
International Monetary and Financial Issues for Developing Countries after UNCTAD V

Stephany Griffith-Jones

This article describes and evaluates some of the main international monetary and financial issues discussed at UNCTAD V.¹ These fall under the headings of: i) *international monetary reform*, with particular emphasis on the IMF, the role it plays within the international system, and the conditionality it imposes on deficit countries, and ii) *the net transfer of official resources*, stressing the proposal for a 'massive transfer of resources' approved at UNCTAD. However, we begin by discussing some issues and problems raised by the massive growth of developing country borrowing in private capital markets since 1970, since this must be recognised as a phenomenon of rapidly growing importance, even though it was barely touched on at UNCTAD.

The Adjustment Process and Private Capital Markets

During the 1970s, the world economy has seen the emergence of large and persistent international payments imbalances. The increased volume and price of oil traded allowed the oil-exporting developing countries a cumulative current account surplus of \$198 bn during 1974–78. Furthermore, several developed market-economy countries have had a consistent balance of payments surplus: thus, between 1974 and 1978 three countries—Japan, the Federal Republic of Germany and Switzerland accumulated an aggregate current account surplus of US\$86 bn. The counterpart of these surpluses was current account deficits in other countries; for example non-oil-exporting developing countries ran a combined cumulative current account deficit of \$153 bn during 1974–78.

In practice, the surplus countries are under little pressure to change their situation. The IMF has repeatedly been called on to intensify its 'surveillance' of them, in order to increase their domestic activity and capital outflows. But these countries are in no way dependent on the IMF for funds; on the contrary, this institution relies heavily on their support and they have important voting rights within it. It therefore has little leverage to

impose policies on them. So the main burden of adjustment falls on deficit countries, which find themselves under pressure to adjust quickly.² This introduces a deflationary bias in the world economy as a whole, and in particular in those developing countries which need Fund assistance or more importantly its 'certificate of good behaviour' for obtaining access to international private capital markets. Largely because the IMF concentrates its activities on individual deficit countries, the tendency has been to recommend adjustments through strongly restrictive prescriptions, even in cases where the deficits may largely be the counterpart of structural surpluses elsewhere in the system.

However, in the 1970s, several developing countries have been able to maintain economic activity or even to sustain significant growth in the face of current account deficits, because of their rapidly increasing access to private international loans, particularly via the Euro-currency market.³ The rapidly growing importance of private finance for developing countries can be seen in Table 1. Furthermore, the vast private financial flows over the past decade have had an important effect in helping to maintain economic activity in developed countries, by sustaining demand from the Third World for their exports.

It is unfortunate that, in the UNCTAD preparatory documents,⁴ so little analysis is made of the rapidly increasing role of private capital flows to the developing countries and their important effects on these countries. Perhaps even more unfortunate was the paucity of proposals put forward at the Conference in this area; the main one presented by the Group of 77—and approved without opposition—was a repeat of the recommendation made in 1976 by the Joint Ministerial Committee of the Board of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries, to facilitate access by them to private

¹ The author thanks Reg Green and the editors for their useful comments.

² In particular the IMF has concentrated on the weak deficit countries. When the US runs a large current account deficit, it does not ask the IMF for a stand-by, but goes to alternative sources of finance!

³ For a more detailed description of the development of the Euro-currency market and its increasing links with the developing countries, see Griffith-Jones (1979).

⁴ See for example UNCTAD (1979) and UNCTAD (1979a).

Financing of the Current Account Deficits of Non-oil-exporting Developing Countries

(US \$ mn)

Table 1

	1971	1973	1975	1977
I. Current account deficit	-14,344	-12,921	-41,917	-25,904
II. Long-term financing (net) of which:	13,298	23,261	38,559	48,796
a. Official bilateral aid of DAC countries and oil-exporting developing countries	4,509	6,674	13,086	11,206
b. Commercial bank lending and other private flows from DAC countries (a)	1,581	8,309	11,578	21,443
c. Private overseas direct investment	3,099	5,831	8,178	8,426
d. Multilateral institutions (b)	1,712	1,807	4,597	6,850
e. Socialist countries of Eastern Europe	1,397	1,640	1,160	844
III. Payments finance	-741	-7,783	2,580	-12,292
IMF credit	36	174	1,638	-78
changes in official reserves				
(- equals increase)	-777	-7,957	842	-12,214
IV. Short term capital, unrecorded flows and loans and commissions	+1,787	-2,557	738	-10,573

Source: UNCTAD (1979 b), based on OECD, IMF and World Bank data.

