RECENT TRENDS IN INTERNATIONAL FINANCIAL FLOWS TO THE LDCs - THEIR EFFECTS IN GUYANA

by

M. DaCOSTA & P. TULSIERAM

Paper to be Presented at the Twelfth Annual Regional Monetary Studies Conference. Belize, October 29-31, 1980.

BANK OF GUYANA
OCTOBER, 1980.

****

The views expressed here are
solely those of the authors.

****

INTRODUCTION

One of the most significant features of the international financial system in the decade of the 1970s was the relative decline in the importance of official flows of finance to the developing countries as a group, and the simultaneous growing shift towards large-scale private Bank lending to middle-income LDCs. This pattern is likely to continue, although at a somewhat slower pace, in the decade of the 1980s.

The trend towards private Bank financing has already resulted in serious economic and social problems especially for the poorest of the developing countries, (those with per capita incomes of US$300 and less) which depend on bi-lateral concessional aid for almost two-thirds of their external financial requirements and which already are near the minimum limits of subsistence. However, the middle-income developing countries have also been affected to the extent that greater reliance on commercial borrowing has entailed higher debt-servicing burdens which are aggravating balance-of-payments problems.

In the Caribbean area, Guyana and Jamaica have been the most seriously affected, however, if the present trends continue, many other countries of the region will also begin to suffer similar economic hardships. Strategies, therefore, need to be worked out for coping with these new realities in international finance. Such measures will include the avoidance of excessive short-term borrowing, ensuring the most efficient use of external funds, and, in general, improving the quality of economic management.

This paper examines the effect of recent trends in external flows on the economy of one Caribbean country, Guyana. However, before turning to specifics, we attempt to analyse some of the factors responsible for the relative decline in bi-lateral aid flows and briefly look at the present and potential contribution of OPEC and the multilateral institutions to external financial flows to the LDCs. This is done in Chapter I. In Chapter II, we discuss some of the advantages and problems associated with commercial Bank borrowing. Finally, in Chapter III, the paper turns to a brief analysis of proposals being put forward at UNCTAD and elsewhere for increasing the flow of finance on appropriate terms to the LDCs. In this respect we are particularly concerned with the prospects of these proposals being implemented in the near future.

CHAPTER I: RECENT TRENDS IN FINANCIAL FLOWS TO THE DEVELOPING COUNTRIES

Table I on page 34 shows annual net disbursements of external funds to developing countries from 1970-1977. The most significant feature is the change in trends of distribution by creditor. Bi-lateral aid, which in 1970 accounted for over 80 per cent of total net receipts, had, by 1977 fallen to 58 per cent of the total. On the other hand, the contribution of international Bank lending had advanced from a mere 4 per cent to 28 per cent. Recent data for 1979 reveal a continuation of this trend. Official long-term sources financed 36 per cent of total net external borrowing of the non-oil developing countries, while international financial institutions provided 39 per cent.[1] World Bank projections for 1985 shows an even further acceleration of this trend: in that year commercial banks are expected to provide 51 per cent of LDC financial requirements with official grants and concessional aid providing only 36 per cent.[2]

In spite of well-meaning statements from the OECD countries, aid flows have, in real terms, been virtually stagnant since the mid-nineteen sixties. Expressed in constant 1977 prices, OECD bi-lateral aid flows increased from \$12.7 billion in 1970 to an estimated \$15.8 billion in 1978. Alternatively expressed, development assistance to the LDCs remains at 0.4 per cent of the

(1) IMF Annual Report 1979. p. 32

(2) World Bank: World Development Report 1979. p.9

industrial countries' combined GNP - virtually unchanged since the late 1960s.[1] Quite apart from the current recession in the traditional donor countries which has resulted in more stringent budgetary and balance-of-payments constraints, other, more fundamental factors, point to poor prospects of any marked increase in aid-flows.

The first, and perhaps most important, is the apparent growing lack of commitment to meeting the needs of the poor countries. In the United States, the Congress seems more and more unprepared to vote additional funds to countries or to multi-lateral agencies. Recently, it was reported that the increase in foreign aid requested by the President for fiscal 1980/81 amounted to $200 million - a fall in real terms from the previous period.[2] A similar attitude prevails in the United Kingdom where aid has not been spared from the current government's policy of expenditure cuts. The Chancellor of the Exchequer has summed up the prevailing attitude well:

"The ability of the industrialized countries to help the poorer countries has, at least for the time being, diminished ~~dimished.~~"[3] West Germany and Japan have promised to increase their aid Budgets, but in the current situation, any increments are likely to be small in relation to LDC needs.

The second important factor pointing to the inadequacy of bi-lateral aid flows in the near future is the growing emphasis on trade and strategic

---

~~(1) OECD. Development Cooperation: 1978 Review. Paris 1978 pp.19 and 199~~

(2) Financial Times. 29th January 1980

(3) The Banker. November 1979 p.146

importance rather than on the need for assistance, as the major criteria for aid flows. Mr. Neil Martin, a British Minister for Overseas Development has been reported as stating that aid would be channelled to more countries which could provide trade, strategic, or political benefits to the United Kingdom.[1] Similar sentiments have been expressed in the United States Congress. In this situation of disappointing actual and potential flows of development assistance from the OECD countries, the group of LDCs likely to suffer the most are the poorest, i.e. those with per capita incomes of US$300 and less. It is these countries that rely on official development assistance for more than two-thirds of total net external flows. In the context of frequent oil price rises, inflation affecting the cost of other essential imports and the current recession in the industrial countries, which is already having adverse effects on LDC exports, stagnating real flows of bi-lateral aid can only aggravate the level of misery faced by the people of these countries. Much political will and effort on the part of both the industrial countries and the richer LDCs are needed if this situation is to be avoided. In a later Chapter, the paper looks at some proposals for alleviating the financial problems facing the least-developed countries.

<u>OPEC:</u>

In terms of the proportion to GNP, OPEC far outperforms the OECD countries in development assistance to the LDCs.[2] Apart from direct, bi-lateral assistance, development banks and special funds have been established

---

(1) The Economist. 23rd Feb. 1980, p. 67

(2) Capital-surplus OPEC countries devoted 3 per cent of their combined GNP to development assistance in 1979. The comparative OECD figure was 0.4 per cent.

to channel funds into projects either wholly, or partly financed with other agencies.

In 1978, for example, the OPEC Special Fund granted loans to sixty LDCs, while as at the end of March 1978, 106 projects had been co-financed by OPEC to the extent of $3 billion. With the combined OPEC surplus estimated to exceed $100 billion in 1980, the non-oil LDCs will no doubt be looking towards increased long-term flows from this potentially most important source of funds.

THE MULTILATERAL INSTITUTIONS:

(a) IMF:

Other papers presented at this Conference deal extensively with the IMF as a source of finance to LDCs, as a result, only a few pertinent points need be stressed here. The first is, that as Table I reveals, the Fund has been a very minor source of finance to the LDCs, providing only a negligible proportion of net external flows in the period 1970-1977. Even in 1979, repayments to the Fund exceeded borrowings by SDR 2.4 billion. (1) The supply of loanable funds was certainly not the constraining factor. Morgan Guaranty reports that as at the end of August 1979, the developing countries had a maximum cumulative borrowing potential of $47 billion under the Fund's major facilities, but the outstanding amount lent to the LDCs totalled only $4.7 billion. (2) The reason for the IMF remaining a relatively unimportant source of external finance is

(1) IMF Survey 21st January 1980. p. 17

(2) Morgan Guaranty: World Financial Markets. October 1979.

that it is regarded as an institution to be approached only in the last resort.

