CHAPTER 1

FRAMEWORK AND ASSESSMENT

This report on the Flow of Intra-Commonwealth Aid for 1970 is the fifth in a series giving a comprehensive statement of official aid flows within the Commonwealth. From the beginning of this series of reports on the flow of official aid, data have been collected and compiled on a programme basis in order to make available aggregate information for individual programmes, such as the Special Commonwealth African Assistance Plan. 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. As it is now five years since this series began, this report carries data covering the whole period and an analysis of the trends.

At the suggestion of some Commonwealth governments the Secretariat began collecting information on reverse financial flows from developing countries with effect from 1968 and since then flows have been shown on both a gross and a net basis. It is appropriate to examine the flow of development assistance and co-operation against the background of economic development in the developing countries. This year a factual statement of economic trends in these countries, with particular reference to Commonwealth developing countries, has been included as an annex.

General World Situation

There was an appreciable slowing down in the rate of increase in world production in 1970. Most developed countries endeavoured to reduce inflationary pressures and improve their balance of payments positions and preliminary estimates suggest that their rate of growth, at constant prices, was a little under 3 per cent as against just over 5 per cent in the preceding twelve months. In the case of the developing countries there was a decline from the high rate reached in 1969 but growth remained fairly vigorous, of the order of 5 per cent. Although for the fourth year in succession, the rate of growth in the total output of developing countries was higher than that of the developed countries, it seems unlikely that the gap in per capita income levels between the two groups of countries was narrowed as the population growth in 1970 in the developing countries appears to have been about 2½ per cent while in the developed countries the rate remained around 1 per cent. Thus, for many countries, population control continues to be their most critical problem in the medium and long-term periods.

During the First Development Decade the target of a 5 per cent annual rate of increase in total production of the developing countries was broadly attained but the rate was far higher in some developing countries than in others. The position looks worse in per capita terms as, in general, those countries which rely heavily on the agricultural sector, and particularly the subsistence part of it, have shown the lowest rates of growth while having high populations and high rates of increase in the population. Unfortunately, these differences are also apparent within regions. Accordingly, a second kind of "gap", namely between the faster growth and more developing of the developing countries and the slower growing less developed developing countries, is becoming increasingly apparent. This tendency will grow in importance in the general strategy of the international development effort.

While efforts to reduce inflationary pressures put a brake on the rate of growth of world production in 1970, trade was not similarly retarded and imports into the developed countries rose by about 15 per cent in value terms (9 per cent in volume). On the other hand, the increase in trade of the developing countries was considerably below the high figure recorded in 1969. While the rate of increase in exports from the developing countries to the developed countries was well maintained, the growth in trade between developing countries was much less than in preceding years. The export earnings of the developing countries, taken as a group, were almost sufficient to finance their imports in 1970. However, if the oil-producing countries are excluded, the adverse balance of trade for the other developing countries was appreciably higher than in 1969.

In all countries, whether industrialised or developing, economic development is influenced by external events and policies. This is particularly true for developing countries since many of the resources necessary for development cannot be provided from within their economies and the ability to earn foreign exchange is crucial. While the greater part of the development which has taken place has been due to the efforts of the developing countries themselves, the external financial resources flowing from developed to developing countries have constituted a vital factor. The acceleration in development hoped for during the Second Development Decade will call for the use of increased amounts of resources and may well, at least initially, lead to a widening of the trade and savings gaps. In order to minimise the undesirable consequences of these gaps, developing countries will need help through trade promotion and other measures to increase their export earnings and also will require greater capital flows from the developed countries on terms and conditions which they can afford.

Aid and Aid Prospects

The actual flows of assistance for a particular year reflect to a large extent policy decisions and commitments made in preceding years and the rate of drawing against these commitments. In recent years several major donors have experienced economic difficulties and during 1970 many countries were forced to adopt anti-inflationary demand-management policies. In an inflationary situation some part of any increase in the flow of financial resources from the developed to the developing countries is eroded by the rise in prices in the donor countries. Consequently, what appears to be an appreciable rise in flows on a current price basis turns out to be largely illusory in real terms. According to DAC estimates, the developing countries received on the average about $US 8.10 per head of population in 1970 as against $US 5.40 in 1960 but price increases would mean that over the ten years there was little, if any, rise in the real volume of assistance. Bearing these facts in mind, the net resource flows (i.e. net of amortization) to developing countries from all sources, at 1970 prices, increased by about 7 per cent in that year to reach, according to estimates by DAC, nearly $US 14,800 million (this figure takes into account both official and private flows but excludes grants by the private voluntary agencies). The upward trend in net disbursements by the multilateral agencies continued while DAC countries also provided more aid than in 1969. Within the DAC members' total, official development assistance went up slightly in absolute value but about half the rise was the result of a large increase in other official flows. The share of grant aid in the total declined further but it is reported that the terms of new lending softened somewhat.

