

CHAPTER I

FRAMEWORK AND ASSESSMENT

This report is the third of the new series giving a comprehensive review of the flow of intra-Commonwealth aid to be presented to the annual meeting of Commonwealth Finance Ministers. The Secretariat has continued to collect and compile the information on a programme basis so that data are readily available for individual programmes, such as the Special Commonwealth African Assistance Plan (SCAAP) which was the specific subject of the earlier series of reports considered by Ministers.

At the meeting of Finance Ministers in September, 1968 and subsequently at a meeting of Commonwealth representatives in London to consider the questionnaire on which this report is based, some governments suggested that, in view of the importance of the reverse financial flows and the burden of debt on recipient countries, information on interest and capital repayments made to donor countries in servicing official loans and investments would be a valuable addition to the coverage of the report. These data have now been collected for 1968 and it has thus been possible to show official financial flows on both a gross and net basis. Future reports will continue to give this information.

The presentation of the financial data in this report has been complicated by the devaluation of sterling in November, 1967. At a meeting of Commonwealth representatives it was agreed that, in order to provide comparability with figures for earlier years, information for 1968 given in the replies to the questionnaire would be converted from national currencies to sterling at both pre-devaluation and post-devaluation rates of exchange and that both sets of figures would be shown in the statistical tables for the year 1968.

General World Situation and Growth Rates in Developing Countries

The Commonwealth is not an exclusive aid group, although there are special intra-Commonwealth programmes. It is thus appropriate to examine assistance within the Commonwealth in the wider context of international economic relationships and to review Commonwealth economic co-operation against the wider international picture.

World production recovered strongly in 1968 from the slow-down in the previous year and, with a marked expansion in industrial output plus a further increase in agricultural production, the developing countries as a group achieved a 5.5 per cent rise in real gross domestic product. Although, for the second year running, the rate of growth in the total output of developing countries was not less than that of the developed countries, the rise of over 2 per cent in the population of the developing countries, which was appreciably higher than that in the developed countries, meant that the gap in levels of per capita income between the two groups widened again both absolutely and relatively.

Unlike 1967 when the high rate of growth in the developing countries was above all a response to domestic developments in the face of depressed

foreign demand, the relatively satisfactory rate of growth in 1968 was largely in response to export oriented activities. Once again, manufacturing was the leading sector.

Any quantitative appraisal of economic performance must rely heavily on production measurements but in the early stages of development, growth rates may not be the best measure of results and too much should not be expected in the way of increasing measurable output. Rather it is a question of developing countries making the best use of the available inputs in structuring their economies as a preliminary to and a basis for a strong upsurge in output. Nevertheless, the annual rate of growth for the developing countries was on the average around 4.8 per cent in the first eight years of the First Development Decade and, thus, only slightly below the target for the sixties. However, many countries, including some of the largest ones, are still a considerable way below this average. During this period the majority of countries which showed low growth rates were those where agriculture is overwhelmingly the largest single contributor to both domestic production and exports.

There has been a tendency, particularly in the popular Press, to brand the international development effort of the past decade as a failure. And while the performance of developing countries as a whole gives no ground for complacency, particularly in the face of rapidly growing populations, it appears that current growth rates for the developing world compare quite favourably with estimated long term rates of growth of output of the now economically developed countries. While comparisons of rates of change of output between different countries at different periods of time are by their very nature approximate and subject to many caveats, the world can take some measure of satisfaction from the demonstration during the development decade of the determination and the ability of the developing countries to improve their economic lot. Certainly a rate of growth of nearly 5 per cent per annum over a decade against enormous odds compares well with the performance of the now developed countries a few decades ago. On the other hand, the extremely low absolute level from which growth has taken place means that, in spite of relatively satisfactory rates, developing countries are still faced with acute poverty, and it will require many decades to establish acceptable minimum standards of human well-being.

It is, of course, difficult to assess the contribution which the international development effort has made to the rates of growth of developing countries over the past decade. Of the foreign exchange available to developing countries, official gross flows have provided between 15 and 17 per cent (or from 18 to 20 per cent excluding the oil exporting countries) over the past six or seven years. But on a net basis the official flows have only amounted to an annual average of about \$ US 3.4 per head of population. On the other hand, according to United Nations figures, developing countries with high growth rates have averaged \$ US 4.6 per head of net official assistance, those with medium growth rates \$ US 4.1 per head and those with low growth rates \$ US 2.6 per head.