(a) Includes private export credits and portfolio investments.

(b) Measured net of subscriptions, contributions, participations and repayments by non-oil-exporting developing countries. Includes disbursements by multilateral institutions financed by oil-exporting developing countries.

capital markets in developed countries, by removing existing administrative and institutional obstacles (see UNCTAD (1) 1979, UNCTAD 1979 and 1979a, and *IMF Survey*, 18 June 1979). If these measures have not been implemented since 1976 (years when the capital markets have been flooded with excessive international liquidity and access by developing countries has in fact been made easier), it seems highly improbable that an UNCTAD declaration on the matter will have much influence, particularly at a time when the growth of international liquidity seems to be slowing down.⁵

No reference is made in the UNCTAD V proposals or resolutions to more recent institutional discussions in developed countries which may in fact significantly affect the level of private credits to developing countries. The possibility—amply discussed recently—of developed countries' central banks exercising controls (i.e. fixing reserve requirements) in the Euro-currency market would doubtlessly affect the level and composition of private flows to developing countries. The Group of 77 has not adopted a position on this point, nor are the developing countries participating in the discussions on the possibility of regulation. Furthermore, these discussions on

the regulation of the Euro-markets by developed country government institutions could provide a unique opportunity for the introduction, however limited, of development criteria for the allocation of international private capital flows; this would modify the purely commercial basis on which these flows are decided at present.

The general problems inherent in loans to developing countries by multinational banks are not sufficiently explored in UNCTAD documents. First, in the aggregate, the very high present level of private international credits to developing countries will not necessarily be a permanent feature of the international monetary system; it is mainly the result of excess supply of funds combined with industrial economy stagnation which reduces demand by traditional borrowers. Should this supply fall, or demand from industrialised country borrowers increase, developing countries, and in particular the marginal borrowers amongst them, may be squeezed out of the market.⁶ For those countries whose balance of payments will deteriorate most, thus making them less 'creditworthy' to the multinational

⁵ See, for example, the *Amex Bank Review*, 26 March 1979.

⁶ According to some recent analyses (see for example *The Amex Bank Review*, 26 March 1979 and O'Brien 1979) due to recent world economic developments, starting in late 1979, developing countries will in fact face greater difficulties in obtaining loans on the Euro-markets.

banks, the net availability of external funds may be sharply curtailed (or even become negative) at a time when those countries need it most.⁷

A second fundamental problem is that access to international private loans is clearly very unequal for different types of developing countries.⁸ The countries with higher per capita GDP, and/or whose GDP is growing relatively fast, account for most of the borrowing.⁹ Many countries are too poor (both in income level and natural resources) to be sufficiently 'creditworthy' to attract significant private flows. In fact, present trends in private lending may further increase the disparities between groups of developing countries. UNCTAD V did approve a recommendation to study the establishment of multi-lateral guarantees for borrowing on international capital markets which, if implemented, could somewhat improve access for the poorer countries.¹⁰

A third problem of private borrowing by the Third World is the terms and conditions attached to these loans. Not only are they on average less favourable than those from official sources (both in interest rate and maturity); perhaps more important, the cost of the loan is variable, as the interest fluctuates every three or six months with the London Inter-Bank Offer Rate (LIBOR). This adds an important element of uncertainty to the developing countries' attempts to forecast and plan their future balance of payments flows. To a great extent conditions prevailing in the private capital markets must be accepted as given by developing countries. These countries do however have the option to borrow less on private capital markets; this important alternative is not discussed in the UNCTAD documents where too much of the emphasis is on requesting increased flows of funds to developing countries, both private and public.¹¹ Reduced foreign private borrowing could be accompanied either by greater reliance on the developing countries' own resources, or on greater development of Third World financial institutions, leading to larger transfers within the Third World.¹²

⁷ 'Creditworthiness' is commonly defined as the bank's perception of the country's ability and willingness to meet future interest and principal payments on the loan.

⁸ This differential access by developing countries is an important obstacle to common positions being taken by the Group of 77 *vis-à-vis* issues related to private international lending.

