

## CHAPTER 1

### THE COMMONWEALTH AND INTERNATIONAL DEVELOPMENT AID

#### The general picture

1973 was a bad year for development aid. The net flow of official development assistance from the developed, market-economy countries which are members of the Development Assistance Committee of the Organization for Economic Co-operation and Development increased in terms of United States dollars from \$8,672 million in 1972 to \$9,408 million in 1973, a nominal increase of 8.5 per cent. However, the prices of the goods and services financed by this aid are estimated to have increased by 27 per cent, with a particularly rapid increase of prices for food aid, so that in real terms the net flow appears to have decreased by about 15 per cent. A considerable part of this contraction was presumably due to failure to make sufficient allowance for inflation when fixing aid programmes in nominal terms, so that it is to be hoped that 1973 will prove to have been untypical.

Net disbursements of official development assistance (ODA) from Britain, Canada, Australia and New Zealand combined followed a course rather similar to the total for all Development Assistance Committee (DAC) members. In terms of current United States dollars, net disbursements from the Commonwealth DAC countries increased by 3 per cent from 1972, reaching \$1,430 million in 1973. After allowance for price increases, however, there was here again a decrease in real terms of the order of 15 per cent between 1972 and 1973.<sup>1</sup> Little information is available on aid provided in 1973 by other Commonwealth countries.

Net disbursements of bilateral ODA from Britain, Canada, Australia and New Zealand to the rest of the Commonwealth fell from \$787 million in 1972 to \$757 million in 1973 at current prices and may have decreased by some 20 per cent in real terms. This decrease in the bilateral flows to Commonwealth recipients was offset to some extent by an increase from \$299 million in 1972 to \$356 million in 1973, at current prices, in the net flow from the four Commonwealth DAC members to multilateral agencies, which are important sources of aid for Commonwealth recipients.

On a longer-term view, Britain, Canada, Australia and New Zealand together increased their total net provision of ODA by about 40 per cent in real terms between 1963-65 (average) and 1971-73 (average) - that is, by a little more than 4 per cent per year. This increase was made

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1. In accordance with the generally accepted usage, net disbursements in this report mean disbursements net of amortization - that is to say, repayments on account of similar transactions in the past and repatriation of capital. If transactions are recorded net of interest, profits and royalties as well as net of amortization, the term "net transfer" is used.

up of a somewhat more rapid increase of Australian aid and a very much more rapid increase of Canadian aid (though from a relatively low percentage of Canadian GNP in 1963-65), somewhat off set by a decrease in real terms of British aid. Leaving aside the United States, the non-Commonwealth members of the Development Assistance Committee combined increased the net provision of ODA at an average annual rate of 6.5 per cent in real terms over the same period. However, there was a major contraction in real terms of United States aid, so that there has been little increase over the period of total real net ODA from the DAC countries combined. As a percentage of the total GNP of the DAC countries, net disbursements of ODA have progressively decreased from 0.49 per cent in 1962-65 (unweighted average) to 0.30 per cent in 1973 (see Tables 1 and 2).<sup>1</sup>

The net flow of private capital from DAC members to developing countries made a considerable jump from 1967 to 1968, and subsequently has increased about as fast as the DAC countries' GNP, remaining around 0.36 per cent of their GNP and reaching \$11,072 million in 1973.<sup>2</sup> As a result, public and private flows (net) combined have remained remarkably constant from 1963 to 1973 as a share of the DAC countries' GNP, at around 0.75 per cent<sup>3</sup> (see again Tables 1 and 2).

### Lay-out of report

The present chapter situates the flow of intra-Commonwealth aid in relation to the broader, global aid picture, and comments on the current aid needs and external debt service situation of Commonwealth developing countries. Chapter II describes recent developments in the provision of aid by Commonwealth countries, and considerable detail on the distribution and composition of capital aid and technical assistance from these countries is shown in the related statistical tables. Chapter III reviews contributions by Commonwealth countries to multilateral agencies and the activities of the Commonwealth Fund for Technical Co-operation. Finally, Chapter IV reviews available data on how Commonwealth developing countries have fared as recipients of aid. The Annexes review recent developments in the United Nations Special Programme on behalf of the developing countries most seriously affected by recent developments in world trade, the International Monetary Fund's "Oil Facility" and the Extended Fund Facility. They also present material by the authorities in Kenya and Cyprus on problems encountered in making effective use of aid for development.