Adherence to a model of LDCs that interprets balance-of-payments deficits as resulting from excess aggregate demand leads the Fund to attach strict demand restraint conditions to its loans to the LDCs. These conditions, and the usually small amounts of funds made available under regular tranche operations have led such prominent Third World leaders as Michael Manley and Julius Nyrere to accuse the Fund of irrelevance, and of "meddling" and "interference" in the LDCs. (1)

Repeated urgings from the developing countries, the ample liquidity of the Fund, and the perceived dangers of "excessive" bank-lending, all seem to have led to a consensus that the institution should play a more active role in assisting the adjustment process in those LDCs requiring urgent balance-of-payments assistance. The IMF's response has been to point to the new and expanded facilities being offered to borrowers. Among the more important are the following:

(i) The agreement of the Fund's Executive Board in March 1979, to introduce new guidelines on conditionality which by, for example, reducing the number of performance criteria, should facilitate easier access to the resources of the Fund.

(ii) The liberalization of the Compensatory Financing Facility - per-

---

(1) See Development Dialogue. 1980:2. pp. 5-9

mitting a member to borrow up to 100 per cent of its quota to meet export shortfalls. Previously, the limit was 75 per cent of quota and workers' remittances and tourists' receipts could not be included in the calculation of the shortfall.

(iii) The introduction of the Supplementary Financing Facility in February 1979 to provide assistance, in addition to the Fund's ordinary resources, to members facing balance-of-payments deficits which are large in relation to their quotas, thus requiring supplementary resources over an entended period of time.

(iv) The extension of maturities on all IMF facilities where conditions may so require. In the case of standby arrangements, for example, programmes may be extended from the usual one-year period to three years, while repayment periods on the use of the Extended Fund Facility [1] may be extended from three to five years, to seven to eight years. [2]

Partly under pressure from commercial sources of finance, the developing countries seem prepared to approach the Fund more readily than before. While it is too early to rush to conclusions, it is important to note that 37 non-

---

(1) Access to this facility is open to members in need of funds larger than that available under normal credit facilities.

(2) For a more detailed discussion of the new measures see IMF Survey 21st May, 1979.

oil less-developed countries made drawings from the Fund in 1979, compared with 29 in 1978. (1)

The role of the IMF in the international monetary system thus depends on whether this trend of larger numbers of borrowers continues. The Fund has large resources and its ingenuity and flexibility will be taxed to the limit if it is to cater to the needs of the LDCs for balance-of-payments finance while at the same time maintaining the high level of financial discipline in its lending policies.

(b) IBRD

As the largest source of multilateral finance, the World Bank and its major affiliate, the International Development Association (IDA) provide approximately 6 to 7 per cent of net external capital receipts of all developing countries. In nominal terms, the amounts disbursed have increased from $0.9 billion in 1970 to $4.8 billion in 1979. (2)

With the recently announced doubling of its capital to $80 billion, the World Bank Group as a development institution is now able to continue the task of attacking poverty and stimulating growth in the poorer regions of the world. To this end, also, an encouraging development has taken place: the President of the World Bank has announced a proposal to increase the volume of programme

---

(1) IMF Survey, 4th February 1980. pp. 33 and 45

(2) See Table I

lending to countries facing severe balance-of-payments problems.[1] Such assistance on normal bank terms of 25-year maturities would be most welcome to these countries.

Since, at least for the time being, the supply of funds to the Bank is no longer a serious problem, it is for the developing countries themselves to secure access to these resources by means of prudent economic management.

MINOR SOURCES OF FINANCE:

These sources are mentioned more for purposes of completeness than for their importance. Nevertheless, it is important that developing countries keep all options of external finance open in considering their foreign exchange needs.

(a) Direct Investment Flows

The data available show that in percentage terms, this source played virtually no part in financing imports of the least-developed countries, and financed only a small portion (3 per cent) of imports of other countries. In money terms, net direct investment flows to all non-oil countries increased slowly from about $5 billion in 1975 to $6 billion in 1978.[1] The low-income countries' share in these flows is estimated at approximately $0.2 billion per

---

(1) IMF Survey, 15th October, 1979

(2) IMF: Annual Report 1975, p. 25.

annum.

Being funds seeking a suitable commercial rate of return they tend to be concentrated in the higher-income LDCs such as Argentina, Brazil and Mexico in Latin America, and Hong Kong, Malaysia, and Singapore in South East Asia. [1] In many of these countries, direct investment flows have helped to reduce the need for expensive commercial borrowing while at the same time contributing to the growth in export earnings. Malaysia, for example, relies more on direct investment than on borrowing for its external financing needs. In the period 1974-1978, 80 per cent of long-term and portfolio investment was provided by direct investors. For similar reasons, Singapore has little need for external borrowing. [2]

However, for most LDCs, direct investment will continue to be a minor source of finance as long as they refuse to surrender control over any significant proportion of their natural resources and their economies to non-resident investors.

(b) <u>Suppliers Credits</u>

This type of financing, designed to assist countries to purchase exports from the lending country, is purely commercial at market rates of interest and

---

(1) See FRANKO, (9) p. 129. It is estimated that about 80% of all foreign investment in the manufacturing sector in Latin America is concentrated in Brazil, Argentina, Mexico and Venezuela.

(2) Amex Bank Review, 28th January, 1980.

for short maturities of one to seven years. As a result, borrowers are mostly the richer LDCs. The amount of finance provided by credits to non-OPEC countries increased from $0.8 billion in 1975 to an estimated $2 billion in 1979. (1)

Where poorer LDCs have borrowed on export credits, as in Ghana, the resulting debt-service burden has proved most onerous. (2) Thus, while useful as a source of financing urgently-needed raw materials and equipment, this method of financing needs to be used with extreme caution by developing countries.

(c) Bond Markets

Bond markets have been a source of funds only to a relatively small group of non-oil LDCs and the amounts provided are small in comparison with international lending by commercial banks. Between 1975 and 1978, gross borrowing advanced from $0.7 billion to $3.2 billion. In the same period, borrowing from international banks had risen from $7.8 billion to $23.0 billion. In keeping with the rather strict criteria required of borrowers by bondholders, only the richer of the LDCs have obtained, or for that matter, sought, access to the bond markets. In 1978, for example, 5 countries accounted for 58 per cent of total non-oil LDC borrowing from this source: Argentina, Brazil, Malaysia,

---

(1) World Financial Markets, December 1979, p. 3

(2) For an account of Ghana's difficulties arising out of large borrowings on these credits see (i) KRASSOWSKI, (15) BITTERMAN, (3) p.p. 167-173 and GRAYSON, (11) p.p. 477-499.

Panama, and The Philippines. [1]

Nevertheless, it must be stated that between 1975 and 1978, the number of non-oil countries gaining access to relatively long-term bond finance has increased from 14 to 28. [2] Recent entries to the market include Bolivia, Costa Rica, El Salvador, Malaysia, Papua New Guinea, and Thailand. Access has provided a new and important source of finance to many others.