⁹ Seven countries accounted for 70 per cent of total net debt of non-oil-exporting developing countries to multinational banks in December 1977. Sources: Griffith-Jones (1979), based on Bank for International Settlements data.

¹⁰ For details see United Nations Press Release, 4 June 1979, and UNCTAD (1979a).

¹¹ This is perhaps more surprising in the Arusha Programme whose stated aim is collective self-reliance.

¹² An alternative source of external funds (briefly discussed later) would be an increase in official net transfers of funds.

Perhaps the most fundamental reason why developing countries should seek to restrain their borrowing from multinational banks is that it may tend to limit the range of development strategies open to them. To become more 'creditworthy', a country may adopt a style of development in which its financial and particularly its external solvency indicators are given such exaggerated priority that they are achieved at the expense of other, more important, development objectives. Multinational banks may exert this influence themselves; however, on the whole, they seem to prefer reliance on the IMF and its influence via the conditions it imposes.¹³

The IMF and Its Role in the International Financial System

Under the Bretton Woods system, the IMF was entrusted, with the task of assisting members with balance of payments problems. Even though the facilities granted by the Fund have been broadened and liberalised during the 1970s,¹⁴ the contribution of Fund lending to financing the balance of payments deficits of developing countries has been very marginal (see Table 1).

Despite this, most developing countries with persistent balance of payments deficits make at least some use of Fund facilities (*IMF Survey*, 5 June 1978). The main reason is that the balance of payments assistance provided by the Fund provides a 'seal of approval' on the 'soundness' of a country's economic policies, which greatly facilitates access to credits from private multinational banks and to official aid; it also very often plays a crucial role in the process of renegotiation of a country's debt, whether to private or public sources.¹⁵ As the former Managing Director of the Fund clearly stated: 'the balance of payments assistance provided by the Fund plays a crucial role in the international credit system, principally because of its most distinctive feature—the conditionality attached to it' (*IMF Survey*, 22 May 1978).

Thus the emphasis, within the area of international monetary reform, which was placed both during the preparatory work for UNCTAD V and during the Conference, on the role of the

¹³ For an interesting analysis of this issue and of the private banks' initial attempt to monitor the Peruvian economy themselves, followed by their leaving this role to the IMF, see Stallings (1979).

¹⁴ For a description of existing financial facilities of the Fund, and their main characteristics, see *IMF Survey*, 18 September 1978, and UNCTAD (1979).

¹⁵ A very recent clear example of links between IMF assistance, new private credits and debt renegotiations is provided by Turkey (see *Financial Times*, 14 July 1979).

IMF and its conditionality, seems well justified, despite its limited transfer of resources to the developing countries (UNDP/UNCTAD 1979, UNCTAD 1979). Also of great significance within the area of monetary issues was the agreement at the Conference to establish an *ad hoc* inter-governmental group of experts within UNCTAD to examine fundamental issues of international monetary policy. Given the complexity of international monetary issues, their influence on developing countries, and the clear dominance of developed countries in the fora which at present discuss and decide these issues, such an *ad hoc* group of experts could play a significant role were it to provide permanent and consistent technical support to the positions of the Group of 77.

One of the IMF conditions of its balance of payments assistance is the adoption by countries of what the Fund calls 'proper adjustment policies' expected to lead rapidly towards restoring balance of payments equilibrium. The UNCTAD documents elaborated a critique of the Fund's adjustment policies.¹⁶ One of their main criticisms is of the Fund's almost total reliance on a 'monetarist' approach to solving balance of payments deficits. As they point out, changes in the money supply may not be reflected proportionately in changes in aggregate demand, due to the existence of substitutes for money. More important, when a country's imports contain a large proportion of essentials, as often happens in developing countries, payments imbalances will respond only to very large changes in total spending. Thus, whilst aggregate monetary tools may improve a country's payments situation, they often do so only at a great cost to the economy, both in short-term lower employment and production, and in a long-term decline in investment, which limits future growth.¹⁷

Alternative policies to overcome balance of payments deficits, such as restrictions on trade and exchange, either applied exclusively or combined with reduction of aggregate demand, are rarely and grudgingly accepted by the Fund. Such policies could often reduce the 'cost' of balance of payments adjustment to the national economies. The Fund's strong position, developed

within the context of an international commitment to trade liberalisation, has even less justification within the framework of the new wave of protectionism, which seems to have spread in the developed countries in recent years.