The evidence suggests that while external financial resources flowing from developed to developing countries have contributed only a relatively small part of the total resources that have been used to provide the growth so far attained in developing countries, they have constituted a vital addition. Obviously, the successful economic development of developing countries relies in the first place on self-help through the gathering together and effective employment of domestic resources. It is not sufficiently

well appreciated by the general public in the donor countries that, in recent years, the developing countries themselves have provided between two-thirds and four-fifths of the resources required for the total investment undertaken in their countries and that it is largely this domestic effort which has permitted the developing countries to come so close to the target of 5 per cent annual growth in gross domestic product during the first Development Decade.

Nevertheless if the developing countries are to close the per capita income gap, continuing efforts must be made on two fronts. They will require large injections of capital as well as other forms of assistance from the developed countries and many developing countries will need active and sustained policies to control the birth rate. Continuing high rates of growth of population make the development effort that much more difficult in many countries. In 1968 for example, although there was no significant change in the annual rate of increase, the population of developing countries went up by over 50 million, which means that the age structure of the population continues to be biased towards youth with all that this implies. Consequently there is increasing need for population limitation through family planning and birth control. A hopeful sign is the increasing emphasis being given to such programmes in a number of countries with high rates of population growth.

Aid and Aid Prospects

Despite the economic difficulties of several major donors in recent years, net resource flows to developing countries from all sources rose sharply in 1968 to reach, according to D.A.C. estimates, some \$ US 13,300 million, a record level. D.A.C. estimates that this figure was equivalent to about one quarter of the value of gross investment (new investment and replacement expenditures) in developing countries, or nearly 30 per cent of the value of these countries' imports f.o.b. All of the additional flow of some \$ US 1,600 million in 1968 as compared with 1967 came from the highly volatile private sector as official development assistance declined. But in examining the actual flows of assistance in any one year it must be borne in mind that disbursements represent to a large degree policy decisions and commitments made in previous years and the rate of drawing against these commitments. The actual results for 1968 suggest that the level of disbursements of official bilateral assistance had begun to feel the effect of the reductions in or the freezing of the levels of assistance by a number of major donors, particularly the United States, in preceding years.

At the same time as many developing countries are increasingly demonstrating by their present performance that they could make effective use of more assistance if it were available, the prospects for the future are anything but bright owing to events in some major donor countries in the recent past. Persistent imbalances in international payments, which despite earlier hopes remain large and may well do so for some time, have necessitated strong policy measures in a number of countries. In the United States and Canada the measures are aimed at securing a period of disinflation while in Britain the rate of growth of domestic demand is being restricted and it appears that the French Government also has similar intentions. Japan has recently emerged into a surplus position and Italy and Germany (at least until very recently) continue to enjoy surpluses. It thus appears that there might be a slower expansion of demand and output in the developed countries as a group in the next year or so.

Economic difficulties have prevented, and continue to prevent, several major donors from increasing their aid commitments for future disbursement. The British Government announced in 1968, that the basic programme for British official aid, in gross terms, would be maintained at £205 million in 1968-69 and 1969-70 and that there would be three items additional to the basic programme, namely special assistance to Malaysia and Singapore, replenishment of I.D.A. funds and the contribution over a three-year period to the Rome Food Aid Convention. In May 1969 the President of the United States asked the legislature for an appropriation of about \$ US 2,210 million for economic aid for the 1969-70 aid programme plus \$ US 75 million to enable an Overseas Private Investment Corporation to begin operations to encourage the flow of private investment to developing countries; this overall request was the smallest in the 22 years history of the U.S. aid programme. In 1968-69 when the President requested around \$ US 2,500 million, the amount ultimately agreed for economic aid was only \$ US 1,400 million.

It is unlikely that private investment flows to developing countries will continue at the level reached in 1968. Interest rates are now very high in most of the areas which would be sources of capital, and domestic demands for funds in these areas are likely to compete sharply with those of developing countries. In any event the change in the composition of financial flows from official aid to private capital tends to mean heavier servicing charges in the years to come.

