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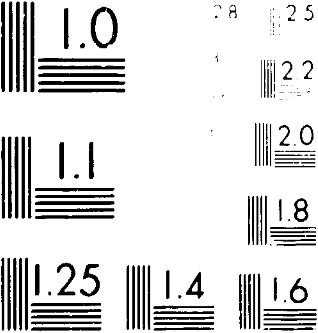
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org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THE FINANCIAL CONTEXT OF DEVELOPMENT

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David Ibarra

INTRODUCTION

Under the prevailing circumstances of the international economy, before refererring to specific financial problems, it seems indispensable to examine the global situation of the developing countries, specially those which import oil.

The postwar boom which proved to be helpful for over a fourth of a centruy, to the efforts of the developing world, can be considered a stage already closed. Since the monetary disorder at the beginning of the seventies, followed by the oil and food crisis, the 1974-75 recession and the present acute contraction of the industrialized economies, it can be asserted that the international economy, more than a supporting factor, has converted into a source of instability for the developing economies.

The financial bottlenecks of those countries arise from the antinomy among the growing internal political pressures to achieve progress and material well-being and an international division of labor which hardly favors an increase in their foreign income. The decrease of their basic products (staples) and the deteriorated terms of trade, are phenomena that have, for almost a decade, unfavorably affected the buying capacity of the developing countries. The volume of world trade which grew at an average rate of 5.4 per cent between 1976 and 1980, during 1980-81 will barely reach a little over 1 per cent, and will be negat ive in the case of the developing countries. During the period 1950-1980, the participation of the developing countries, non-producers of oil, dropped in the case of exports from 25 to 12 per cent, and in the case of imports from 22 to 15 per cent.1/ The terms of trade of this same group of economies, from a decreasing average rate of -3.7 during the period 1975-80, had a recovery in 1979-80, but has initiated once more its downward trend.

In view of the insufficient income derived from exports and of the multilateral and concessional financial aid, the developing countries have to the extent of their access to the capital markets, preferred indebtedness to the paralyzing of their development and employ ment process. However, although this solution has contributed towards lessening the intensity of the fall from world trade, it is becoming unsustainable. The current account deficit of the oil-importing devel oping countries went from 45,000 to 100,000 million dollars during the short period 1979 to 1981. On the other hand, a great lack of stability prevails in the rates of exchange, and the levels of debt are expanding dangerously, both from the point of view of the internal economy of the countries, as well as from the stability of the international financial systems. The estimates on the payment capacity of the developing economies are founded on far too optimistic assumptions based on the recovery of world economy and on the efficient utilization of international credit resources.[2] In fact, the debt guaranteed by the governments of the developing countries, importers of oil, went from 45,000 to over 300,000 million between 1970 and 1981, while in 1981 the total long-term debt amounted to 425,000 million; the coefficient of debt servicing over exports debt has been set at an average of approximately 25 per cent, and it is estimated that by 1985, two out of every three dollars borrowed will serve to pay former debts. During the period 1974-1980, the recycling of the OPEC surplus through the commercial banks was enormously successful and allowed a great number of countries to continue with their development programs. However, due to the conservative patterns of both the international banks and the lending countries, terms and rates of interest, were in adequate if the maturity of long-term investments is to be considered. In 1979, 70 per cent of the total bank debt on the part of the oil-importing developing countries which amounted to 200,000 million dollars, expired not later than 1982. Due to the extension of the international recess, loans were utilized more and more for emergencies - cover oil and food imports; finance budgetary deficits - but above all, to service formerly acquired debts. All this can hardly contribute to reverting the basic tendencies of the developing countries balances of payments.

A study on the possibility of maintaining the recycling of "petro dollars" leads to very discouraging conclusions. On the one hand, the banks have either reached their legal credit limits or dangerous coefficients of portfolio concentration in the case of many countries and are facing many difficulties in seeking new projects and new customers to finance. On the other, the governments of the industrialized countries, in the presence of an over-expansion of the bank credits, are adopting more strict control measures, but, on top of all this remains the fact that the surplusses of the oil-producing countries tend to disappear due to the decrease in the price of oil and the consistent increase of its imports, among which the need for armament plays an important role.

Not much can be expected from other sources of finance. The United States' loss of competitiveness and the internal adjustment problems of several industrialized economies, including the trends towards a small growth, make it improbable that the needs for development finance can be met by means other than those of the commercial banks.