The second major criticism which can be levelled at IMF adjustment policies is that they frequently have a negative effect on income distribution.¹⁸ Even though the Fund claims that its recommendations are neutral as regards the distribution of the burden of adjustment, its stress on measures such as reduction of state subsidies on essential foodstuffs and dismantling of price controls, accompanied by limits on wage increases, tends to worsen the distribution of real income and consumption. On the other hand, a tight monetary policy, accompanied by elimination of exchange controls, tends to discriminate in favour of large enterprises, which are able to obtain more abundant and cheaper credit abroad. In line with this analysis, the Group of 77 demanded in the Arusha Programme that balance of payments support should not be used to exercise political pressure on developing countries and should not be dependent on acceptance by the developing country of measures and programmes which involve social costs which hinder its basic aims, objectives and priorities. Rather it should be related to broader development targets. The UNCTAD preparatory document (UNCTAD 1979) called for 'fundamental revisions in conditionality practices'. In fact, the final resolution adopted by the Conference was very limited. First, it stresses the necessity to apply conditionality in 'a flexible and appropriate manner, taking into account the domestic social and political objectives, the economic priorities and circumstances of the members of the IMF, including the causes of their balance of payments problems' (UN 1979). In its statement, the UNCTAD resolution repeats exactly one of the new guidelines which the IMF's Executive Board had issued in its very recent review of the use of conditionality (*IMF Survey*, 19 March 1979). The UNCTAD Conference 'looked forward to the effective implementation of the Fund's decision to increase flexibility in the application of conditionality', and added that the approach of the IMF should be such as 'to seek reconciliation between a country's short-run and long-run objectives and not be disruptive of development, and should take into account factors attri-

¹⁶ See UNDP/UNCTAD (1979) and UNCTAD (1979). For a somewhat more radical recent critique, see Brett (1979).

¹⁷ The policy applied in 1975 in Chile, within the framework of an IMF stand-by agreement, provides a good—though perhaps extreme—example of the 'costs' of purely monetarist measures to improve balance of payments. In 1975, Chilean GDP (in real terms) fell by 17.4 per cent, the rate of unemployment in the capital grew from 9.7 per cent in December 1974 to 18.7 per cent in December 1975; the proportion of GDP devoted to investment fell substantially below the historic trend, and has not yet recovered.

¹⁸ This crucial point, though made and illustrated with case studies in the UNDP/UNCTAD documents, is not mentioned in the UNCTAD documents preparatory to the Conference, nor in the Conference resolutions.

butable to external elements beyond the control of developing countries' (UN 1979). Though this statement goes beyond the IMF review of conditionality in the general principles involved, it does not indicate any concrete form in which such principles could be made operational.

It is disappointing that the criticisms of IMF policy made at UNCTAD V did not include proposals for concrete modification of the way in which the Fund applies its conditionality in dealing with member countries.¹⁹ Such concrete proposals could have hinged, for example, on some of the following aspects. Countries should be free to use alternative policy instruments to those traditionally recommended by the Fund and still be eligible for Fund assistance. In cases of balance of payments deficits, these could include foreign exchange and trade controls. In attempts to control inflation, the countries should be free to combine administrative price control policies with those leading to reduced aggregate demand. The deterioration in income distribution so often accompanying IMF conditionality clearly contradicts international understanding that development should be oriented towards satisfaction of the basic needs of the poorest strata. A new criterion might be added to the performance targets of IMF stand-by agreements: during the programme of balance of payments adjustment and in the period after, income distribution should, at the very least, not deteriorate. These proposals are presented tentatively, as their implications would have to be broadly discussed.

Above all, they attempt to illustrate a need for concrete proposals for an alternative *modus operandi* to modify IMF influence on member countries effectively. Perhaps the *ad hoc* high level group of experts could play an important role in suggesting and monitoring concrete changes in the nature of conditionality. If the application of conditionality is not substantially altered, more developing countries could attempt to follow the example of Brazil, a country which has taken an explicit policy decision to avoid drawing on the Fund's upper credit tranches because of the strict conditionality attached.²⁰

¹⁹ This can be explained to a great extent—even if not justified—by the fact that UNCTAD does not have a clear jurisdiction to make concrete proposals on international monetary reform.