Prospects for an increased role for bond-market financing in the developing countries have been hit by the uncertainty which prevails over fixed-rate financing given rising inflation and interest rates. The OECD for instance, expects new issues to fall by $7 billion to $30 billion in 1980. [3] Floating-rate issues are thus likely to become more popular with investors. Indeed, projections are for new issues of FRNs to climb to $6 billion, up from $4.8 billion in 1979. Whether fixed or floating, however, LDCs need to be aware of the advantages of gaining access to this source of long-term finance, and to devote their energies to improving the current state and future prospects of their economies, on which such access depends.

---

(1) IMF Survey, 3rd September 1979, p.p. 273-82.

(2) IBRD: Borrowing in International Capital Markets - various issues.

(3) Financial Times: March 14th, 1980.

CONCLUSION

In spite of strenuous efforts by the World Bank and the IMF, the 1980s promise to be a decade of inadequate flows of long-term official finance to the LDCs in general. The countries which will be most seriously affected by this situation are the poorest LDCs which depend on official flows for two-thirds of their total external financial requirements and which have no access to private long-term sources of funds. Already existing at near subsistence levels, these countries have neither the flexibility to 'adjust', i.e. to cut back on imports, nor the ability to borrow from the private banks. Indeed, even if the banks were prepared to lend to them, the type of medium-term - 5-12 years loans - would be too costly and of too short a maturity.

The alternatives are clear: insufficient concessional flows of finance to the poorest countries will lead to worsening poverty for hundreds of millions of the world's population. It is for the western industrialized countries, for the capital-surplus, oil-producing countries, and also for the Socialist CMEA countries, to exercise a minimum amount of political will to ensure that this large proportion of the world's population is saved the indignity of further misery and degradation.

In the following Chapter, that other outstanding feature of international finance in the 1970s, the large flows of bank lending to the middle-income LDCs, is examined.

CHAPTER II

COMMERCIAL BANK PARTICIPATION IN LDC FINANCING IN THE 1970S

The potential of international lending by banks as a source of international liquidity and balance-of-payments and development finance has long since been recognized by a handful of academic and bank economists. Kindleberger and Meier (1) seem certainly to have recognized the importance of international financial intermediation as a means of fostering growth. While international banks were not specifically mentioned and Kindleberger appears to be emphasizing on international long-term capital markets as the first-best mechanism for transferring international savings it is clear that international financial intermediation cannot exclude the role of banks. In addition, Kindleberger stresses the role of intermediation in providing the international liquidity that is necessary to offset fluctuations in export receipts and without which the growth path in LDCs could be erratic with gains achieved in the peaks of foreign exchange receipts being offset by negative growth in the troughs.

While recognizing that the poorest of the LDCs will be unable to gain access to international commercial funds, Diaz-Alejandro regards the benefits of eurocurrency borrowing in terms of increasing the financing options open to developing countries. Especially attractive features of this source are

---

(1) See Kindleberger (14) and Meier (21)

the speed of disbursement of funds once the loan has been finalized and the relative absence of restrictions concerning the use of funds; some countries may use it for boosting reserves, others, for financing medium-term projects. His views on international bank lending may be aptly summed up in this quotation:-

> "... such transactions are carried out in a cold stand-offish commercial spirit which contrasts sharply with the tangled, emotional relations surrounding concessional finance. Without dramatics, countries as diverse in their domestic policies as Algeria, Bulgaria, Cuba, Peru, Colombia, Ivory Coast, The Philippines and South Korea have been making quiet deals with the money-lenders and obtaining funds which may be spent, largely on any country and for anything". (1)

Lewis also sees the advantages of borrowing from the banks in terms of a faster rate of disbursement and greater flexibility in use of funds. An important result of this flexibility is that, unlike bi-lateral aid and loans from the multi-lateral financial institutions, funds borrowed from banks may be used to repay older loans.

> "Then there is the wonderful banking practice of 'rolling over' which seems to mean that the loan need never be repaid". (2)

---

(1) Diaz-Alejandro (7) p.190

(2) Lewis (17) p.65

Wellons, in a careful and detailed study intended to inform policy-makers on the functions and operations of the eurocurrency market as a source of finance, sets out generally, and in case studies, the several uses to which eurocurrency loans have been put by some LDCs, from financing development projects in Indonesia to facilitating improved external debt and reserve management in Brazil and Colombia. (1)

Finally, of the bank economists who have contributed to the positive literature on eurocurrency lending to LDCs, the most note-worthy, are Friedman, Hang-Shen Cheng, Nagy, and Sargen. However, since much of their work can only be found in banking journals, their contributions have not reached as wide an audience as they deserve.

In Chapter I, data were quoted showing, in aggregate terms, the growing reliance of the developing countries on international banks as a source of external finance. Table 2 on page 35 shows, in a more disaggregated form, the amounts of bank lending which have been channelled to specific productive and other sectors of developing countries during the period 1973 to 1978. In those six years, some $36.8 billion (gross) were lent to sectors which have a most direct contribution to make towards growth in non-oil countries: industry, natural resource exploitation, public utilities, and transportation. Lending to these four sectors has increased more than eightfold during the period under consideration, from $1.7 billion in 1973 to $14.3 billion in 1978, and their

---

(1) Wellons (31)

share of total lending increased from 36 per cent in 1973 to 38 per cent in 1978. It may be an unfair comparison, but it is instructive to note that in fiscal 1978, the World Bank Group, in total, committed $8.7 billion to all developing countries, as against $37.6 billion from the international banks.

Of the remainder of the funds advanced in 1978, the largest amounts were taken up by central banks and development finance institutions, by central and local governments for general and developmental purposes, and in the case of oil-producing countries, by the petroleum and natural gas sectors. From the data available, it seems that loans designated as "General Purpose" and "Bank and "Finance" were used either directly to finance the purchase of imports considered vital to the economy, or indirectly by the financial institutions for on-lending to indigenous import-substitution or export-intensive industries. Some proportion of the loans was also used to service existing debt. In general terms, the effect of LDC borrowing from the banks was aptly summed up in the GATT's annual report on "International Trade 1978/79":

> "... easier conditions on the international capital market have helped to translate the considerable growth potential of developing countries into effective demand". (1)

Apart from the direct injection of funds into LDCs, commercial bank borrowing can result in other, less obvious advantages. A most attractive feature

---

(1) IMF Survey. 26th November, 1979.

of bank funds is the flexibility with which they may be applied to such uses as making up for actual export shortfalls and for strengthening a country's liquidity position in anticipation of possible foreign-exchange difficulties. The point about export shortfalls is noteworthy especially in a situation where the managing-director of the IMF himself stated at UNCTAD V in Manila that the Fund's Compensatory Financing Facility financed only about one-half of all LDCs' export shortfalls between January 1976 and Feburary 1979. (1)

Another useful feature of bank borrowing is that it provides an alternative to tied aid. The cost of tied aid in terms of scarce foreign exchange have been well documented by several authors, and only a few cases are mentioned here.