Somehow, and by overcoming all resistance, a larger contribution in the flow of official funds channelled through the International Monetary Fund and the World Bank can be expected. It does not seem feasible, however, to be able to obtain important increases from other sources of funds, particularly in the case of concessional transfers. The flows from direct private investment, apart from not covering the financing of basic infrastructure, will be undoubtedly faced with the problems of political instability which almost always goes hand in hand with the economic crisis.

These are the circumstances that limit the strengthening of the

North-South commercial trends and hinder progress towards a more equitable international division of labor, favorable to industrialization and exports of the backward countries. The proliferation of restrictive commercial policies,3/ clearly illustrate the obstacles encountered by the emerging countries of the Third World in their access to international markets, which among other factors, originated from an uncomplete recovery of the international economy and the incapacity of the advanced economies to reach full employment free of inflation.

The economic recession gradually generalizes itself among the developing countries, as an evident demonstration of the high level of interdependence within the international economic system. In the mid sixties, the payment desequilibria and the imperfections of the financial systems forced the least developed countries to constrain imports and rates of growth. With a certain amount of delay, trading of indebtedness in exchange for some additional development, followed the same path of other economies with larger access to bank financing. By 1980, the great majority of the backward countries, even some oil-producers and some who have traditionally resorted to international capital markets, had begun to reduce public expenditure, as an adjustment measure in the presence of rapidly increasing financial desaquilibria.

The general conclusion to be derived from surveying the conditions in which the international economy is evolving is very clear. At least during the first half of the eighties, the developing economies will receive very little relief from abroad, either by an increase in capital transfers or through trade concessions. To reach the industrialization goals agreed upon in Lima, will depend primarily on Third World efforts or on its capacity to adopt to an international context characterized by its narrowing opportunities. Therefore, emphasis should be placed in the mobilization of internal savings, in achieving efficiency and markets, in promoting cooperation and integration programs among them the developing economies themselves. In the past, several countries learned to grow with very scarce foreign capital support. These experiences should be renacted. The Third World's economic future, is more linked than ever to the possibility of promoting a healthy industrial development that alleviates payments bottlenecks through the double prong of import substitution --with efficiency-- and the creation of manufacture exports. Thus the importance for a serious revision of the industrial policy instruments and, specially, to promote the modernization of the financial systems of support.

2. REALITY OR HOPES

In the immediate future the Third World's industrial development will face an unfavorable climate. On the outside, the economic problems of the United States and other industrialized countries will create, during a certain period of time, adverse conditions for development aid or for the establishment of a new international division of labor. On the inside, the expectations revolution, encouraged by the postwar boom and the emulation of the social patterns set by the developed countries, has multiplied the demands of the population and the responsibilities of the State to the point of deviating the concentration of national efforts in a specific group of priorities. On the other hand, in times of economic contraction, the need to meet short terms usually distracts political attention from structural changes, such as the demand for industrial modernization of the developing countries.

In times of crisis, however, there also exists a period where the pressure of the circumstances leads to the acceptance of new concepts not likely to be reached under normal conditions. The convulsion of the thirties not only changed the political perception of the industrialized centers, but gave birth to a very important and permanent change in the concept of the role of the State in the management of its economic affairs. The results of these ideological transformations in the developing countries are the policies for substitutive industrialization, the creation of planning mechanisms, the formation of integration areas and, more recently so, the prompting of aggressive export strategies, as concrete expressions of the action taken by the States which, in addition to assuming the responsibility of managing economic life, have had to transform into promoters for development.

The dilemmas of today's world call for realistic adjustments in their programs; abandoning of policies unlikely to fructify. Within each of the developing countries, it will be extremely difficult to act skillfully without a strict order of priorities in economic affairs. Many social demands will have to be postponed and others cancelled, in order to concen trate all efforts towards the elimination of those obstacles which hinder the continuity of the development process. In the international context, it sould be recognized that the strength of international interests still predominate above the more general ones of the international economy, despite the considerable increase of interdependent relationships among national economic systems.

In fact, there exists a clear opposition between the variegated set of proposals for a change in the international economic order which the developing countries have been submitting throughout the last two decades and the limited capacity of the industrialized centers to assimilate them within their own internal political processes. Consequently, before denying a priori any possibility of change, or to the contrary, the clogging of international fora with multiple demands, perhaps the best option would be to concentrate negotiations on those questions that are truly relevant or remarkably urgent.

Within not very wide margins, the search for negotiated solutions finds itself at present in historically favorable circumstances. The international economy is gradually abandoning the old set of rules of automatic application which the logic of economic liberalism claimed it would endow it with the capacity to correct any real or financial disaquilibria.