On the brighter side, the coming into effect of the replenishment of I.D.A. is to be welcomed; this replenishment when originally negotiated was to make funds available for commitments in 1967-68, 1968-69 and 1969-70. By the end of February, 1968 virtually all the available funds of I.D.A. had been committed and, although agreement had been reached on a replenishment of its funds, this was held up through delays in passing legislation in the United States. In July, 1969 the United States formally notified I.D.A. of its agreement to participate in the replenishment. However, in the meantime, a number of countries, including Australia, Britain and Canada, made advance contributions to give I.D.A. interim commitment authority. Under the replenishment about \$ US 1,200 million is to be added to I.D.A.'s fund by eighteen contributing countries plus Switzerland, a non-member. This means I.D.A. can continue making commitments to help finance, on soft terms, development projects in the developing countries. There is an increasing need for I.D.A.-type concessional financing as many developing countries, which require further outside capital, have mounting debt-servicing problems. Because of its insecure position, disbursements by I.D.A. fell sharply in 1968 but gross loan disbursements by the World Bank showed an increase on the 1967 level. Furthermore, commitments made during 1968 for future loans by the Bank, which raised large amounts of money through the issue of bonds on the capital markets, were nearly twice as great as those made in the previous year. However, the World Bank loans carry relatively high rates of interest (currently 7 per cent) as they are linked to the rates which the Bank has to pay to obtain the money. The most recent Bank borrowing was at 8 per cent which may mean another increase in the interest rate at which loans will be granted.

The picture for official flows from Commonwealth sources is a little more encouraging than that for the international community as a whole. Although the level of British assistance is not expected to increase in the near future, the other Commonwealth donors are all expecting significant increases in their official aid programmes. Australia has budgeted for a

rise of \$ A 13 million, or over 9 per cent, in its external economic aid for 1969-70; \$ A 9 million of the increase has been allocated to higher aid to Papua and New Guinea. New Zealand, although only a small donor, has indicated that the growing public interest in its various aid programmes should be conducive to increased expenditure in the aid field in the next few years. Canada also intends to increase its aid programme.

Trade and Development

The progress of the developing countries in raising their growth rates and income per head is not only dependent on overcoming internal obstacles but also on the policies of the developed countries, particularly in the aid and trade fields. The acceleration in world demand in 1968 led to an 8 per cent rise in exports from the developing countries, compared with 4 per cent in the preceding twelve months. Nevertheless, the rate of expansion in the value of exports of developing countries as a group continued to be well below the world average. With higher foreign exchange earnings, imports by the developing countries also grew faster than in 1967 although agricultural improvement enabled a number of countries to cut-back imports in this sector; the "green revolution" of the past two years has been one of the success stories of the decade with technical assistance making a considerable contribution to the work on plant-breeding and aid enabling greater inputs to be used in this sector. Despite the growth of exports, developing countries as a group again had a large trade deficit in 1968. Because of their crucial international liquidity position it was necessary for them to add over \$ US 1,000 million to their foreign exchange reserves and this amount had to be taken from the inflow of other external resources thereby reducing the funds available for development purposes. Notwithstanding this addition and that in 1967, the reserves of many developing countries were still not sufficient to meet their import bill for three months.

On the trade side, the greater part of the exports of developing countries are still primary commodities and the unit value of many of these items has declined over the years. The results of the Second U.N. Conference on Trade and Development were extremely disappointing to the developing countries and practical results arising from this Conference have been very slow to appear. However, the developing countries will find some relief in the introduction of new arrangements for the International Monetary Fund under which members can draw up to 50 per cent of their quotas for up to five years to help them finance international commodity buffer stocks without sacrificing any of their ordinary drawing rights in the Fund. This scheme is additional to the compensatory financing facility, introduced in 1963 and broadened in 1966, which permits developing countries to draw on their quotas to offset drops in exports earnings brought about by a fall in world commodity prices but drawings under the two schemes may not together exceed 75 per cent of a member's quota in the Fund. The Special Drawing Rights Scheme will give marginal improvements in the foreign exchange position of the developing countries and may have beneficial indirect effects for them in that the scheme will ease the liquidity shortage of developed countries, thus reducing the chances of them having to impose import restrictions or adopt other restrictive policies to safeguard their balance of payments position.

Debt Servicing and Terms of Loans

Generally speaking, unless developing countries are able to expand

their export earnings at a satisfactory pace, it is difficult for them to achieve a high rate of economic growth. Poor export performance increases the foreign exchange constraint and intensifies the dependence on other kinds of resource transfer. Thus, in recent years, the inability of export earnings of developing countries to meet the cost of the imports required for development has led to considerable foreign borrowing. By the end of 1967 the external public debt of 75 developing countries reporting to the I.B.R.D. had reached some \$ US 45,000 million, of which about three-quarters comprised loans from governments and international organisations, while servicing payments totalled almost \$ US 4,000 million, equivalent to around 12 per cent of the export earnings of these countries in that year or a quarter of the gross aid flows reaching them. Even in the case of intra-Commonwealth official assistance, where the grant element has been relatively high by international standards, the servicing of past loans has reached significant proportions. In 1968 the gross total of intra-Commonwealth official assistance was around £281 million (at post-devaluation rates of exchange) while amortisation and interest payments on earlier official loans and investments amounted to almost £54 million.