Little, Scitovsky, and Scott note that estimates for India of the average excess cost of equipment for twenty sample projects due to the tying of aid, yield an average excess cost of 49.3 per cent. (2) The three authors also quote estimates made by UNCTAD for Chile, Iran, and Tunisia, which all show that the tying of aid resulted in excess costs of between 10 to 20 per cent. (3) In his study of the costs of tied aid for Pakistan, Ul Haq concludes:

---

(1) IMF Survey. 21st May, 1979.

(2) Little et. al (18) p. 155. See also
Bhagwati and Desai (1) p.p. 198-214

(3) Little et. al op. cit. p. 56

> "The overall result is that the weighted average price for these 20 projects comes out to be 51 per cent higher from the tied source compared to the international bids". (1)

And:

> "A rough estimate made by the author indicates that, if the entire $500 million foreign assistance that Pakistan is likely to receive during the current year is completely untied, Pakistan should be able to save roughly $60 million by procuring supplies in the international market". (2)

Tendler shows that aid agencies in the United States may actually encourage extravagant, foreign-exchange intensive projects by refusing to finance anything but the foreign-exchange costs of a project. In addition, she highlights the inflexibility in the use of bi-lateral aid funds by showing that as at 1974, more than 80 per cent of USAID disbursements were being spent in the United States. (3) Finally, in more general terms, Streeten cautions against the inappropriate, costly, and wasteful technology which an overdependence on foreign aid can encourage. (4) Cases of second-hand, faulty, or inappropriate equipment arriving, working for a few months in perhaps too humid a climate or on rough dirt roads for which it was not designed, and then collapsing beyond repair are familiar to technicians in the developing countries. In the meantime, the loan from the aid agency

---

(1) Ul Haq (30) p. 327

(2) Ibid p. 331

(3) Tendler (29) p.p. 75-80

(4) Streeten (28) p. 7

is unaffected and remains a burden on the nation's resources for years to come. Bank borrowing avoids the need for such equipment to be forced upon LDCs by bi-lateral aid donors or suppliers' credits agreements. It also enables a country to consolidate and refinance older and costlier debt into a more serviceable package of cheaper, longer-term obligations. A smaller annual debt-service burden results, given the same quantity of outstanding debt, which allows foreign exchange to be diverted to the more directly productive sectors of the economy.

Finally, but of special importance to Third World countries is Pazos' observation that arms-length, strictly commercial borrowing may be more politically acceptable than aid dispensed at the whims and fancies of the industrialized countries. [(1)] Especially in a situation where donors seem to be placing greater emphasis on the strategic and economic importance, and the political affinity of potential aid recipients, access to bank borrowing can enhance both economic and political independence.

We have noted the more positive features of bank lending in terms of the flexibility in the use of the funds and of the avoidance of the costs of tied aid. We now turn to a major criticism levelled against bank lending to the LDCs. Because of higher interest rates and relatively short maturities, it is argued that this type of financing is especially burdensome. The terms cause a bunching of foreign liabilities requiring settlement. As

---

(1) Pazos (26)

the amount of outstanding debt rises, larger proportions of export earnings need to be diverted to service it, thus creating a strain on the balance-of-payments. A debt crisis may result, necessitating renegotiation and rescheduling of the debt. A number of countries have faced such difficulties with their commercial debt. They include Egypt, Jamaica, Nicaragua, Peru, Sudan, Turkey, and Zaire. Many other countries may be near the crisis point.

In conclusion, in spite of the massive amount of funds provided by private banks to the LDCs, it must be acknowledged that bank borrowing is not without serious pitfalls which can have adverse effects on all sectors of an economy. It remains necessary, therefore, that bi-lateral aid donors continue, and indeed, accelerate their assistance particularly to the poorer LDCs which have no access to private bank funds. It is also necessary for the IMF and the World Bank to take up some of the burdens now being felt by the private banks as they, almost single-handedly try to recycle the OPEC surpluses.

CHAPTER III

SOME PROPOSALS FOR INCREASING THE FLOW OF RESOURCES TO THE LDCs

Dissatisfaction with current institutional arrangements and the dismal prospects for the transfer of resources to the developing countries in general, and the least-developed in particular, have led to several proposals being put forward with the aim of boosting the flow. The oldest and most well-known of these is the proposal that reserve creation by the IMF should be linked to the provision of development finance: the SDR-Aid-Link. Having its origins in Keynes' proposal at Bretton Woods in 1944 for the creation of an International Clearing Union, it was elaborated in the "Stamp Plan" of 1962. This plan envisaged an enlarged IMF distributing to the LDCs certificates of deposit for use in purchasing imports from the developed countries; these latter countries would accept the certificates and hold them as part of their international reserves. A similar proposal has been advanced by Scitovsky.(1) As the proposal now stands, newly-created SDRs would be allocated not on the basis of existing IMF Quotas but disproportionately in favour of the developing countries; by so doing both the needs of international liquidity and of development finance would be met. Numerous arguments for and against the link have been advanced in several quarters,(2) but the failure of the proposal to be implemented in any form is

---

(1) See T. Scitovsky: "Requirements of an International Reserve System" Princeton. 1965

(2) For good discussions of the proposal see Cline (5), Park (25), and Williamson (32)

perhaps the result of four fundamental misgivings on the part of the IMF itself and of the developed countries:

(i) The concern that since the sum of liquidity and development needs is so great, the creation of SDRs sufficient to meet those needs will be inflationary for the world economy as a whole.

(ii) As a result of the larger amount in circulation, the attractiveness of the SDR as a reserve asset would be reduced in the eyes of developed-country reserve holders.

(iii) Concern, especially in the United States, that increased LDC demand for SDRs would reduce the demand for the dollar, leading to its further weakness; and

(iv) Perhaps, most importantly, the general unwillingness in the developed countries to concede to an automatic mechanism for channelling funds to developing countries. This feeling derives firstly from the widespread opinion, strengthened by experience, that LDC economic management systems are not as efficient as they should be in utilizing scarce foreign exchange, and secondly that political influence gained in the developing countries would be reduced as the importance of bilateral aid declines in favour of the new mechanism.

With the current emphasis in international monetary affairs on combating inflation, strengthening the dollar and other national currencies, on seeing the SDR develop as a widely acceptable reserve asset, and on the need for adjustment in the LDCs as against mere financing of the deficits, the prospects for implementation of the proposal appear dim indeed.

Of the other proposals for increasing the flow of external finance to the developing countries, the most prominent has been that put forward by Michalopoulos.[(1)] He suggests that substantial additional flows of external finance would be available to the LDCs if the developed countries, and institutions such as the OECD and OPEC, were to guarantee borrowing by the developing countries from the private capital markets and the muti-lateral financial institutions.

This proposal has gained support from, among others, one of Japan's major financial institutions, the Sumitomo Bank. It has proposed the establishment of a new institution that would operate the guarantee scheme. Borrowers would pay a fee of 0.5 per cent for securing the guarantee which would cover interest payments in the event of default. The guarantee fund would be financed from contributions by the IMF and by revenues obtained from borrowers' fees.