The principle of free trade, the maintenance of fixed exchange rates and the double anchorage of the monetary system in a dominant currency related to gold, were based in the economic hegemony of a leading country, which, in addition, had to remain permanently in the forefront of competitiveness and technological change, when these conditions are no longer present, the international economy is gradually ruled by a process of negotiations with the purpose of harmonizing interests and where national policies are least judged by their observance of traditional rules and more according to their impact on other economies.[4/]

Within this context of recession and change, usually emerge distorted perceptions of the true nature of economic problems. Financial insufficiency manifests itself as the typical bottleneck in the development of backward countries. This misperception, generally hides the fragmentation of a complex set of inter-trade, indebtedness, transnational enterprises, energy and food, only to mention a few - where financing usually performs a residual adjustment function. Briefly, the role of finance simply resides in the setting of a bridge between savings <u>ex-ante</u> and the period of maturity of the investment, or between the beginning of productive activities and the time of the sale of produce in the world markets. Because of this, when through the credit alternative, a substitute is contemplated for basic trade arrangements, international division of labor and concessional resource transfers, the true natures of the problems are falsified and thus aggravated in the end.

In the internal context of each country, be it by misperception or by the need to keep the economy afloat, financial solutions are usually attempted to problems which demand a different treatment. It is common to utilize credit as a transitory substitute of structural reform; to cover chronic public finance deficits by way of loans instead of adjusting income and expenditure, or to allow non-productive expenditure which displace self-financing investments. Hence, the lightening of internal and external liquid assets experienced by a large number of developing countries.

It is possible that the financial and debt problems be solved, but it will be much more difficult to find a way out, if the international economy and the North-South trade flows continue to weaken. In consequence, the strategies to be followed in the future will have to differ in their fundamental aspects to those practiced during the sixties and the seventies. The proposals for international negotiations will have to be less tainted by ideological extremes and more centered upon a pragmatic search for areas of agreement regarding the most acute problems of the developing countries. As a counterpart, national policies will have to be formulated in recognition of the existence of an unfavorable external environment and of the impossibility of further postponing internal reforms.

3. THE INTERNATIONAL ARENA

From the point of view of the needs of the developing countries, revolutionary proposals such as the creation of a World Development Fund (Brandt Commission) a Marshal Development Plan (Cheysson) or an International Industrial Development Plan (UNIDO)[5/] with massive resources, undoubtedly, constitute or could constitute, optimal solutions from the technical and economical point of view. However, there does not seem to exist in the industrialized societies, the political climate that could turn them into feasible projects in the immediate future. This is indirectly indicated by the difficulties encountered during the creation of an energy agency of the World Bank,

the replenishment of IDA funds or the failure to meet the goals of the United Nations in the transfer of concessional resources. Notwithstanding, these proposals, rather than be discarded, should be given serious consideration while the above mentioned political conditions either change or mature.

In the meantime, emphasis should be placed in international negotiations on the maximum utilization of already established institutions and mechanisms, to promote those reforms which will widen their access and adapt the terms for financing to the needs for development or to reduce the fluctuations of foreign exchange income in the backward countries. It seems particularly indispensable to establish priorities by means of which financing is channelled preferably to productive projects that will contribute to solve the payments bottlenecks and to mitigate the repercussions of the rise in costs both of energetics and money.

Paradoxically, the principal problem of international finances emerges from the change in the structure of capital flows to the developing countries which took place during the sixties. Between 1970 and 1980 the credits of the commercial banks to the oil-importing developing countries, not including the short-term debt, rose from 14 to alomost 50 per cent of the total financing of the deficits in the balance of payments current account.[6/] Direct private investment and official aid for development barely accounted for 8 and 22 per cent respectively, during 1980.

Consequently, if private banking is not in a position to maintain this rate of expansion on its lending, it will practically be impossible to increase other sources at a satisfactory degree. It is hence of vital importance to widen the role of the International Monetary Fund, of the World Bank and of the Regional Banks in financing the Third World's needs for development and balance of payments, as one of the few alternate institutional paths.

The increase approved by the IMF quotas toward the end of the seventies, would give access to funds which excede the 70 billion dollar mark. However, if those financial transfers are to materialize, the governnments must overcome their justified resistance to utilize those resources subject to too strict requirements which are frequently politically unmanageable; this resistance has impeded the IMF to make net disbursements during quite prolongued periods. Thus the need to modify and not to suppress the rules of conditionality, but to adapt them to the realities of the developing countries. This is undoubtedly a complex and difficult matter for negotiation. But in the end it must be admitted that deflation, as an adjustment technique, does not solve all problems, specially those which sprout from deficiencies in the productive structure and, on the other hand, often creates social discontent and political instability.

