

# CHAPTER I

## FRAMEWORK AND ASSESSMENT

This report giving a comprehensive statement of official aid flows within the Commonwealth concentrates on the year 1971 but carries some data on trends during the most recent five-year period. As in the past, data have been collected and compiled on a programme basis in order to make available aggregate information for individual programmes. This information is not elsewhere available on a Commonwealth basis as the Colombo Plan is the only programme for which an annual report is prepared. Since 1968 the Secretariat has also been collecting information on reverse financial flows insofar as they relate to official assistance and flows are shown on both a gross and net basis in many of the tables.

While there are special Commonwealth programmes, such as the Commonwealth Fund for Technical Co-operation, the Commonwealth is not an exclusive aid grouping and individual Commonwealth countries receive substantial amounts of assistance from non-Commonwealth donors and the international development agencies. It is therefore appropriate to review the flows of development assistance and co-operation within the Commonwealth against the background of international developments.

### General World Situation

Although 1971 was overshadowed by the international monetary crisis, world production expanded at a slightly higher rate than in the preceding twelve months but well below the average rate for the previous decade. Most of the developed countries continued to be troubled by a combination of inflation and high unemployment, while for some countries there were also problems arising from external monetary imbalance. Preliminary estimates suggest that the growth rate for developed countries was 3.4 per cent which, although higher than that in 1970, was substantially below the long-term growth average of 5 per cent.

Developing countries were undoubtedly affected to some extent by the sluggish conditions in the developed countries, but their rate of growth last year was 5.4 per cent, constituting an encouraging performance considering the international economic climate. The rate was also above the target set for the 1960's but short of the 6 per cent target set for the Second Development Decade. Even though, for the fifth year in succession, the rate of growth in the total output of developing countries was higher than that of developed countries, the task of narrowing the gap between the rich and poor countries is bound to take a long time, notwithstanding attempts to moderate the size of population increases in the developing countries.

Although the uncertainties in the international monetary scene and the general sluggishness in economic activity in the developed countries meant that 1971 was a less favourable year for world trade, it increased by 11 per cent in value terms (6 per cent in volume). For the second year in succession, there was a decline in the growth rate in the value of exports from developing countries; the principal reason last year was the slackening in their trade with centrally planned economies. The trade deficit of developing countries as a group nearly doubled in 1971. If the very large surpluses of the oil-producing countries are excluded, the deficit was of the order of US \$11,500 million as compared with US \$7,700 million for the same countries in 1970. The magnitude of trade deficits generally of developing countries is understandable to some extent in view of the heavy import of capital goods involved in the process of development, but the deficit for the year 1971 is particularly unwelcome since it arose from the higher prices of such imports.

Since many developing countries rely heavily on the agricultural sector and as the rate of increase in agricultural production slackened in 1971, the overall increase in the growth rate was all the more noteworthy as indicating the growing and potential importance of their industrial sectors. Although world trade continued to grow, it has become increasingly clear that developing countries cannot continue to rely on their traditional exports, mainly primary commodities, to provide the finance necessary to accelerate, or even sustain, the tempo of development as demand for these products is growing too slowly. The developing countries have perforce been turning to the manufacturing sector, but their domestic markets are small. In order to maintain the momentum of development it is important, and will become increasingly important, to assist them to export their manufactures and semi-manufactures, for example through technical assistance on export marketing and financing, and to reduce or remove obstacles in the way of such trade.