Many developing countries have demonstrated by their past achievements that they could make effective use of more assistance. On the technical assistance side, there are growing indications that a change in the type of personnel provided is now beginning to be required, at least in the more developed of the developing countries. In the early stage of development general advice was required but this stage has now been passed and countries are looking for experts within narrow fields of specialization who are very experienced and who are prepared to work in a particular developing country for a longer period than has been customary for technical assistance personnel in the past. On the other hand, such people are in very short supply and accordingly their cost is high and this too has affected the volume of real resources transferred. On the financial side the test of the value of a resource transfer is whether it is suitable in terms of quality and cost to the recipient apart from being appropriate in timing and volume. As regards the quality of aid, certain steps have been taken with respect to untying. The Council of O.E.C.D. meeting at Ministerial level in June 1971 noted that substantial progress had been made within the DAC in drawing up a draft agreement on aid untying to be proposed to governments who would be invited to indicate whether they wish to participate. There has been unanimous agreement in principle on the untying of multilateral contributions as well as a wide area of agreement for the untying of bilateral loans. As aid tying has deleterious effects in many instances on the efficient use of assistance which developing countries receive, it is to be hoped that these efforts towards untying will be actively pursued and that action will be taken quickly.

Regarding the cost of assistance to recipients, it is pleasing to note that official loans have tended over the years to become more concessional in terms. But the debt burden and the indebtedness of many countries incurred in earlier years remains disquietening. Furthermore, the high proportion of the overall financial flows represented by private export credits, which are mainly at market rates, as instanced in the 1970 flows, continues to give cause for concern. According to projections by the World Bank, servicing payments by the developing countries on their external public debt were expected to reach almost $US 6,000 million in 1970 and on top of this developing countries have to make provision for payments on investments. Of course the size of the problem varies from one country to another as is brought out clearly by relating service payments on external official debt to the value of foreign exchange earnings (or export income). Taking Commonwealth countries in Asia as an example, it is estimated that servicing payments by India represented over 29 per cent of the value of its export earnings in 1969-70, for Pakistan the figure was over 18 per cent, for Ceylon the 1969 figure was over 12 per cent. For Malaysia the figure was little more than 1 per cent in the same year.

In previous reports the relationship between the economic situation in developed countries, the developments in the international monetary system and the flow of resources to developing countries has been stressed. Difficulties in the monetary system are bound to have repercussions on the flow of resources. While the Special Drawing Rights established in 1969 represented a major innovation in international monetary relations, the bulk of the allocations have gone to the developed countries. The importance of S.D.R.'s to the developing countries, apart from adding small amounts to their reserves, lies in the creation of increased international liquidity which was expected to lead to an expansion (or the prevention of any reduction) in world trade and aid flows. No direct link between S.D.R.'s and development finance has been established as yet, so developing countries must continue to depend on the developed countries for the flow of foreign resources.

At the present time the economies of many of the developed countries are beset by inflationary problems and in some countries excessive demand still persists. The policies adopted to deal with this situation can affect the levels of assistance and as a result the short-term picture is not very encouraging. There is considerable uncertainty about the size of the US programme and, because of its dominant position in the provision of assistance (it accounts for almost two-fifths of the net official and private flows from DAC members to developing countries and multilateral agencies), the attitude of the United States is crucial. The President originally requested some $US 3,500 million for military and economic aid during 1971-72, but no Bill has yet passed through Congress and, in the past, Congress has usually appropriated less than requested. In mid-December Congress approved a continuing resolution whereby the foreign aid programme could operate at an annual rate of about $ 2,700 million till 22 February 1972. The position as regards US aid was also darkened by the President's speech of 16 August, 1971 when he announced that, as part of the measures to restrain inflation and to protect the American dollar, Government expenditure would be cut and that he had ordered a 10 per cent reduction in foreign economic aid. Based on DAC figures for net disbursements in 1970 a 10 per cent cut in US official development assistance would exceed $US 300 million, equivalent to almost one-twelfth of the official development assistance provided by all the other DAC members.