The guarantee scheme has also been supported by the President of the IDB, who has stated:

> "... I believe it essential to adopt immediately the measures needed to establish systems of guarantees granted by the developed countries to the multinational lending agencies. In this way,

---

(1) Michalopoulos (22)

> these agencies can mobilize the additional capital resources in the international markets in amounts sufficient to meet the urgent external financing requirements of the developing countries, thereby allowing them to continue to grow at the rates they achieved on their own before the current crisis." (1)

The reasoning behind the proposal is that investors are primarily concerned with risk aversion. By having LDC borrowing guaranteed by the rich countries, risk is minimized and repayment is assured. Guarantees have been used for centuries in banking but normally as a secondary form of support and not as the primary consideration, which is usually that the borrower has the capacity to repay the loan out of his own earnings. Consequently, the use of guarantees as the only inducement to otherwise unwilling lenders and in the absence of which the borrowing country could not hope to market its bonds or obtain its loan, is not likely to be met with much enthusiasm by prospective lenders.

In spite of funding difficulties until recently faced by the World Bank, and which continue to be experienced by the regional development banks, proposals continue to be put forward recommending the creation of new institutions to channel resources to the developing countries. Bird, for example, has suggested the creation of a new development institution whose functions would be to grant general-purpose aid and loans

---

(1) Ortiz - Mena (24) p.p. 490-1

to meet debt-servicing obligations of the least-developed countries. [1] Funded by contributions from the rich countries or by the creation of SDRs, the institution would also provide guarantees to enable developing countries to gain access to the private financial markets. Proposals for such an institution have also been put forward by the "Group of 24", representing the views of the LDCs in the IMF, by UNCTAD, and by the Brandt Commission.

Finally, proposals have been put forward for increasing the supply of external finance to the LDCs by taxes on the "brain-drain" from the developing countries and on the mining of the sea bed. The "brain-drain" proposal, first advanced by Bhagwati, envisages a tax on qualified and professional people emigrating to the developed countries. [2] Revenues may be collected by the tax authorities in the developed countries and remitted to the relevant developing countries. Estimated revenues from this source total around $500 million per annum. However, because of the many political, moral, and administrative arguments against the proposal its implementation is not regarded as feasible in the near future.

Taxes on ocean resources for redistribution to poor countries were estimated by Cooper to be capable of yielding about $5 billion per annum by the end of the present century. [3] However, as pointed out by Cline,

---

(1) Bird (2)

(2) See J. Bhagwati (ed): "The Brain Drain and Taxation". North-Holland. Amsterdam, 1976.

(3) Cooper (6) p. 115

the initial potential of this source has been much reduced by the agreement at the Third U.N. Law of the Sea Conference, to sanction individual countries' sovreignty over a 200-mile economic zone extending from their shores.

One proposal that is supported by a few academic writers but which is rarely mentioned in official circles is that concessional aid should now be redistributed away from the higher income developing countries to the low income group.

While the proposal has been given much lip-service by aid donors, its full implementation will not be possible as long as aid-giving criteria include such factors as the political, strategic, and trading importance of the recipient, rather than a concern for basic needs. OECD data for 1977 show that higher-income countries and oil-producers received concessional assistance totalling almost $1 billion. [1] While these countries have ready access to commercial and World Bank funds, the poorest countries have no such flexibility of sources and need to rely almost exclusively on concessional assistance. The time is, therefore, long overdue for the OECD to devote a larger share of concessional assistance to the least developed countries than the existing 51 per cent.

In this effort, the high-income developing countries also have an important role to play. In the past they have not hesitated to join in attacks against the industrial countries for creating and perpetuating

---

(1) OECD: "Development Co-operation, 1978". OECD. Paris. 1979 p.p. 234-5

inequalities in the distribution of world resources. By giving their support to the "aid graduation" principle they would be making a vital contribution to the reduction of inequality while, at the same time helping the people of the least-developed countries in their struggle against poverty.

Finally, in an extension of this proposal, Diaz-Alejandro has suggested that the World Bank should discriminate in favour of the poorer countries with respect to lending charges:

> "Indeed, the rationale justifying Brazilian, Nigerian, and Philippine borrowing from the IBRD (excluding IDA credits) at terms similar to those of Haiti, Ethiopia and Bangladesh is far from self-evident and persuasive. As LDC heterogeneity becomes more marked the traditional multilateral intermediaries would do well to concentrate their attention on the least developed countries, raising the price at which their services, including technical help, are made available to the more fortunate LDCs." (1)

While the new proposals seem unlikely to be put into practice in the near future, there is much that can be done within the present institutional framework. The doubling of the World Bank's capital and the introduction of new or liberalized facilities within the IMF have been welcome developments, but bolder actions are now required.

With respect to the World Bank, its capacity to increase programme and balance-of-payments assistance, as proposed by the President, would be greatly enhanced if its gearing ratio (i.e. the ratio of outstanding

(1) Diaz-Alejandro (7) p. 194

loans to capital) were allowed to rise from 1:1 to 1.5:1 or 2:1. This recommendation has been made by the Brandt Commission and deserves serious consideration.

In the IMF, the process of facilitating easier access to its resources needs to be accelerated with special emphasis being placed on reducing the required speed of adjustment. The influence of the institution within the international monetary system might be greatly enhanced if funds available to individual countries were greater than they are at present. In this context, it is most encouraging to note that the Managing-Director of the Fund, has, in a recent speech, stated that in view of the large deficits being faced by countries:

> "...the Fund must, if necessary, be prepared to engage directly in re-cycling activities proper, i.e. borrow funds from countries in a position to lend them". (1)

A stronger, more dynamic IMF is essential if the institution is to play its part in the transfer of resources to the LDCs.

Regional development banks which have contributed much to the development of the poorer countries of Africa, Asia, and the Caribbean can assist further by working to increase their capital and by continuing in their efforts to tap national and international capital markets for long-term funds.

In the absence of any marked increase in the volume of concessional aid in the near future, there is need for statemanship and much political

---

(1) IMF Survey. 19th May, 1980.

will in both the developed countries and the richer LDCs if such assistance is to be channelled primarily to those areas in greatest need: the least-developed countries. There is also the need for OPEC to play a more direct role in lending part of its large surplus to the non-oil developing countries. This may be achieved by:

(i) Lending directly to the richer LDCs through bond issues or central bank to central bank loans.

(ii) Lending to the multilateral financial institutions and the regional development banks for on-lending to individual countries, and

(iii) Increasing the flow of concessional aid to non-Islamic countries which are seriously affected by the oil price increases.

Since OPEC price increases are a major source of balance-of-payments problems in the non-oil countries, and since OPEC professes solidarity with the LDCs, the organization should perhaps be increasing its efforts to assist in financing the deficits. At this time, attention needs to be focussed beyond the narrow North-South discussions to a broader framework with OPEC sharing a larger proportion of the burden than it presently does. It is unfortunate that attempts to introduce OPEC into the discussions at UNCTAD and elsewhere have not been very successful.

Especially in the case of large projects, co-financing by two or more lenders appears to offer the best opportunity for an optimum mix of sources of finance to the LDCs. Several projects have already been financed in this way with the World Bank and the IDB acting as loan co-ordinators. An excellent example of the possibilities available was the financing of the expansion programme of a major Brazilian steel company (CSN). The World Bank provided $95 million, IDB's contribution was $63 million, private commercial banks provided a medium-term euro-currency loan of $55 million, and export credits contributed $490 million. (1) As at July 1978, the IBRD and international banks had co-operated in 11 such operations in Argentina, Brazil, Ecuador, Malaysia, Paraguay, and Thailand.