### Aid and Aid Prospects

The actual flows of assistance for a particular year reflect to a large degree policy decisions and commitments made in earlier years and the rate of drawing against these commitments. In recent years several of the major donors have experienced economic difficulties and there has been a tendency for them to be preoccupied with their domestic problems. This has meant that the progress towards development aid targets has been slower than was expected or hoped. However, according to data prepared by DAC, the flow of financial resources (including private capital) net of amortization from its member countries to developing countries amounted to US \$18,285 million in 1971, at current prices and exchange rates, around 15 per cent more than in the previous year. In an inflationary situation some part of any increase in the flow is eroded by the rise in prices in the donor countries, and in 1971 there was the added effect of changes in exchange parities. After making the necessary adjustments, the real increase in volume is estimated to have been about 8 per cent last year. Expressed as a percentage of GNP, the total flow of resources from the DAC members rose from 0.80 per cent in 1970 to 0.83 per cent in 1971; however, if the United States is excluded, the proportion for the other countries was 0.97 per cent in 1971. To have met the 1 per cent target in 1971 DAC members would have had to provide a further US \$4,000 million of finance to developing countries. Looking at the total from another

viewpoint, the flows amounted to US \$9.60 per head of population of developing countries as against US \$6.30 per head ten years earlier. While in dollar terms this was an increase of 50 per cent, in real terms the rise was only about a quarter. Within the DAC members' total, official development assistance went up by 13 per cent at 1971 values (6 per cent in real terms) but, expressed as a percentage of their combined GNP, there was only a marginal increase to 0.35 per cent. Even so this represented a reversal of the downward trend for the first time since the early sixties. Nearly two-thirds of the commitments of official development assistance made in 1971 were in grant form but DAC reports that, as the volume of loan commitments rose much more rapidly than that of grants, there was an overall hardening of terms.

Developing countries have repeatedly asserted that the primary responsibility for their development rests with themselves, but they obviously cannot meet the targets accepted by the international community in terms of the International Development Strategy by relying on themselves. Past experience shows that many developing countries could make effective use of more assistance. For external assistance to play its full part in the development process, there needs to be a continuing net transfer of resources which is adequate in terms of development goals. The ideal would be for donor countries to establish rolling programmes for aid commitments but, unfortunately, for some countries legislative budgeting comes in the way of such action. This is particularly the case for the United States which is so important in the total aid picture and where aid budgeting is an annual phenomenon.

The uncertainties surrounding the aid programme of the United States, which has a dominant position in the world aid situation, cast some gloom on the general aid picture. In 1971 that country accounted for almost 40 per cent of the total net flow of resources from DAC members to the developing countries and multilateral agencies. One of the difficulties in the United States has been interconnection between economic and security assistance and very often the former has been considered by Congress as an adjunct to the latter so that political differences over military assistance have held up the authorization of funds for economic assistance. The attitude of the US Government and of Congress towards aid is crucial. The President originally requested some US \$3,500 million for foreign military and economic aid during the twelve months ending 30 June 1972, but, owing to difficulties in Congress, the programme was not finalised until February 1972 when a compromise Appropriations Bill was approved providing US \$2,700 million for direct foreign assistance. In addition some US \$500 million was provided for related and multilateral programmes. The President has asked for US \$3,560 million for foreign assistance during the 1973 fiscal year, of which US \$2,150 million is for military aid, but no Bill has yet passed through Congress and past experience indicates that Congress usually appropriates less than requested.

As regards funds for the International Development Agency, it will be recalled that the Second Replenishment was delayed by over a year owing to difficulties in obtaining ratification by the United States. A Third Replenishment of US \$2,440 million was agreed covering the three-year period July 1971 to June 1974, but, under IDA rules, it could not become effective until countries providing not less than US \$1,900 million of additional resources, which must include the United States because of the

size of its contribution, and including at least 12 of the 19 richer countries, have given formal notice that they will be able to pay. The replenishment eventually came into effect on 22 September 1972. From July 1971 onward the activities of IDA were hampered by the delay in congressional authorisation of the US contribution but IDA was able to continue to operate, albeit in a more limited way, than had been hoped, partly because 15 governments, which included Australia, Britain and Canada, made advance payments of their contributions.