In the same manner, it would be convenient to enlarge considerably the lending capacity of both the IBRD and the regional banks, specially in the financing of programs and branches of industry. An increase in this institution's capital is in the process of legislative ratification. However, it is apparent, that this will not suffice if in the future the gap left by private banking is to be filled, the transfer of resources at longer terms (coherent with the maturity of the investments) is to be carried out, and the enormous capital need of new member countries (the People's Republic of China) are to be met.

Fortunately, there exist studies and proposals that will allow for rapid progress once the political consensus indispensable among industrialized countries is reached.

The better known proposals deal with considerable increases of capital of both the IBRD and the regional banks, with differences regarding the amount of resources; to increase these institutions' legal coefficients between liabilities and capital so as to allow for attraction of larger resources from international capital markets; integrate packages of investment projects which would be placed among surplus countries such as the OPEC members.[7/] There are also interesting proposals at a less ambitious scale. The traditional scheme for co-financing could be substantially widened so as to combine the resources of the multinational credit institutions with the commercial banks and the capital markets of the lending countries. A first step would be to negotiate additional agreements with private banking.

The sale of portfolio participation and the issue of loan transfer certificates with partial guarantees from the multilateral credit institutions to be placed in the international capital markets, could also be convened.[8/] These systems could be complemented with the development of multilateral guarantee systems which would give access to several developing countries to the international issuance of long-term bonds and securities. On its part, the International Finance Corporation could play the principal role in the transfer of risk capital and long-term loans to industrial private enterprise of the developing countries.

Still another field where the flexible participation from the multilateral credit institutions will be required, is the foreign trade financing of the developing economies. On the one hand, it would be necessary, at an increased scale, to carry out the functions of the Latin American Export Bank in supporting world market sales.[9/] It would also be convenient to evaluate and revise prior experiences regarding the oil, compensatory and expanded facilities of the IMF in correcting severe pressures on the balance of payments. From this same point of view, it seems useful to reconsider the proposals, such as the one submitted by Mexico in 1978, regarding the establishment of a finance window for the purchase of capital goods from the developing countries with the double advantage of promoting industrialization and encourage North-South commercial flows. Finally, there is a need for reconsidering financial innovations aimed at reducing the risks of the developing countries' foreign exchange income fluctuations. Futures contracts, commodity-linked bonds, and the common funds for price stabilization, are some of the many other possibilities in this respect.

In addition to the above, much could be gained by constructively facing the debt problem of the developing countries, where the postponement of solutions might lead to serious frictions between debtors and lending institutions and countries, as well as to erode the stability of the international finance system. Above all, it is important to establish mechanisms through which can be foreseen the appearance of extreme situations of lack of liquidity or suspension of payments which subject the lending and borrowing countries to difficult and prolongued periods of adjustment. To this end, it is convenient to negotiate such procedures as to allow the countries to restructure their public debt in advance, when the coefficients for the servicing of the debt reach dangerous levels. This could be complemented by a refinancing facility that could pave the way toward softening the maximum point of debt servicing, that is, an adequate extension of the IMF usual terms.

In both cases, rules of conditionality would be stipulated and its administration could be carried out through such already established institutions as the Club of Paris, the IMF or the World Bank. Finally, and specially for the benefit of the relatively less developing countries, the granting of direct subsidies to indebtedness in payment not only of interests but also of principal, could be encouraged.[10/]

A brief revision of the reforms in the international financial systems in order to cope with a limited set of problems - the financing of trade and debt - of the developing countries, raises considerably complex challenges which might be difficult to overcome in every case. From a different point of view, the need is evident to alleviate the mechanisms for international decision-taking by eliminating all those proposals which are neither truly urgent or prioritary.