### The Commonwealth and the World Aid Picture

Up to the present, the developed, market economy countries which are members of the DAC have been the main source of aid, bilateral and

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1. Numbered tables are at the back of this report.
  2. Excluding grants from voluntary agencies, which are recorded for the later but not for the earlier years.
  3. Again excluding grants from voluntary agencies.

through multilateral agencies, for developing countries. By comparison with flows from DAC countries, aid from the centrally planned economies has been relatively small in total, though important for certain recipient countries. The surplus-earning, petroleum-exporting countries are now emerging as major providers of aid, though it is not yet clear how quickly their commitments will be translated into disbursements.

In the period 1970 to 1973, Britain, Canada, Australia and New Zealand, with 12 per cent of the total GNP of DAC countries, provided 15 per cent of total net disbursements by DAC countries of official development assistance (ODA) to developing countries and multilateral agencies.<sup>1</sup> The contribution of the four Commonwealth DAC countries to total net disbursements of all DAC countries as a group in 1972 and 1973, by category, is shown in Table 3. Table 4 shows the percentage breakdown of net ODA disbursements from the four Commonwealth countries and all DAC countries as a group in 1971-73, distinguishing technical assistance, subscriptions and grants to multilateral agencies, other grants and grant-like flows and concessionary loans. The proportion of ODA provided in the form of food aid - bilateral and multilateral, grants and concessionary loans - is also shown. Table 5, with the same coverage, shows these various components of ODA expressed as percentage of GNP of the countries of origin. These figures bring out, for example, the above DAC average provision of technical assistance by Britain and provision of aid through multilateral agencies by Canada.

Bilateral aid from the Commonwealth DAC countries is quite highly concentrated on Commonwealth recipients - 79 per cent of bilateral net disbursements of ODA from Britain in 1973, 53 per cent from Canada, 81 per cent from Australia and 66 per cent from New Zealand. Current value figures for official flows from the four Commonwealth countries (gross, net, net transfer and commitments), their division between bilateral and multilateral, and the distribution of bilateral flows between Commonwealth and non-Commonwealth recipients, are shown in Tables 6-10.

While ODA from the four Commonwealth DAC countries is highly concentrated on Commonwealth recipients, this relates, as has been seen, to 15 per cent of total net ODA disbursements from all DAC countries. By contrast, other Commonwealth countries account for 45 per cent of the total

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1. ODA is defined as those flows to developing countries and multilateral institutions provided by official agencies, administered with the promotion of the economic development and welfare of developing countries as the main objectives, and which are concessional in character, having a grant element of at least 25 per cent. (Grant element is defined as the face value of a financial commitment less the discounted present value of the contractual amortization plus interest payments, using a 10 per cent discount rate, which was selected as a rough approximation of the value of the resources to the donors in alternative uses. By way of illustration, the grant element of standard IDA terms is 86 per cent, while IBRD loans carrying an interest rate of  $7\frac{1}{4}$  per cent have grant elements of around 25 per cent depending on their maturity and grace periods).

population of the countries classified by the UN as "developing", and for 67 per cent of the population of countries with per capita GNP of less than \$200.<sup>1</sup> Commonwealth developing countries as a group receive 36 per cent of their net inflow of ODA bilaterally from the four Commonwealth DAC members, 44 per cent bilaterally from the non-Commonwealth DAC countries, and 20 per cent through multilateral agencies - to which Commonwealth countries are, of course, important contributors.<sup>2</sup> (The amounts and sources of aid received by Commonwealth countries are reviewed in more detail in Chapter IV).

#### Official and private flows from DAC countries

Table 3 shows net disbursements in 1972 and 1973, official and private, by category, from the DAC countries as a group and from the four Commonwealth DAC countries combined to developing countries and multilateral agencies.

Total official flows, net, from all DAC countries increased at current prices from \$10,253 million in 1972 to \$11,995 million in 1973. The proportion of these flows qualifying as ODA (cf. footnote on p.3) decreased from 85 per cent in 1972 to 78 per cent in 1973. Part of this decrease in the percentage of official flows qualifying as ODA, and of the apparent decrease of ODA flows in real terms, may be spurious, resulting from the adoption by the DAC in its 1972 Recommendation on Terms and Conditions of Aid of an explicit concessionality criterion for ODA (see again footnote on p.3). Subject to this qualification, net disbursements of ODA from all DAC countries increased by 8.5 per cent at current prices, from \$8,672 million in 1972 to \$9,408 million in 1973. As has been seen above, this amounted to a decrease of about 15 per cent in real terms when allowance is made for price increases for aid-financed goods and services.