Unless recent developments in the international monetary field change the prospects, the intentions of many individual donor countries would seem to indicate a somewhat brighter outlook. Both Canada and Australia are planning to increase their aid significantly while New Zealand also intends to expand its programme and Britain has announced an annual increase in its economic aid programme up to 1975-76. Among the non-Commonwealth donors, Germany and Japan are endeavouring to increase the volume of their assistance while the Scandinavian countries are advocates of increased aid.

However, the long-term attitude of the United States is again crucial to the whole picture. The portents at the present time as regards US assistance are not promising. For example, the request made early in 1971 by the Nixon Administration for a supplemental appropriation of $US 487 million for the Inter-American Development Bank was reduced by Congress to only $US 275 million. What makes this action all the more important is that the sum of $487 million, which was the US share of the increase in the Bank's capital, was established as the result of international discussions.

It will be recalled that the Second Replenishment of IDA was delayed by over a year owing to difficulties in obtaining ratification by the United States. In my last report it was noted that discussions on a Third Replenishment had resulted in a doubling of IDA funds to $US 2,440 million over a three-year period to June 1974 with the US Government agreeing that its share would be $US 960 million. Since then matters have progressed less satisfactorily. Under IDA rules, the replenishment does not officially become effective until countries providing not less than $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 18 Part I members (i.e. richer countries), have given formal notice that they will be able to pay. Congress has delayed action on the US contribution and, in the meantime, IDA has been placed in a difficult position as by the end of June 1971 it had committed all its available resources. On the other hand, it is gratifying to see that a number of countries, including some Commonwealth ones, have mounted a rescue operation by making advances on their planned contributions so that the vital work of IDA is not too badly disrupted. Here it is appropriate to note that in December 1970, New Zealand, which is not a member of IDA, made a voluntary contribution of $NZ 5 million to IDA funds.

Population Problems and Development

As mentioned earlier, the overall growth rate of the developing countries was remarkably good during the past decade. However, when reduced to per capita terms, the results have been less satisfactory as populations have continued to grow at a high rate. The annual addition to populations is, in fact, so large that a very small reduction in the rate of population growth could make a significant difference to the size of capital formation by reducing the call on resources required for consumption. However, the "population explosion" has occurred and, even if family planning programmes work well, their effects will be small for the next dacade.

Looking at the present position, a number of facts emerge which give rise to concern. There must be a very large current and prospective growth in the labour force. The "modern" sector of the economies of developing countries seems so far to have been based mainly on the capital-intensive pattern of the developed countries rather than on absorbing the plentiful supply of labour and are not absorbing the increments to the labour force. Those people lucky enough to have jobs in the "modern" sector have experienced an improvement in their living standards but others have not fared so well. Many young people, often relatively well-educated, are unemployed whereas, because of their education, they expect to be in a position to obtain other jobs than those available in the traditional sectors of the economy. There has been a migration to towns creating a demand for services which strains the already limited development budgets by pre-empting investment resources for housing and other services in place of investments which would contribute quickly and directly to exports and the production of goods. Domestic savings which are so important to development are likely to be adversely affected because the consumption needs of dependants must be provided for out of an already low level of income. This situation contains the seeds of social discontent which is all the more costly since economic development flourishes best when and where there are conditions for continuing national and social stability. It would seem that greater and more continuous emphasis will have to be placed on manpower utilisation and development by the international community.

A population policy consistent with development objectives is a major element in national development policies and a large number of countries are undertaking programmes of family planning. Several of the main donors, including Britain which has given bilateral technical assistance towards population programmes in fifteen Commonwealth countries, are stressing this aspect of development while, multilaterally, the World Bank has begun extending assistance to population planning programmes. The UN Fund for Population Activities in 1970, its first operational year, exceeded its target of $US 15 million in assistance in solving population problems and has set a target of $US 25 million for 1971. In this connection, it is gratifying to note that the UN Fund received pledges from 24 countries, of which 13 were low-income countries in Asia, Africa and Latin America; according to the financial report of the Fund, Commonwealth countries which contributed in 1970 included Britain, Canada, Ceylon, Cyprus, India, Mauritius, Pakistan, and Trinidad and Tobago.