From a different perspective, it is unquestionable that direct foreign investment can make positive contributions, although it does not seem probable that it can fill the gaps which are appearing in international development financing. In the first place, a good portion of the resources from that source are channelled through transnational enterprises which tend to concentrate their investments in a limited group of countries that seem attractive due to their availability of human resources and raw materials or to the dimensions of their markets. Th results in a geographic distribution of private investment which e a great number of relatively less developing countries. In the second place, it is difficult to conciliate the vision of a world suffering from serious economic dislocations and social instability, under the assumption of a substantial increase in the flow of private capital. In addition, private investment must be complemented by infrastructure works and by the creation of other external economies, where external credit and concessional aid are indispensable. There also exist ideological obstacles which emerge from the anachronism of a foreign investment regime which has practically gone unchanged during a century and a half. Although immediate results are not expected, it seems that the time has come for the establishment of a new code of conduct based on the reality of contemporary economic and political structures. A first step could consist in subjecting transnational enterprises to a minimum of regulations, keeping in mind the developing countries' point of view.[11/] But if the start is to be on a more modest scale, the integration of enterprises in joint ventures and the establishment of systems of guarantee in favor of the investors from the capital-exporting countries, could deliberately be encouraged at the expenses of their own governments.[12/]

Of course, official development aid is part of the efforts which favor economic modernization of the backward areas. But it must also be looked upon as an income distribution factor at world level, and of harmony among those nations whose standards of welfare tend to seperate. Undoubtedly, concessional financial and technical aid can perform a very positive function due to the acute scarcity of resources in the poorest countries and to the fact that the developing world has considerably increased its capacity to productively absorb these resources.[13/]

More still, innovated schemes are being developed to heighten the impact of international cooperation such as the Industrial Development Fund which will allow UNIDO to respond flexibly and efficiently to the request for support from the developing economies.

However, with the exception of the efforts of a few countries within which stand out the OPEC members, official aid to development is performing a historically-declining role. It was through these means that in 1970 over a third of the payment deficits of the oil-importing developing countries were financed; in 1980 a mere 22 per cent was serviced, although resources were channelled by a larger proportion toward the relatively less developing economies. From another point of view, this does not seem to revert, but rather to accentuate the tendency to concentrate the transfer of official resources through bilateral mechanisms,[14/] with the usual inconveniences of being utilized as vehicles of ideological influence or discrimination of the countries that are not deemed strategic to the lending governments.[15/] It can be foreseen, due to political and economic reasons, that no dramatic changes will occur neither in the quantity or distribution channels of this aid in the foreseeable future. All in all, it is advisable to go ahead with the elimination of obstacles faced by the finaning of multilateral programs of the highest priority, such as in the case of United Nations technical assistance or the regional banks' concessional credit funds. The means of combining resources of bilateral and multilateral origin - which would eliminate many of the disadvantages of both systems - should also be utilized to the greatest extent, in cases where the free or semi-free transfer of resources is urgent and cannot be substituted.[16/]

In summary, economic interdependence between nations, the complexity of the goals pursued by different groups of countries and technological change, transnational enterprises or the East-West conflict, have radically altered the possibility of ordaining the international economy according to simple rules supported by the unique leadership of one country. Global economic integration now raises the question of the role and opportunities that will be opened to the developing world. And this should be achieved not only for reasons of efficiency, but for the imperative to reach an acceptable degree of economic security and social stability, which the energy crisis and the increase in interest rates have dramatically emphasized.

Collective economic security primarily demands the fullfilment of two basic conditions.[17/] In the first place, to develop the capacity for anticipating and foreseeing crisis, such as the one threatening the international finance system. In the second place, that of placing more weight on the consideration of equity in the distribution of trade benefits and the international division of labor. These are challenges that are to be confronted in the international arena.

4. COOPERATION IN THE SOUTH

The external relations of the developing countries have been dominated by the concern for the promotion and defense of their interests vis-a-vis the industrialized centers. The weakness of economic links and the absence of a network of institutions to promote such links among the members of the Thrid World, emerges as a historical fact. This type of insertion in the international economy has resulted in the division of the developing countries and has influenced the critical decisions of the international economic order - international division of labor, trade agreements, monetary reform, financing and aid - up to now scarce or inexistent, except in the case of energetics.

Nonetheless, gradual changes have occurred in the economic sphere and in the perception of developing governments and societies. In view of the practically nil trade flows, South-South trade has gained importance, particularly in manufactures, as shown by the fact that between 1955 and 1980, it practically increased five times.

Cooperation among developing countries achieves its most refined expression by the integration movements which have proliferated both in Latin America and Africa. But it can also be observed in the agreements among producers to supply international markets (oil, coffee, sugar, banana, bauxite, copper, among others). At a different level, it is also present in the formulation of joint proposals in fora such as the United Nations General Assembly. UNCTAD and UNIDO. UNCTAD Resolution 92 (IV), dealing with cooperation among developing countries, the UNIDO

Lima Program and the formulation and approval of the Group of 77 Outline for a Program on International Monetary Reform, express the capacity to formulate thesis and open ways of negotiation among themselves and with industrialized centers.

