of issues in debt management which, judging from the Tunis Conference discussions, added to or at least formalised and consolidated existing knowledge. Its initial country case studies — perhaps contrary to original intention — demonstrated that unless one inserted unrealistically high export growth rates (eight and 10 per cent a year in real terms) no projections within existing structural parameters produced acceptable GDP growth rates (safely above population growth) and bearable debt service growth at the same time. Examination of rescheduling in the study and at the Conference suggested that by itself — even with five to 10 year grace periods on interest as well as principal — it would not be adequate to turn around the more severely depressed economies. For that, both a reversal of negative earned import capacity growth and expanded flows of new external resources appeared to be necessary in most cases.

Potential Progress

UNCTAD's ability to act as a forum for dialogue on financial system issues depends largely on whether the North is willing to allow that topic to be discussed seriously in UNCTAD. There is an obvious case for doing so — the level and urgency of fragmented discussions suggests that no one disagrees that the cluster of issues is critical; the conflicts of position in established specialised fora are preventing much progress; there is in fact no global specialised forum (either all nations or representative) in which the financial experts of G77 members (or their representatives, the G24) can participate in serious dialogue. William Cline's suggestion for 'global policy coordi-

nation that included developing countries' and/or 'extension of [small group] consultations to include representatives of developing countries' [Cline 1981:238] would seem to deserve priority attention.

Whether UNCTAD can become a negotiating forum on the financial system is an open question. First, it would need to re-establish itself as a forum for dialogue. Second, it would need to devise means — perhaps analogous to those of the Law of the Sea Conference series — to ensure that actual negotiation was in representative, small groups of genuine experts consistent with full participation plenaries to set guidelines and sanction the final agreements. The alternative is for UNCTAD to concentrate on conceptual development and promotion (hopefully in the form of an agenda which might prove negotiable) together with providing an active forum for dialogue, including promoting the establishment of a specialised, representative negotiating forum, perhaps analogous to the Morse Commission.

For either approach the G24 is critical. It has developed both considerable expertise, experience in serious dialogue and quasi-negotiation and a reputation as a sober body largely eschewing rhetoric and confrontation while stressing reasoned argument and exploration to locate possible areas for agreed action. Over time it has evolved into a specialist financial sector body representing the Group of 77. At the broadened 'steering group' and negotiating levels it is probably the only practicable channel for significant Third World representation.

Here UNCTAD's technical assistance work is critical in several respects. The G24 continues to need to complement its in-house and direct hire capacity. On the other hand — especially now that most of the consultants serving the G24 via UNCTAD are, in fact, Third World nationals — both UNCTAD and the G24 might usefully discuss how the former could assist the latter to build up a stronger institutional capacity to undertake research and related work directly or by individuals and teams of consultants chosen by it. At the same time UNCTAD should seek to relate its conceptual articulation and consultancy work more closely, to achieve more cross fertilisation and — perhaps — more coherence and prioritisation, especially in the former.

Debt recording, management and rescheduling — as a significant area of UNCTAD ta both to individual countries and to Third World international organisations — probably needs developing in three ways. First, many states need additional expertise and capacity in these areas (not least on the pros and cons of, alternatives to and plausible contracts for engaging merchant banks to carry out portions of their debt

handling for them). Second, because these issues are critical parts of any serious financial system dialogue leading to negotiation, more conceptual research and articulation of practicable alternatives and their consequences is needed, possibly a portion as further consultancy support for — *inter alia* — the G24 and Association of African Central Banks. Third, the limits to debt recording, management and rescheduling in the absence of broader changes in levels of resource flows, repayment periods and built in adjustment mechanisms to deal with exogenous shocks (eg the present record levels of real interest rates, drought, the collapse in the gold price) and their implications need to be elucidated in a way that will throw light on what changes in these areas might have significant positive feedback on the ‘debt crisis’.

If UNCTAD is to move in these directions a more holistic approach to its ta, concept articulation and promotion and forum roles is needed. The three can be mutually supportive. For example, on the one hand ta work can help identify important new concepts and approaches while, on the other, it can be critical to some individual countries’ acquiring enough data and expertise to participate effectively either in dialogue on the financial system or in specific financial negotiations. Similarly, for financial system dialogue — in UNCTAD or anywhere else — to be taken seriously and to have any chance of leading to negotiated changes, participants must be, and be seen to be, conceptually and empirically informed, a condition which UNCTAD’s conceptual and ta work can help many Third World countries to meet.

Precisely because little progress has been made at negotiating willed change in management (and redesign) of the international financial system and because that system is increasingly widely seen as dangerously unsatisfactory in terms of safety, predictability and ability to cope with shocks, it is unlikely that the possibilities for resuming the process of dialogue and pre-negotiation, which in practice ended 11 years ago at the Nairobi Fund-Bank Annual General Meeting, are now better than they have been for several years. Because there is at present no global forum for dialogue which is widely viewed as

satisfactory, a challenge and an opportunity exist for UNCTAD. Because both dialogue and negotiations require informed participants an equally critical challenge and opportunity confront UNCTAD’s ta work in the area of finance.

It is a matter of considerable importance that these challenges are met. International financial system negotiations and conceptualisations may be arcane — the results of their continuing failure, as Willy Brandt has reminded us in *Common Crisis* [pp 9-10], are not: ‘We too often forget that even today the depth of human suffering is immense. Every two seconds of this year a child will die of hunger or disease.’

Selected references

- Brandt Commission, *Common Crisis*, Pan, London, 1983
- Cline, W. R. and associates, 1981, *World Inflation and the Developing Countries*, Brookings, Washington
- Commonwealth Secretariat, 1982, *Protectionism: Threat to International Order*, London
- 1983, *Toward a New Bretton Woods: Challenges for the World Financial and Trading System*, London
- Dell, S. S. and R. Lawrence, 1980, *The Balance of Payments Adjustment Process in Developing Countries*, Pergamon, New York
- Franko, L. G. and M. J. Seiber, (eds), 1979, *Developing Country Debt*, Pergamon, Oxford and New York
- Green, R. H., 1, ‘Recovery and adjustment for all: or continuing common crisis’, *World Policy Journal*, in press
- Group of 24, 1983, *Low Income Countries and the International Monetary System: report of a group of experts*, New York
- Helleiner, G. K., 1982, ‘The less developed countries and the International Monetary System’, *World Politics*, vol 36 no 1, October 1983, pp 147-64
- 1984, ‘An agenda for a New Bretton Woods’, *World Policy Journal*, winter, pp 361-76
- UNCTAD, *Trade and Development Report*, Geneva, annual —1976-83, Technical Assistance Studies for the Group of 24, UNCTAD/MFD/TA/1-29, Geneva