Commonwealth Co-operation for Development

Even though Commonwealth donor countries have tended to concentrate their assistance to Commonwealth developing countries directly through bilateral programmes, they make significant contributions to international agencies and regional development banks. But Commonwealth countries have also taken a number of multinational initiatives over the years, of which the best known is the Colombo Plan. In 1967 discussions were held to consider the establishment of a Commonwealth Programme for technical assistance and the agreed scheme became fully operational by the end of 1968. Under this Programme, the Commonwealth Secretariat assisted developing Commonwealth countries in formulating requests in the broad areas of planning, public administration, sectoral analysis and project appraisal and endeavoured to find, for financing under bilateral arrangements, the experts to meet the needs established. The availability of personnel under the bilateral programmes of Commonwealth donors was enlarged by drawing on personnel from developing Commonwealth countries to serve in other developing Commonwealth countries with one of the Commonwealth donor countries being responsible for all or part of the costs. In addition, a headquarters group of experts was established, financed in the same way, to assist governments in determining their needs and to carry out short-term consultative assignments in their special fields.

The Programme was reviewed in September 1969. Commonwealth officials recognised that it had met a real need and should be expanded. But the officials also noted the administrative difficulties and recommended that the programme be centrally funded and also enlarged on the basis of voluntary contributions by Commonwealth countries. Proposals to this end were examined in detail by a meeting of officials in September 1970 which recommended that a Commonwealth Fund for Technical Co-operation be established in a form and with such functions that a maximum number of Commonwealth governments would be able to make contributions to the Fund and to the activities financed by it. This, it was felt, would lend to the programme as broad a multilateral character as possible. In addition to those activities under the earlier Commonwealth programme, it was recommended that the Fund should finance, in whole or in part, the costs of training in one developing Commonwealth country of personnel from another developing Commonwealth country. The proposals for setting up the Fund were accepted and the Meeting of Heads of Government in January 1971 noted that the way was clear to establish it. The Commonwealth Fund for Technical Co-operation was formally established on 1st April 1971.

As has been mentioned earlier, developing countries, especially the relatively less developed ones, are forced to depend on foreign assistance to bridge the gap between their export earnings and import costs. Over time, there has been only a relatively slow growth of foreign assistance and in a period of price inflation the real value of the increase has largely disappeared. The developing countries need to earn greater amounts of foreign exchange. In the export sector, the freedom of action of developing countries is circumscribed since it depends on the response of external demand and on the removal of obstacles to trade. For developing countries as a whole the target of 6 per cent average annual rate of growth of G.D.P. during the Second Development Decade implies an annual rate of growth of exports of 7 per cent or more. There has been a detectable shift from import substitution to export promotion in the development programmes of many developing countries but they still require considerable help in this field. Many developing countries already have balance-of-payments problems and the provision of export credits constitutes a serious burden. This problem could become worse as manufactures and semi-manufactures, which are generally sold on a credit basis, are accounting for an increasing share of the exports of developing countries.

It was with considerations such as these in mind that Heads of Government at their meeting in January 1971 directed officials to give further consideration to the recommendations embodied in the Secretariat's Study on Commonwealth Export Market Development. Senior Trade and Finance officials at a meeting in June in London, recommended that the Commonwealth Fund for Technical Co-operation be broadened to cover financial as well as technical assistance aspects of export market development. To meet these wider functions, the financial resources should be suitably enlarged. The Board of Representatives of the Fund at a meeting in September 1971 decided that the Fund should be expanded in order to cover the technical assistance and market research aspects of export market development in the first instance and that a decision on other aspects could be taken later in the light of experience gained and the extent of resources available.

Conclusion

During the discussions in depth of developmental strategy towards the end of the successful First Development Decade more questions than answers were thrown up. This in itself was no bad thing. But further problems are constantly arising which also must be tackled. Looking ahead, it would seem that among the problem areas for the Second Development Decade are the likely initial widening of the trade gap associated with accelerated growth of developing countries, the increasing threat of substitution and possible over-production in certain agricultural commodities, continuing population pressure, a growing labour force with a higher level of education looking for jobs, and social and political instability where social and economic development lags.

On the assistance side, it is to be hoped that the policy objective of increasing flows announced by a number of donor countries is speedily translated into action and that inflation can be controlled so that the real value of the resource transfers rises instead of showing little improvement as it has done in the past ten years.