Be it as it may, a process is underway for the creation of institutions, learning programs of cooperation which, although only in its initial stage, can be the basis for support of a philosophy of confidence in the Third World's capacity to find constructive solutions to their problems.[18/] There are, however, very large geographic, ideological and social organization gaps which should be overcome. Consequently, the development of new links must be carried out at two different levels. One would be the coordination of positions and consultations, in order to improve the Thrid World's bargaining power, in the creation of a new international economic order from a global framework wherein all components are articulated and which would provide coherence to the everyday negotiations in specialized fora. At the other level, arises the need to strengthen or to create mechanisms and institutions of economic cooperation among subgroups of developing countries with geographical, social and economic affinity.

The developing economies need a consistent policy toward the industrialized centers in order to better protect their short and long-term interests in the international milieu, distinguished at present for its disorder, abrupt changes and inequities. The strength of the countries of the South is not dependent so much on their capacity to agree upon common positions in international fora, but on their persistent decision to undertake those projects which will diminish the vulnerability of their economies.

The economic stability of the developing countries is fragile and easily tends to transform itself into political instability. Because of this, the main objective in promoting cooperation among countries of the south cannot be other than that of increasing economic security and through those means, get closer to the goal of satisfying the basic needs of their populations. Under these terms, the most natural thing is to deliberately multiply the South-South trade flows by the grouping of markets and the creation of productive structures which benefit from joint industrialization opportunities and economic complementarity.[19/] It is possible that from a theoretical point of view, this proposal does not constitute an optimal solution for the international economy as a whole. However, the world division of labor may not have to conform itself to abstract formulations, but rather as a result of the pragmatic processes of negotiation. The link between countries with a similar level of development offers an important potential in terms of growth and bargaining power. To illustrate this, consider the depth of the changes to be brought about by the gradual integration of markets and resources of such Latin American countries as Brazil, Argentina and Mexico.

The key in promoting economic links among the Southern countries will lie, in a negative sense, in the depth of the crisis of the world's economic system, in the closing of traditional outlets and, in a positive sense, in the ability of the governments to stipulate rules which lead to the utilization of an alternative for industrialization and reciprocal trade expansion, which depends solely on their will to associate in joint efforts of structural change.

Considerable progress could be obtained in the field of finance by strengthening the programs that are being implemented or that might be implemented in promoting industrialization or trade.[20/]

A starting point might be the establishment of linkds between national development banks among themselves and in connection with the regional financial institutions. This would facilitate the obtention of expanded resources, technical assistance and the promotion of industrial projects at different scales, including co-financing and the establishment of enterprises that require the integration of national markets. Within the same institutional framework, or through the creation of specialized instituions, the promotion of exports could be stimulated, and as a result, an obstacle that frequently limits the competitiveness of the developing countries, would be thus eliminated.[21/]

At the same time, it would be positive to alter the allocation of resources to regional financial institutions,granting higher priority to industrial development. Of course, much more ambitious goals would be achieved if it were viable to change the channelling of additional resources from the surplus developing countries. The transfer of bank deposits from OPEC toward co-investments or direct investments in other developing countries, would have consequences of first magnitude.[22/] On the one hand, it would diminish the erosion experienced by those deposits due to international inflation and, on the other, it would considerably encourage Third World capital formation.[23/] If the risks are considered too high, or an adequate institutional framework does not exist, a gradual beginning could consist in the increase of portfolio investments - as is already partially being done - or in the utilization of the International Finance Corporation or the regional banks as intermediaries in the evaluation and monitoring of direct investment in developing countries.

With reference to payment agreements and short-term credits, there already exist sufficiently advanced institutions and mechanismsamong developing countires to allow for considerable progress in the future. There are seven multilateral payments agreements - in which participate 47 developing countries from Africa, Asia and Latin America - that could easily increase their scope. There is also a network of subregional credit agreements in Asia, Latin America and the Arab countries which offer balance of payments support under established rules of conditionality. For example, the Santo Domingo Agreement, which binds most of the Latin American Central Banks, covers the member countries' transitory liquidity deficiencies which originate from balance of payments deficits or from natural disasters.[24/]

The latter constitute evident fields of financial cooperation among the countries of the South. Many other possibilities can be identified: the establishment of joint systems of guarantees for loans and securities, the creation of regional stock markets or common systems of reinsurance, the opening of lines of credit for the acquisition of food, joint financing of integration projects, organization of financial consulting mechanisms, reciprocal coordination and technical assistance in financial matters, among others.