As the years have passed the burden of servicing loans has become heavier and the growing indebtedness of many developing countries has given rise to increasing concern. However, it is not the size of the total debt which is of prime concern but the amount of foreign exchange that has to be obtained to service the debt. In 1956 servicing payments on official external debt absorbed 5 per cent or more of the export earnings of only nine developing countries but by 1965 twenty-two countries were in this category and the position may have worsened since then. Softer terms of lending by the developed countries could help to ease the burden but, although 1968 saw some improvement, it still appears that there is an overall trend towards harder terms of aid. To some extent this arises because those countries which in the past have provided assistance on softer terms are not, at present, increasing their programmes, whereas those countries which normally impose harder terms are increasing theirs. In addition, the proportion of grants to total aid is declining as donors place more emphasis on loans. However, Commonwealth donor countries continue to maintain an excellent record in respect of the terms and conditions of aid. Australia is outstanding in that all its commitments are in grant form while the proportion of official assistance committed in grant or grant-like form in 1968 was 75 per cent for Canada and 46 per cent for Britain. Loans provided by Britain and Canada have much lower interest rates than the average for all D.A.C. members while the maturity period for Canadian loans is nearly half as long again and for British ones about the same as the D.A.C. average. Of the new British government to government loans committed in 1968 to Commonwealth countries, 91 per cent were on interest-free terms while nearly all the interest-bearing loans carried a waiver of interest for varying periods.

Apart from the action of some countries in providing loans on easier terms, the debt servicing problems of some developing countries have been eased through debt rescheduling and the provision of refinancing loans on softer terms.

Commonwealth Co-operation for Development

Commonwealth countries were among the first to enter the field of development assistance and in the past two decades have taken a number of initiatives of outstanding importance. For example, in 1950 they estab-

lished the Colombo Plan and since then many non-Commonwealth countries have become members; in fact, there are now 10 Commonwealth members and 14 non-Commonwealth members. Other initiatives have included the Special Commonwealth African Assistance Plan and the Commonwealth Education Co-operation Schemes.

Although the Commonwealth is not an exclusive aid bloc and its member countries take an active part either as donors or recipients in many assistance programmes, some involving non-Commonwealth countries or the U.N. and its agencies, about 85 per cent of the bilateral aid from the developed Commonwealth countries goes to developing Commonwealth countries. Nevertheless, the Commonwealth has no common aid fund to which all or some contribute and which is jointly controlled, like the U.N. Development Programme. Nor, apart from general consideration of development problems at the meetings of Heads of Government and of Finance Ministers, is there any specific Commonwealth consultation and discussion of aid problems except in the fields of education and medicine.

Over the years the funds made available for technical assistance have increased sharply and it is perhaps in this sphere that the Commonwealth can make its greatest impact, nor only within the Commonwealth itself but also on the world at large. With the Commonwealth comprising countries of almost every variation in size, standard of living and stage of development, it is evident that all of them, whether developed or developing, have some knowledge or manpower that could be valuable to other countries.

At a number of meetings in recent years, Commonwealth Heads of Government and other Ministers, have endorsed the suggestion that purely bilateral aid should be supplemented by some specifically Commonwealth programme of co-operation in various areas related to development. Arising from proposals at the Commonwealth Meeting on Co-operation in Planning, Technical Assistance and Trade Promotion held in Nairobi in 1967, a Commonwealth Programme for Technical Co-operation designed to meet, in certain selected fields, the planning rather than the operational needs of governments was established.

In the first full year of the Programme, the Secretariat, augmented by the four technical assistance officers and supporting staff provided under the Scheme, undertook more than thirty assignments in thirteen countries. While most of the requests for assistance arising from the Programme have been met under bilateral arrangements, the scope of these has been enlarged to provide experts from one country financed wholly or in part by another, thereby significantly enlarging the pool of expertise available for technical assistance arrangements by drawing on skills available in developing countries. Arrangements have been completed for a number of experts to be provided by this method.