²⁰ There is a general trend towards less use of IMF assistance in upper credit tranches. In deficit periods prior to 1974, 58 per cent of the net purchases in the credit tranches extended into the upper tranche; while in deficit periods from 1974 to 1976 only 19 per cent of purchases extended into the upper (*IMF Survey*, 5 June 1978). Even though this is partly due to the greater availability of alternative sources of balance of payments finance, an important factor has been resistance to the stringent conditionality attached to such drawings.

But it is not so easy for poorer 'less creditworthy' developing countries to follow the example of countries like Brazil and still maintain some access to private international capital markets.

An alternative, probably more promising, way of avoiding stringent IMF conditionality would depend on a collective response by developing countries. Peru has recently proposed that a Latin American Monetary Fund be established.²¹ Amongst other functions, it would finance regionally the balance of payments deficits of its members, thus helping to side-step the need to accept IMF conditionality. This kind of measure would inevitably present several problems. One would be the need to obtain sufficient financial resources to make such a fund operational; oil-exporting developing countries could play a large role here. Perhaps even more important would be whether the 'seal of approval' granted by a Latin American Monetary Fund would be acceptable for obtaining credits from the private capital markets. This problem might be overcome if the 'solvency' of developing countries, currently based largely on their following certain economic policies, were replaced by a set of guarantee arrangements, for example backed by the richer developing countries.²² Such initiatives would undoubtedly meet with resistance from the IMF and from many developed country governments. Whatever the difficulties involved, they would be extremely useful, both in themselves and as a means of increasing Third World bargaining power.

Net Transfer of Official Resources

As regards official development assistance (oda), resolutions were passed at UNCTAD V asking donor countries to raise their contribution closer to the UN target of 0.7 per cent of GNP. The effectiveness of such resolutions is doubtful, given that similar ones in the past have had little impact. In fact, the ratio of oda to GNP has fallen since the beginning of the decade (UNCTAD 1979a). In similar vein, UNCTAD V agreed on the need to increase the capital base for the World Bank.

More innovative was the resolution calling for 'a massive transfer of resources from developed to

²¹ This initiative presented by Peru in April apparently has the support of the Governments of Bolivia, Panama, Colombia, and Venezuela (*Comercio Exterior*, May 1979).

²² Private banks seem willing to lend large sums to the smaller COMECON countries, not so much on the basis of their economic policies and prospects, but on the implicit assumption that, were repayment problems to arise, the Soviet Union would back the country up. Similar—but explicit—arrangements could be attempted by developing countries.

developing countries'. This echoes former resolutions approved by the UN General Assembly and proposals in the Arusha Programme. The Arusha Programme mentioned concrete figures: an additional financial transfer in the range of \$35–\$50 bn. It also compared this effort to the Marshall Plan, stressing that as in that programme, such an initiative could benefit both donor and recipient countries by stimulating the growth of the global economy.²³

Perhaps more relevant to present proposals than the Marshall Plan experience would be the Alliance for Progress,²⁴ the large aid programme established by the US for Latin America during the 1960s. Several interesting points emerge in examining its history.²⁵ The commitment to a massive aid programme by the US depended little on the insistence of Latin America as 'aid-suppliant' (which began in the early 1950s) but was basically determined by political developments and perceptions in the donor country. Even though the Alliance for Progress did provide resources for important social and productive projects, it also generated distortions in the economic and political developments of Latin America. It illustrates well how large transfers of resources tend to further the political targets of donor countries, as well as the interests of particular groups within them, such as the TNCs. In the case of the Alliance, the initial aims and rhetoric were extremely progressive; structural and social reforms were initially considered to be the main performance criteria for obtaining aid, while financial management criteria appeared to have secondary importance. In practice, financial criteria became predominant, and were usually measured within the framework of the IMF performance tests. To obtain US aid, countries had to meet stringent financial criteria, which in several cases hindered their development efforts.

Naturally, no mechanical conclusions should be drawn from this experience for the new proposals, given the important changes in the inter-

national environment and the somewhat different aims and circumstances in which a new programme might be set up.²⁶ However, in requesting and negotiating for very large transfers of resources, developing countries should be aware of related historical experiences, and of the almost inevitable link between large volumes of aid and increased conditionality imposed by the donor countries on their economic and even political development. Conditionality is no less an issue in relation to official development assistance than to IMF or private capital flows.