5. INTERNAL POLICIES

According to reliable estimates, the world economy during the eighties will keep depressed the export income of the majority of the developing countries.[25/] In addition, net financial flows directed to that group of economies, in the best of cases, will stagnate in real terms. Integration and cooperation schemes among the economies of the South, will require, as any other structural change, relatively long periods before their full effects are felt. The inescapable conclusion of such a state of affairs, is that the growth of the developing countries will depend more than ever on their own efforts to close the external payments gap as well as the internal gap between savings and investment. Poor societies will also have to become austere, reduce inefficiency and waste, undertake difficult reforms, if they are to avoid collapse in employment and the proliferation of political instability.

It is highly probable that the structural deficiencies of world economy and those of each developing country will manifest themselves most poignantly in the scarcity of investment resources. The global financial program has already begun to acquire such graveness that darkens and dominates the problems of several branches of the economy. Consequently, the allocation of financial resources, more than begin with systems of attraction with specific predetermined destinations, will have to be carried out - if they are to achieve an efficiency proportionate to their scarcity - by following the priorities established in the governmental strategies to order economic activity.

Without pretending to arrive at generalizations which overlook the diverse conditions of the backward oil-importing countries, there are common circumstances which will have to be reflected, on a larger or lesser degree, on economic policies. In the majority of the cases, there are decreases or expectations of decrease in the rates of development, rarefaction in the availability of foreign exchange, inflation and public finance disorders. It can thus be inferred that, at best, the main present political concern of the governments is to limit to a maximum the fall in employment. Simultaneously, this objective suggests as one of the prio ies, the inclusion of export promotion and the substitution of imports for the purpose of alleviating the effects of the external bottleneck.26/ For reasons of distribution and the need to strengthen the democratic legitimacy of the governments, everything points to the inclusion in the same set of priorities, of widening the internal supply of popular consumption goods which constitute the minimum socially acceptable basket. 27/ From the latter, the requirement can be clearly derived of mobilizing, as much as possible, the generating and attracting capacity of savings in the developing economies, and as a second requirement - which could admit exceptions - to make of industrialization the center of the developing effort.

By inverting the order of the preceding paragraph, the second requirement is specified in the set of considerations which lead to the deliberate search for the gradual alteration of the world distribution of economic activities, as a necessary condition for the purpose of increasing the economic security of the developing countries and for achieving sustained rates of growth. 28/

The possibility of mobilizing the economic surplus is very far from being a purely financial problem. In fact, the generation, attraction and utilization of savings in a given country, are imbricated within the framework of the economic and social structures. 29/ If account is taken of the waste in underemployed labor or of land resources, military and luxury expenditures, or the composition of public expenditure, it would have to be ascertained that in the majority of the developing countries there exists a great surplus potential liable for productive utilization. In this respect, it would be convenient to recall historical experiences that we tend to forget, which have proven the viability of liberating social energy in national efforts to combine economic progress with an improvement in equitable distribution. Agrarian reforms, for instance, have served not only the purpose of increasing agricultural production in the medium and long-term, but also the creation of a harmonious climate among social classes that greatly favor industrialization processes. In a different sense, the practice of profound demographic policies can greatly contribute toward reducing the pressure on scarce land resources, capital and social infrastructure.

The problem of internal finance of the developing countries can be raised at different interdependent levels. The first would consist in undertaking modernizing reforms that in addition to improving the functioning of the economy, would unite and ordain the efforts of the population in relation to the common goals of the majority of the social strata. A first type of reform would consist in cleansing public finances. Due to internal and external difficulties, serious financial disequilibria have emerged which limit the capacity for economic leadership of the governments of the developing countries. The need would rise, in many cases, to undertake fiscal reforms and to restrict superfluous or non-prioritary public expenditures. Complementary to this would be in-depth changes in income and expenditure policies and public or semi-public enterprises.[30/]

The first set of policies would be directed toward strengthening the role of the State as a responsible agent for socio-economic development and at the same time, reduce the impact of public expenditure both upon inflation and in the encouragement of unnecesary imports.

In the second place, and with country-to-country variations, the incentives to private investment should be reoriented with a view to encouraging savings and reinvestment, to make more profitable those resources channelled towards export and import substitution activities, both in the manufacture of popular consumption goods - specially by the small and medium-sized industries - and capital goods, when the size of the market allows it. It is pertinent to add the condition for a more efficient production, to look after vertical integration of industrial processes, and to look for specialization where comparative advantages either exist or can be generated. To this effect, it would be indispensable to strengthen the national capacity and the cooperation programs between developing countries, in connection with the preparation, evaluation and implementation of capital formation projects.