A number of governments of the smaller members of the Commonwealth have underlined the usefulness of the Programme to them and it is clear from the number of requests received for assistance that the Programme is filling a real need. At the first review of the Programme proposals were put forward for enlarging and expanding the scheme and also to provide financing of operational personnel and of training in a variety of fields.

Publicity for Aid and Assistance

In recent years economic difficulties in many developed countries have had considerable repercussions on commitments of aid and assistance. These difficulties, in turn, have led to growing dissatisfaction and disenchantment in both donor and recipient countries about the international development effort. Much of the criticism by the public at large has been based on a lack of knowledge or a misunderstanding of the true position as the coverage of aid and development questions by mass media has generally been not very extensive and frequently critical. The root problem is that development, and the effect of assistance on it, is not dramatic and, therefore, except in a few isolated cases of big development projects, not often considered newsworthy in the normal sense. Nevertheless, the subject of overseas aid does arouse strong feelings in many quarters.

In summary, the rationale for the aid programmes of donor countries has usually been linked to three main objectives. The first, the humanitarian or moral purpose, is to help developing countries to raise their living standards through faster social and economic development in the interests of social justice. The second, which might be called the trade motive, is that the raising of incomes in developing countries will create expanding markets for the exports of the donor countries and the third motive, a political one, is that poverty in the midst of a world of growing prosperity is bound to cause discontent and unrest and that assistance will help to stimulate development which by promising to eradicate poverty will contribute to world stability. In the early days of assistance programmes the moral motive and to some extent the novelty of the programme generated public enthusiasm. But much of this original enthusiasm for giving assistance has dwindled and needs to be rekindled. This may prove difficult as far as government aid programmes are concerned unless the feeling of participation in them by the public at large can be strengthened. What is necessary is to convince the public that the assistance provided is needed and appreciated, and is being used effectively to produce worthwhile results. On the other hand, there is often a lack of appreciation in the developed countries of the effort the developing countries are making in finding domestic resources for their own development. Furthermore, the true cost of aid to the donor countries is neither understood nor sufficiently well publicised, and the public do not realise that the developing countries are making substantial repayments of capital and interest payments on loans and investments.

On the other side of the coin, aid is regarded by sections of opinion in certain developing countries as a sort of conscience-money and, therefore, almost by definition, the amount is adequate. On a less emotional plane, the developing countries often complain that the flow of aid has not been large enough to permit all the vital development projects to be financed, and that it is growing less rapidly than the resources of the developed countries. They point out that the national income of the D.A.C. member countries at current prices has risen at an annual rate approaching 8 per cent in the sixties and that the assistance given by them would have to rise at a still more rapid rate if it is ever to represent the proclaimed goal of one per cent. Among the other complaints of the developing countries are the hardening of aid terms with its consequential effects on future debt servicing, and the typing of aid to purchases from donor countries.

Bearing in mind that effective aid programmes, as well as development programmes, must be long-term and continuous and by their very nature, unlikely to produce quickly identifiable results or even results that can be

quantified at any point in time, the background summarised in earlier paragraphs of this section provides a fertile breeding-ground for misunderstanding, ill-feeling and lack of enthusiasm towards aid and assistance. At its most constructive, the dissatisfaction has led to studies of post-war experience of the provision and administration of assistance in the hope that, by pinpointing the successes and troubles of the past, guidelines for future improvements will be found. In this connection, it is to be hoped that valuable results will stem from discussion and consideration of the recommendations of the Pearson Commission whose report was published in October, 1969. On the publicity side, it is essential that ways and means be found to ensure that criticisms are met and that the "success stories" of aid and development are better publicised than at present.

Conclusion

As the Secretary-General of the United Nations remarked recently, "the fashionable tendency to say that the first Development Decade has been failure is wrong since the goal of a five per cent increase in the national income of developing countries will probably be reached in 1970". Nevertheless, there can be no room for complacency for those who are aware of the growing gap in the living standards between the developed and the developing countries and to use U Thant's words again, "the grinding poverty of two-thirds of mankind is the greatest challenge of this century".

Even if the Development Decade has not had as good results as had been hoped by many people, it has demonstrated that development is possible. Furthermore, the last ten years have made fully evident the need for rural development and programmes of family planning although the "Green Revolution" has put a different complexion on the food situation in Asia. However, increasing agricultural output and reaping the full benefits of family planning inevitably take time and, in the meanwhile, a new impetus must be given to the development effort and a greater sympathy and understanding of the problems of development must be generated. In this, improvements in publicity can play a vital part and thought needs to be given to ways and means in which this can be brought about.