The possibilities for co-financing, involving the banks, the IMF, OPEC, and the development finance institutions, are exciting and could well be the best means available of increasing the flow of funds to the LDCs.

There is much also that the LDCs could do themselves. Without listing possible economic policy measures, it is sufficient to state that there seems to be much room for improvement in the quality of economic management in countries facing serious balance-of-payments, and debt problems. (2) It is to countries that appear to be well-managed that long-term flows of external finance will be attracted.

The following Chapter turns to the experience of Guyana with external financial flows in the decade of the 1970s.

---

(1) IBRD: "Co-financing". Washington D.C. 1976

(2) On this point, See, among other MacBean and Balasubramanyam (19) p.p.3-4 Green (12) p. 267, Leith (16) World Bank Annual Report 1979. p. 226

CHAPTER IV

GUYANA: THE CHANGING PATTERN OF INTERNATIONAL FINANCIAL FLOWS AND ITS EFFECT ON THE BALANCE-OF-PAYMENTS

International financial flows into Guyana during the 1970s reflect the general trend which we attempted to establish in Chapters I and II. As a result, the country's balance-of-payments has been adversely affected by a growing reliance on private, including bank, financing, and from reduced flows of long-term official finance. In common with several other LDCs, the trend is likely to continue into the 1980s. Guyanese policy-makers can therefore look forward to years of continuing external debt and reserve management problems. Their abilities will be taxed to the limit if the economy is to survive the challenging period ahead.

Table 4 reveals the changing pattern in external sources of funds to Guyana. Bi-lateral aid, which in 1972 accounted for 58 per cent of the country's total external debt outstanding, had, by 1978, fallen to account for only 38 per cent of outstanding debt. Conversely the proportion outstanding to the banks had risen from 3 per cent in 1972 to 26 per cent in 1977, although by 1978 it had dropped back to 13 per cent. The effects of these changes on the structure of debt, on debt-service payments, and on the balance-of-payments in general have been quite marked.

With respect to the structure of the debt, Table 5 shows that while in 1974, only a negligible 2 per cent of external public debt outstanding had maturities of under six years, by 1978, the proportion had risen to 25 per cent. These changes have led to the need to devote, (in a situation where, since 1976, exports have not been buoyant) larger proportions of foreign-exchange earnings towards servicing the debt. From US$9.1 million in 1972, debt-service payments had risen eightfold to US$76 million in 1978. Private creditors accounted for most of that increase. The debt-service ratio has risen from about 7 per cent in 1973 to approximately 25 per cent in 1978. Finally, in balance-of-payments terms, while in 1972 debt-service payments were only 8 per cent of the deficit on current account, by 1979, these payments were almost equalled the deficit.

Our proposition is that the trend towards private bank financing that has been a major feature of the international monetary system in the 1970s, has, in the case of Guyana, contributed to her financial problems. In the absence of any indication of a change in the trend in the near future, the options facing policy-makers are clear:

(i) As a first priority, attempt to encourage exports by all possible means. The importance of this cannot be overemphasized.

(ii) Ensure that external funds are properly treated as a scarce resource to be resorted to only where domestic savings are unavailable or inappropriate.

(iii) The contracting of external debt should be centrally supervised with the Central Bank playing a major role in such supervision.

(iv) The process of ~~deomstic~~ domestic savings mobilization within the financial system needs to be accelerated. In addition, the public sector's contribution to domestic savings needs to

- 35 -

TABLE 1

TOTAL NET RESOURCE RECEIPTS OF DEVELOPING COUNTRIES

1970-77

Net Disbursements	US$ billion							
	1970	1971	1972	1973	1974	1975	1976	1977
DAC Bi-lateral	12.8	13.8	13.6	15.5	15.2	27.9	25.6	32.7
OPEC Bi-lateral	0.6	0.6	0.7	1.4	3.9	6.4	6.2	4.6
Multi-lateral Agencies (of which)	1.8	2.2	2.4	3.3	4.7	6.4	6.6	8.1
(World Bank Group[2])	(0.9)	(1.2)	(1.4)	(1.7)	(2.2)	(3.0)	(3.7)	(3.9)
Int. Bank Lending	0.6	1.4	3.7	8.5	7.9	9.4	13.7	17.8
Centrally-Planned Econ.	0.9	0.9	1.2	1.4	1.2	1.0	0.9	0.7
Memo Items								
Private Sector Grants	(0.9)	(0.9)	(1.0)	(1.4)	(1.2)	(1.3)	(1.4)	(1.5)
Selected IMF Facilities	-	(0.1)	(0.3)	(0.1)	(1.3)	(2.8)	(3.1)	(0.4)
TOTAL RECEIPTS	16.7	18.9	21.6	30.1	32.9	51.1	53.0	63.9

PERCENTAGE DISTRIBUTION OF NET RESOURCE RECEIPTS BY CREDITOR[1]

	1970	1971	1972	1973	1974	1975	1976	1977
DAC Bi-lateral	77	73	63	51	46	55	48	51
OPEC Bi-lateral	4	3	3	5	12	12	12	7
Multi-lateral Agencies (of which)	11	12	11	11	14	12	12	13
(World Bank Group)	(6)	(7)	(6)	(6)	(7)	(6)	(7)	(6)
Int. Bank Lending	4	7	17	28	24	18	26	28
Centrally Planned Econ.	5	5	6	5	3	2	2	1
	100	100	100	100	100	100	100	100

1) Totals may not sum due to rounding   2) IBRD and IDA

SOURCE: OECD: Development Co-operation, 1978 Review, p. 189
IBRD: Annual Report 1979

rise in proportion to its use of domestic resources.

(v) Attempt, whenever possible to reschedule private short-term debt into longer-term obligations, thus easing the pressure on the balance-of-payments.

This list is by no means comprehensive, but it can serve to lay the basis firstly, for attracting longer-term flows into Guyana and secondly, for coping with the debt problems that are likely to persist throughout the 1980s.