These governments' third line of action would consist in the initiation - with the assistance of international institutions - of massive and systematic programs for productivity increase.[31/] This would open a way - not very much exploited - of enriching the investment of surplusses, which would offer ma ins of increase in the remuneration of labor, without creating inflationary pressures. The programs referred to should have financial backing and incentives should lean above all on the efforts to strengthen centers and mechanisms for either carrying out or promoting the adequation, absorption and generation of technologies. This is a fruitful field for collaboration among developing countries and, within each one of them, among governments, enterprises and universities which would greatly benefit the relatively less advanced economies.

Historical experience also shows that the mobilization of savings within capitalist systems of mixed economies is a function of the improvements of the network of institutions and instruments to channel and attract community resources.

From the first point of view. the services which the development banks can offer are invaluable. Within this context it is possible to form centers of technical excellence whose functions are those of promoting industrialization and agricultural modernization programs; unfold those programs in specific investment projects; contribute risk capital and long-term credits and encourage private investors participation; issue savings securities; act as a link with the international financial institutions; give technical assistance and relieve public administration in the adoption of detailed decisions at a technical level, among many others. It is not a prerequisite of development banking to reach high levels of development, but to the contrary, its services are more needed the least is the progress of financial markets, the more scarce is capital and is less the entrepreneurial capacity.[32/]

The chronic scarcity of resources in developing countries leads, at times, to increasing the role of the central bank through the application of non-orthodox methods. Its traditional functions, including its participation in policies of cyclical stabilization, can be prudently widened in order to achieve objectives related to development financing. There are several instruments that might be used for such purposes. For instance, the utilization of legal deposit rules and rediscount, to orient credit allocations and ease the operation of specialized credit institutions in activities of high economic priority such as agriculture, small and medium-size industries, manufacture of capital goods or construction of popular housing. Also, the technical reserves of social security institutions, can also, in part, be used with adequate guarantees for the purpose of transferring long-term funds to investment financing and the promotion of national capital markets.

At the same time, there generally exists a wide field of action for improving the network of financial institutions which attract and allocate social resources. Of course, more complex forms of organization will perhaps remain outside the possibilities of relatively less developing countries. Nonetheless, substantial progress can be achieved at each stage of development which would go from the organization of credit unions, savings and loan associations, mutual and pension funds, to the formation of investment firms, insurance companies and stock or futures markets.

The considerable increase in the savings coefficients of developing countries, is, without a doubt, one of the expressions of the sustained postwar boom, but also a product of the increase in institutional savings and of those internal efforts addressed to the improvement of financial systems. As proven by the persistent exodus of capital toward world banking centers, there nevertheless subsist the possibilities of improvement which could even benefit relatively less developed economies.

Two requisites should be met in this field which run parallel to the strengthening of development banking and the network of financial institutions. The first consists in the design of instruments of attraction to gradually satisfy the needs of several groups of savers concerning liquidity, terms, and security, among other conditions. The penetration of small family saving groups does not pose the same problems than the offering of services to the treasuries of enterprises or integrated portfolios of major investors. It is thus convenient for instance, to gradually create the possibility of issuing a mixture of short-term securities - treasury certificates, savings accounts, comercial documents, banking acceptances - with medium and long-term titles - savings deposits, bonds, obligations, convertible bonds - and variable interest documents, trying simultaneously, to develop the corresponding secondary markets.

The next condition consists in offering competitive yields in comparison with those paid abroad, or positive yields, in real terms. The first rule is applicable if there exist free capital movements; the second would consist in avoiding both financial disintermediation and the deterioration of savings habits which usually accompany inflationary processes, even with the existence of exchange controls.

6. CONCLUSION

The previous analysis leads to one main conclusion: if underdevelopment is to be overcome in what remains of this century, it will depend more on the execution of radical reforms- in and among developing countries - than on a favorable external environment. It is possible that progress will be achieved in trade and monetary agreements. But it is doubtful that an accelerated progress can be attained in the transfer of capital resources and technology. In the field of finance, internal tasks offer several possibilities of mobilizing internal resources, if supported by the political determination to promote in-depth changes in the modernization and industrialization of countries and in the search for a more equitable distribution of the development benefits. The feeling of confidence and national fullfilment that would emerge from these reforms in economic and social structures, would undoubtedly more than compensate for the probable lesser rates of growth in the short run and the trends toward social instability which proliferate in the world today. All this poses a very complex and intense work agenda for the multilateral institutions of technical assistance, particularly those of the United Nations system.