Relatively little of value emerged from the discussions at UNCTAD V on fundamental reform of the international monetary system, except to demonstrate the wide divergence between developed and developing country standpoints. Greater significance can be attached to the attempt made by the Group of 77 in the preparatory work for UNCTAD V to elaborate a more comprehensive critique of the existing international financial system than they had previously attempted. It can be expected that this important work will be continued by the recently appointed high level group of experts within UNCTAD.

It is essential that future proposals on international monetary reform made by the Group of 77 should have greater influence on international financial developments. To achieve this aim, the proposals for reform made by the Group of 77 must be made far more concrete. They must be accompanied by pressure for change in the decision-making processes of existing international financial institutions and development of alternative financial institutions run collectively by developing countries. The willingness of the richer developing countries (at present particularly the oil-exporting ones) to maintain Third World solidarity will be crucial in making such attempts successful, as they have both the required political leverage and the financial resources.

²³ Similar proposals have been put forward recently in the developed countries, both in official and non-official circles. However, most governments of developed countries have to date been cautious and hesitant. For more details see Jolly's article.

²⁴ I thank Richard Jolly for suggesting this point.

²⁵ For a history of the Alliance and its effects on Latin America see Griffith-Jones (1979) and bibliography in that paper. The Alliance for Progress has been scarcely studied in Latin America, one of the few exceptions being Sunkel (1969).

²⁶ One of the Alliance's initial main aims was clearly political: to support a reformist democratic alternative in Latin America so as to stop the Cuban Revolution from spreading. The main target for the developed countries in the proposed new programmes would be basically economic: to boost exports to the Third World, leading to increased output and employment in their countries.

References

- Brett, E. A., 1979, *The International Monetary Fund, the International Monetary System and the Periphery*, International Foundation for Development Alternatives, Dossier 5, Geneva
- Comercio Exterior*, 1979, 'Iniciativa peruana para un fondo monetario regional', Banco Nacional de Comercio Exterior, Mexico DF, May
- IMF Survey*, Washington DC,
—22 May 1978, 'Fund's Conditional Assistance Promotes Adjustment of Members, Witteveen States'
—5 June 1978, 'A Profile of 1967–76: Role Played by Resources of Fund in Financing Payments Needs'
—18 September 1978, 'Financial Facilities of the Fund'
—19 March 1979, 'Fund Conditionality: New Guidelines and Text of Decision'
—18 June 1979, 'UNCTAD V Conference: Meeting in Manila Leads to Limited Results'
- Griffith-Jones, S., 1979, 'The Alliance for Progress: an Attempt at Interpretation', *Development and Change*, July
—1979, 'The Growth of Multinational Banking, the Euro-currency Market and their Effects on Developing Countries', *Journal of Development Studies*, forthcoming
- O'Brien, Richard, 1979, 'The Outlook for the Euro-Markets and the Developing Countries' Financing in the Light of the US Recession and the Oil Crisis', paper presented at the IDS Study Seminar, Sussex, July
- Stallings, Barbara, 1978, 'Peru and the US Banks: Privatization of Financial Relations', forthcoming in Richard Fagan (ed) *US Foreign Policy and Latin America*, Stanford University Press
- Sunkel, Osvaldo, 1969, 'Esperando a Godot: América Latina ante la nueva administración republicana de los Estados Unidos', *Estudios Internacionales*, ano 3 no. 1, Santiago, Chile
- The Amex Bank Review*, 1979, 'Capital Market Growth: Tighter Conditions 1979', London, 26 March
- UN, 1979, Press Release, *UNCTAD V Ends Session in Manila*, (TAD/897), Press Section, New York, 4 June
- UNCTAD, 1979 *International Monetary Issues*, (TD/233), Geneva
—1979a, *International Financial Cooperation for Development: Current Policy Issues*, (TD/234), Geneva
—1979b, *Towards an Effective System of International Financial Co-operation*, (TD/235), Geneva
—(1), 1979, see Editorial references
- UNDP/UNCTAD, 1979, 'The Balance of Payments Adjustment Process in Developing Countries'; Report to the Group of 24, Project INT-75-015