TABLE 2: INTERNATIONAL BANK LENDING TO DEVELOPING COUNTRIES BY SECTOR 1973 TO 1978

$ Million

SECTORS	1973 $	1973 %	1974 $	1974 %	1975 $	1975 %	1976 $	1976 %	1977 $	1977 %	1978 $	1978 %	Cumulative $	Cumulative %
Transport	491.0	10.6	1,138.3	12.7	1,056.0	11.5	831.4	4.6	1,157.6	5.7	2,684.8	7.1	7,359.1	7.5
Public Utilities	536.1	11.6	931.7	10.4	896.0	9.8	2,489.8	13.7	2,539.0	12.6	5,508.6	14.7	12,901.2	13.1
Natural Resources	385.5	8.4	321.5	3.6	332.4	3.6	590.5	3.3	195.1	1.0	901.1	2.4	2,726.1	2.8
Industry	249.9	5.4	1,335.4	14.9	639.8	7.0	2,844.6	15.7	3,572.8	17.7	5,186.6	13.8	13,829.1	14.0
SUB-TOTAL	1,662.5	36.0	3,726.9	41.6	2,924.2	31.9	6,756.3	37.3	7,464.5	37.0	14,281.1	38.0	36,815.5	37.4
Petroleum and Natural Gas	438.8	9.4	439.3	4.9	1,081.2	11.8	1,409.9	7.8	1,717.2	8.5	4,592.4	12.2	9,678.8	9.8
SUB-TOTAL	2,101.3	45.4	4,166.2	46.5	4,005.4	43.7	8,166.2	45.1	9,181.7	45.5	18,873.5	50.2	46,494.3	47.2
General Purpose	1,089.0	23.6	765.9	8.6	1,096.8	11.9	5,223.5	28.8	6,500.0	32.3	8,818.3	23.5	23,493.5	23.8
Public and Community Services	-	-	75.0	0.8	65.0	0.7	248.0	1.4	199.5	1.0	787.3	2.1	1,374.8	1.4
Bank and Finance	1,409.5	31.0	3,935.7	44.1	4,015.7	43.7	4,493.7	24.8	4,264.0	21.2	9,104.2	24.2	27,222.8	27.6
TOTAL	4,599.8	100.0	8,942.8	100.0	9,182.9	100.0	18,131.4	100.0	20,145.2	100.0	37,583.3	100.0	98,585.4	100.0

SOURCE: IBRD: "Borrowing in International Capital Markets", various issues.

TABLE 3

BALANCE OF PAYMENTS

G$Mn.

	1972	1973	1974	1975	1976	1977	1978	1979
EXPORTS	344	333	650	918	759	707	798	782
Merchandise	300	288	600	858	712	661	754	737
Sugar	(102)	(76)	(285)	(413)	(254)	(185)	(235)	(226)
Rice	(25)	(25)	(49)	(85)	(74)	(67)	(96)	(81)
Bauxite/Alumina	(132)	(138)	(198)	(272)	(288)	(331)	(332)	(327)
Other	(41)	(49)	(68)	(88)	(91)	(78)	(91)	(103)
Services	44	45	50	60	47	46	44	45
IMPORTS	367	457	661	941	1,093	948	850	972
Merchandise	298	373	566	811	927	804	711	785
Consumer Goods	(107)	(122)	(108)	(132)	(165)	(143)	(131)	(142)
Fuels & Lubricants	(28)	(48)	(105)	(135)	(138)	(160)	(170)	(230)
Other Intermediate	(73)	(96)	(209)	(279)	(312)	(251)	(251)	(267)
Capital Goods	(90)	(107)	(144)	(261)	(303)	(226)	(154)	(141)
Other	(–)	(–)	(–)	(4)	(9)	(24)	(5)	(5)
Services	69	84	95	130	166	144	139	187
NET IMPORTS OF GOODS & SERVICES	-23	-124	-11	-23	-334	-241	-52	-190
NET TRANSFER PAYMENTS	+1.0	-	-5.0	-9.0	- 16	- 10	-15	+ 1
BALANCE ON CURRENT ACCOUNT	- 22	-124	- 16	- 32	-350	-251	-67	-189
FINANCING								
NET CAPITAL INFLOW TO PUBLIC SECTOR	+ 24	+ 39	+ 62	+143	+179	+ 94	+100	+ 65
OTHER NET CAPITAL INFLOW	+ 21	+ 26	+ 35	+ 7	- 34	+ 35	+ 5	-
CHANGE IN BANKING SYSTEM RESERVE (Inc. -)	- 20	+ 43	- 64	- 92	+237	+ 56	- 50	+123
CHANGE IN ARREARS	-	-	-	-	-	+102	- 20	+ 12
ERRORS & OMISSIONS	- 3	+ 16	- 17	- 26	- 32	- 36	+ 32	- 11

SOURCE: Bank of Guyana Annual Reports.

TABLE 4

EXTERNAL DEBT

US$Mn.	1972	1973	1974	1975	1976	1977	1978[1]
1. TOTAL OUTSTANDING INCLUDING UNDISBURSED	230.8	261.0	345.0	387.8	454.9	497.6	734.1
1.a Private Creditors of which	75.1	96.0	113.7	142.7	207.2	238.0	325.7
(i) Suppliers	(-)	(2.3)	(2.8)	(7.1)	(18.1)	(24.6)	(21.0)
(ii) Private Financial Institutions	(7.3)	(28.8)	(47.0)	(65.9)	(101.4)	(129.6)	n.a
1.b Multilateral	22.9	28.9	41.4	53.2	53.0	55.5	130.7
(i) I.B.R.D.	(13.3)	(19.2)	(31.7)	(39.6)	(39.4)	(38.9)	n.a
(ii) I.D.A.	(9.6)	(9.6)	(9.6)	(13.6)	(13.6)	(13.6)	n.a
1.c Bilateral Official	132.8	136.2	190.0	191.9	194.6	204.1	277.7
FLOWS							
2. DISBURSEMENTS	13.1	20.1	43.7	64.8	89.6	64.5	98.5
3. AMORTIZATION	2.7	4.9	6.4	8.1	13.9	29.6	58.5
4. NET FLOW	10.4	15.2	37.3	56.8	75.6	35.0	40.0
4.a Private Creditors	(1.5)	(9.8)	(2.6)	(16.8)	(51.3)	(21.4)	(14.3)
4.b Multilateral	(2.2)	(3.8)	(5.6)	(5.7)	(3.7)	(3.5)	(11.8)
4.c Bilateral Official	(6.8)	(1.6)	(29.1)	(34.3)	(20.7)	(10.1)	(13.9)
5. INTEREST	6.5	6.0	8.0	9.7	17.9	13.0	17.5
6. TOTAL DEBT SERVICE	9.1	10.9	14.4	17.7	31.9	42.6	76.0
6.a Private Creditors	(4.8)	(5.9)	(9.0)	(10.3)	(22.7)	(33.7)	(64.8)
6.b Multilateral	(0.3)	(0.5)	(0.8)	(1.2)	(1.4)	(2.1)	(2.2)
6.c Bilateral Official	(4.1)	(4.5)	(4.6)	(6.3)	(7.8)	(6.8)	(9.0)

SOURCE: WORLD BANK - "World Debt Tables - Supplements."

(1) Authors' own estimates

TABLE 5

MATURITY STRUCTURE OF EXTERNAL DEBT

(a) AVERAGE MATURITY STRUCTURE BY SOURCE

	1972	1973	1974	1975	1976	1977	1978[1]
1. Private Creditors (years)	-	9.9	6.9	5.9	5.4	6.5	5.8
2. Multilateral (years)	50.0	19.9	30.0	35.7	-	17.2	32.3
3. Bilateral (years)	23.9	37.4	16.4	21.0	11.7	46.5	32.7

(b) PERCENTAGE DISTRIBUTION OF MATURITIES (1)

	1972	1973	1974	1975	1976	1977	1978
Under 6 years	-	-	2.0	10.7	19.4	20.9	25.0
6-12 years	-	-	8.0	13.5	16.5	14.2	11.6
Over 12 years	-	-	90.0	75.8	64.1	64.9	63.4

SOURCE: (a) World Bank "World Bank Debt Tables - Supplement"

(1) Author s' Estimate

TABLE 6

ANNUAL PERCENTAGE GROWTH RATES OF SELECTED MACRO VARIABLES

	1974	1975	1976	1977	1978	1979
GNP at Market Prices	+46.7	+25.8	-7.2	-0.4	+13.3	+4.8
GDP at Factor Cost (1977 Prices)	+ 8.5	+ 6.9	+4.3	-6.2	- 0.9	-4.3
EXPORTS	+108.0	+43.0	-17.1	-7.0	+14.0	-2.3
IMPORTS	+44.6	+42.4	+16.2	-13.3	-10.3	+14.4
TOTAL SAVINGS	+39.2	+45.4	+32.8	-31.8	-16.9	+28.6
DEBT SERVICING	+30.9	+22.9	+80.2	+33.5	+107.0	+49.3
DEBT OUTSTANDING (As disbursed)	+21.8	+27.0	+34.1	+11.7	+11.9	+7.1

SOURCE: Statistical Bureau & Bank of Guyana.