The policy intentions of other donor countries would seem to indicate a somewhat brighter outlook. The picture for flows from Commonwealth donor countries is encouraging as they are planning to increase their assistance significantly. Many non-Commonwealth countries also expect to raise their programmes. However, DAC reported in July 1972 that "on the basis of current budgetary appropriations for aid and the normal time lag between appropriations and disbursements, there is little prospect of a significant increase in net official development assistance as a share of the GNP of (DAC) member countries combined over the next few years". The general outlook for development assistance therefore remains somewhat gloomy. In recent years there has been declining public support in several countries for aid and the enthusiasm and confidence of the first half of the Sixties have declined. More recently, however, the international community spirit seems to have been encouraged to an extent by the Report of the Pearson Commission and the adoption of the International Development Strategy.

### UNCTAD III

The 1972 session of UNCTAD was the first to be held by the Conference after the adoption of the International Strategy for the Second Development Decade by the UN and it was felt - at least by the developing countries - that it would be a good test of the attitude of governments towards the Strategy. There is no doubt that, because of the international monetary situation and the prospects of multilateral and comprehensive trade negotiations within the GATT framework in 1973, the developed countries were not very ready to respond favourably to the proposals put forward by the developing countries. Consequently, the results of the Conference as a whole were most disappointing to the developing countries. However, the Conference agreed on the principle of full and effective participation by, or representation for, all developing countries in the decision-making process on international monetary and trade questions and, in the future, this may well be seen as one of the main achievements of UNCTAD III, although some advance was also made in the field of providing assistance to the least developed among developing countries.

On the aid side, action in the field of development finance fell far short of what had been hoped. No significant advance was made in obtaining a greater commitment from the developed countries on the volume of assistance goals set out in the Strategy. The Conference passed a resolution urging the developed countries to reach an international agreement on the general untying of aid at the earliest possible date and it also recommended an expansion of funds through IDA. Some countries, including both developed and developing, abstained on the UNCTAD resolution which invites the International Monetary Fund to present as soon as possible the studies required for decisions that are necessary on the implementation of a viable scheme to link Special Drawing Rights and additional development finance because they felt, inter alia, that the link should not precede other

elements of a prospective international monetary reform. Nevertheless, the text of the resolution represents a significant step forward.

There was no evident progress in achieving a better understanding of the debt problems of developing countries. This represents a serious failure, for it is generally agreed that the debt question is likely to be one of the most important problems of the Seventies. The President of the World Bank has stated that "if official development assistance flows level off at substantially less than the target for the Decade, mounting debt problems for the developing world are inevitable". This statement has been supported by projections by the UNCTAD Secretariat which show that, whereas in 1970 only 5 out of 60 developing countries for which data were available had ratios of debt service payments to exports of goods and services exceeding 20 per cent (this level is normally taken as potentially dangerous), the number is likely to rise to 17 by 1980 and, of these, 7 might have ratios exceeding 30 per cent. Unfortunately it proved impossible for the developed and developing countries to agree at the Conference on the kind of remedial measures needed to deal with the debt problems and the Trade and Development Board was invited to set up a special body to find practical solutions.

#### The Commonwealth, EEC, and multilateral aid

Among the problems which have been exercising the minds of developing Commonwealth countries, and particularly those offered association under Protocol 22 of the Treaty of Enlargement, is what effect the admission of Britain will have on intra-Commonwealth aid, what assistance those countries which associate with the EEC can expect from the European Development Fund, and what is likely to be the attitude of the enlarged Community to the whole question of aid and development. In many respects, the answers to these questions cannot be found at present and may not be clear for some time. While some countries maintain that access to the EDF can go only with the Yaoundé type of association and other aspects of the possible forms of relationship with the enlarged Community will presumably be open to negotiation among the various countries taking part in the negotiations due to start in 1973.