TABLE 7

RATIOS (As Percentage of GNP) OF
SOME SELECTED MACRO VARIABLES

	1974	1975	1976	1977	1978	1979
1. TOTAL DOMESTIC EXPENDITURE	101.3	102.3	131.8	122.9	104.4	115.2
2. INVESTMENT	24.3	28.1	40.2	27.5	20.2	24.8
3. CONSUMPTION	77.0	74.2	91.6	95.4	84.2	90.4
4. DOMESTIC SAVINGS	22.5	25.3	7.1	3.7	14.6	9.7
5. NET FOREIGN INFLOWS	10.7	13.2	13.7	12.2	8.8	5.2
6. FOREIGN SAVINGS	1.8	2.8	33.1	23.8	5.6	15.1
7. DEBT SERVICING	3.5	4.0	7.7	10.3	16.3	16.5
8. DEBT OUTSTANDING AS DISBURSED	52.1	60.2	86.9	97.4	94.5	96.3
9. DEBT OUTSTANDING INCLUDING UNDISBURSED	84.9	86.8	109.7	120.5	149.8	n.a
TOTAL DEBT SERVICING AS A PERCENTAGE OF INFLOWS	33.0	27.3	35.6	66.0	77.2	100.2

SOURCE: Bank of Guyana Annual Reports.

BIBLIOGRAPHY

1. BHAGWATI, J., and DESAI, P. - "India: Planning for Industrialization", Oxford University Press for OECD, London, 1970.

2. BIRD, G. - "An Integrated Programme for Finance and Aid". The Banker, September 1979.

3. BITTERMAN, H. - "The Refunding of International Debt". Duke University Press, North Carolina, 1973.

4. BOURNE, COMPTON. - "Theoretical Aspects of External Debt and Economic Growth in Developing Countries". Paper presented at the 11th Annual Regional Monetary Studies Conference, Basseterre, St. Kitts, October, 1979.

5. CLINE, W.R. - "International Monetary Reform and the Developing Countries". Brookings Institution, Washington D.C., 1976.

6. COOPER, R. - "The Oceans as a Source of Revenue", in Bhagwati (ed), "The New International, Economic Order: The North-South Debate". MIT Press, Massachusetts, 1978.

7. DIAZ-ALEJANDRO, C.F. - "The post-1971 International Financial System and the Less-developed Countries", in G.K. Helleiner (ed): "A World Divided: The Less developed countries in the International Economy". Cambridge University Press, Cambridge 1976.

8. DI MARCO, L. (ed.) - "International Economics and Development: Essays in Honour of Raul Prebisch". Academic Press, New York, 1972.

9. FRANKO, L.G. - "Financing Economic Development". Journal of World Trade Law, Vol. 12, No. 2, 1978.

10. FRIEDMAN, I.S. - "The Emerging Role of Private Banks in The Developing World". Citicorp, New York, 1977.

11. GRAYSON, L.E. - "The Role of Suppliers' Credits in the Industrialization of Ghana". Economic Development and Cultural Change, Vol. 21, 1973.

12. GREEN, R. - "Aspects of the World Monetary and Resource Transfer System: A view from the Extreme Periphery", in G.H. Helleiner (ed.): "A World Divided: The Less-Developed Countries in the International Economy". Cambridge University Press, Cambridge 1976.

13. HANG-SHENG CHENG - "Commercial Bank Financing of World Imbalances". Federal Reserve Bank of San Francisco Economic Review, Fall, 1977.

14. KINDLEBERGER, C.P. - "International Financial Intermediation for Developing Countries", in R. McKinnon (ed.): "Money and Finance in Economic Growth and Development: Essays in Honour of Edward G. Shaw". Dekker, New York, 1976.

15. KRASSOWSKI, A. - "Development and the Debt Trap: Economic Planning and External Borrowing in Ghana". Croom Helm, London, 1974.

16. LEITH, J.C. - "Foreign Trade Regimes and Economic Development: Ghana". NBER, New York, 1974.

17. LEWIS, A.W. - "The Evolution of the International Economic Order". Princeton University Press, Princeton, 1978.

18. LITTLE, I., SCITOVSKY, T., AND SCOTT, M. - "Industry and Trade in some Developing Countries". Oxford University Press, London, 1970.

19. MACBEAN, R.I., AND BALASUBRAMANYAM, V.N. - "Meeting the Third World Challenge". Macmillan, London, 1978.

20. MEIER, G.M. - "The International Economics of Development - Theory and Practice", Harper and Row Publishers, 1968.

21. MEIER, G.M. - "Implications of International Monetary Reform for Less-Developed Countries", in Y. Aharoni (ed.): "The Emerging International Monetary Order and the Banking System". University Publishing Projects, Tel-Aviv, 1976.

22. MICHALOPOULOS, C. - "Financing Needs of Developing Countries: Proposals for International Action", in "The International Monetary System and The Developing Nations". Agency for International Development, Washington D.C., 1976.

23. NAGY, P. - "Country Risk: How To Assess, Quantify and Monitor it". Euromoney Publications, London, 1978.

24. ORITZ-MENA, A. - "Development In Latin America - A View from the IDB". IDB, Washington D.C. 1975.

25. PARK, Y.S. - "The Link Between SEDs and Development Finance". Princeton Essays in International Finance, No. 100, Princeton, 1973.

26. PAZOS, F. - "Private versus Public Foreign Investment in Under-developed Areas", in H.S. Ellis (ed.), "Economic Development for Latin America". Macmillan, London, 1961.

27. SARGEN, N. - "Commercial Bank Lending to Developing Countries". Federal Reserve Bank of San Francisco Economic Review, Spring 1976.

28. STREETEN, P. - "The Frontiers of Development Studies". Macmillan, London, 1977.

29. TENDLER, J. - "Inside Foreign Aid". John Hopkins University Press, Maryland, 1975.

30. UL HAQ, M. - "Tied Credits: A Quantitative Analysis" in J. Adler (ed.): "Capital Movements and Economic Development". St. Martin's Press, New York, 1967.

31. WELLONS, P. - "Borrowing by Developing Countries on the Eurocurrency Market". OECD, Parris, 1977.

32. WILLIAMSON, J. - "SDRs: The Link", in J. Bhagwati (ed.) "The New International Economic Order: The North-South Debate". MIT Press, Massachusetts, 1978.