The EDF, however, is a part, and only a relatively small part, of the total aid effort of the member countries of the EEC. The bulk of aid is still bilateral and is channelled to the various countries and regions in the light of the individual decisions of the member governments. Thus, while the EDF is the community aid instrument and is related to bilateral operations, it is separate from them. In 1970, the latest year for which details are available, 80 per cent of the total net official disbursements from the present six members combined were on a bilateral basis. The bulk of French bilateral aid continues to go to the overseas territories and departments and those independent countries which were formerly linked to France, while that of Belgium is largely concentrated in Burundi, Rwanda and Zaire (former Belgian possessions), and Italian assistance goes mainly to Somalia. The bilateral assistance of Germany is spread over a wide range of countries. Out of the total official contributions of the EEC countries to multilateral institutions in 1970, about 30 per cent went to the EDF. This meant that the EDF accounted for only 6 per cent of the total official disbursements of the combined Six. It is noteworthy that the

existing Yaounde associates received about a quarter of the total official disbursements under bilateral programmes, EDF and EIB. The six members of the EEC already give assistance to Commonwealth countries, the total approached US \$60 million in 1970 when over three-quarters was provided by Germany.

The EEC has yet to define in depth its future aid policy. In July 1971 the Commission produced a memorandum on this subject (elaborated in February 1972) in which it advocated a policy of co-operation among member states and with the Community, without making a unified policy of full agreement an objective. It also suggested that the Community's development activities be financed more liberally and, although emphasising the special relations with Yaounde and Mediterranean countries, considered that the Community should spread them more widely. The proposals gave rise to controversy especially over how great a role the Commission should play in this field. The European Parliament, which has no executive functions, discussed the memorandum in July 1972 and gave it a favourable reception. However, it indicated that extension of co-operation with other regions of the Third World should not affect the privileged relationship which has been established with certain states, in particular those in Africa. The October 1972 Summit Meeting of the Enlarged Community considered development policy and its wider ramifications. The Declaration which was issued after the meeting affirmed the determination of the Community "within the framework of a world-wide policy towards the developing countries, to increase its effort in aid and technical assistance to the least favoured people. It will take particular account of the concerns of those countries towards which, through geography, history and the commitments entered into by the Community it has specific responsibilities". The communique stated that the institutions of the Community and member states are invited progressively to adopt an overall policy of development co-operation on the world-wide scale, comprising, in particular, the following elements: the promotion in appropriate cases of agreements concerning the basic products of the developing countries, the improvement in generalised preferences, an increase in the volume of official financial aid taking account of the growth of national income, and an improvement in the financial conditions of such aid. These questions will be the subject of studies and decisions during 1973.

The Commonwealth donor countries have tended to concentrate their assistance to Commonwealth developing countries directly through bilateral programmes. At the same time, they make significant contributions to international and regional agencies and have taken a number of multi-national initiatives over the years. The latest of these initiatives is the setting up of the Commonwealth Fund for Technical Co-operation, which forms the subject of a separate chapter in this Report. The Fund was established in a form and with functions which were calculated to enable a maximum number of Commonwealth governments to make contributions to the Fund and to the activities financed by it so as to provide maximum benefit to the recipients of assistance.

It is clear from earlier paragraphs that membership of the EEC has not greatly changed the old geographic pattern of the aid given by individual members nor has it led to a major move away from bilateral assistance towards Community aid. Although the enlarged Community may well establish, at least in principle, a common European development policy, there is no reason to suppose that the existing patterns will change greatly in the near future. This suggests that the present Commonwealth activities in the development field, both bilateral and multilateral, should not be affected by Britain's joining the EEC and that, if Commonwealth governments so wish, their present activities can be expanded and new initiatives taken.

## Conclusion

In the past few years, the debate on international co-operation for development has reached a critical stage. Last year the whole issue of development, especially as reflected in UNCTAD III, met with difficulties because the developed countries were pre-occupied with matters like the international monetary crisis, environmental pollution, the Vietnam war, and the enlargement of the EEC. The debates in various international forums made it abundantly clear that, notwithstanding these problems, those relating to development cannot take a subsidiary place. For failure to deal promptly and effectively with issues in the development field only stores up even greater problems for the future.