As a percentage of the collective GNP of the countries of origin, net disbursements of ODA from all DAC countries decreased from 0.35 per cent in 1971 to 0.34 per cent in 1972 and 0.30 per cent in 1973. Comparing 1973 with the average of the percentages for 1970-72, only Sweden, Denmark, Norway, Japan and Austria among the DAC countries made significant increases of net ODA as percentage of GNP (the last still to a comparatively low level), while Canada, New Zealand, Belgium, Germany, Switzerland and Italy held their percentages more or less unchanged (see Table 11). In terms of rankings of net ODA as percentage of GNP over the three years 1971-73, Australia came fourth equal out of the seventeen DAC countries, Canada eighth, Britain tenth and New Zealand thirteenth (see again Table 11). New Zealand, however, plans to raise its ODA to 0.7 per cent of GNP in the 1975-76 financial year, and its ranking may be expected to rise rapidly.

Net other official flows from all DAC countries to developing countries and multilateral institutions rose rapidly from 1972 to 1973 - by 64 per cent

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1. Mainland China is excluded from these totals.
  2. These figures relate to assistance from DAC bilateral sources and through multilateral agencies in 1971-72 and omit, notably, aid from centrally planned economies.

at current prices. The largest increases in absolute terms were in equities and other bilateral assets, non-concessionary contributions to multilateral institutions, and official export credits. The four Commonwealth DAC countries make a relatively small contribution to these other official flows - 8.4 per cent in 1972 and 4.7 per cent in 1973 (Table 3). Of these countries, only Canada makes use of official export credits. The Commonwealth share in other types of non-ODA official flows was even smaller.

Turning to net private flows to developing countries, these also increased rapidly from 1972 to 1973 - by 29 per cent at current prices, from \$9,655 million to \$12,434 million. However, net private flows from Britain and Australia fell, even in nominal terms, and so the share of the four Commonwealth countries combined in the DAC total declined from 15.2 per cent in 1972 to 8.1 per cent in 1973 (Table 3).

As a result of the increase of private flows, the total net flow from all DAC countries to developing countries and multilateral agencies, official and private combined, amounted in 1973 to 0.79 per cent of GNP, the same as the average of the three preceding years. Britain exceeded the UN target level of 1 per cent for total flows in the three years 1969 to 1971, but registered 0.97 per cent in 1972 and 0.61 per cent in 1973. Canada reached a peak of 1.0 per cent in 1971, but declined to 0.98 per cent in 1972 and 0.93 per cent in 1973. Australia handsomely exceeded the 1 per cent target in 1970 and 1971, but registered 0.98 per cent in 1972 and only 0.55 per cent in 1973. Total net flows from New Zealand remained close to 0.37 per cent of GNP in the four years 1970 -73.

### Terms

From DAC members as a group, the terms of ODA softened further, from a grant element of 84 per cent in 1972 to one of 87 per cent in 1973.<sup>1</sup> These terms applied to total commitments which were, at \$13.0 billion, over 10 per cent higher in current prices and exchange rates than in the previous year. Grant commitments rose by 16 per cent from \$7.4 billion to \$8.6 billion while loan commitments showed only a 2 per cent increase from \$4.3 billion to \$4.4 billion. The share of grants thus rose from 63.1 per cent in 1972 to 65.5 per cent in 1973. There was a marked softening of the grant element of loans from 57 per cent to 61 per cent and the average interest rate fell from 2.7 per cent in 1972 to 2.4 per cent in 1973, maturity was raised from 29.5 years to 31.5 years while the grace period fell slightly from the 1972 level of 7.8 years to 7.6 years.

The 1972 Terms Target of an average grant element of at least 84 per cent in their ODA programmes was met in 1973 by 13 out of 17 DAC countries (see Table 12), and of the 13, seven increased the degree of concessionality from the levels attained in their 1972 ODA programmes. Of

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1. The definition of grant element is given in the footnote to p. 3.

the remaining 4 countries Italy, despite the special problems of its economic structure, softened the terms of its (relatively small) programme from a grant element of 59 per cent to 69 per cent, while Japan raised its grant element from 61 per cent to 68 per cent.

The ODA programmes of the Commonwealth members of DAC remain among the most concessional, though the grant element of the Australian official aid fell slightly from 100 per cent to 99.4 per cent and Canada also recorded a fall in its grant element from 96.8 per cent to 94.1 per cent. Britain showed some improvement in the overall concessionality of its ODA with an increase in the grant element from 85.7 per cent in 1972 to 87.1 per cent in 1973. For New Zealand, the grant element was about 99 per cent in 1973. At the same time, it may be noted that for Australia and Britain there was a sharp fall in ODA commitments as a percentage of GNP, with Australia declining from 0.75 per cent to 0.56 per cent in 1973 and Britain from 0.59 per cent in 1972 to 0.45 per cent in 1973. However, ODA commitment from Canada increased sharply from 0.54 per cent of GNP in 1972 to 0.75 per cent in 1973, while for New Zealand the corresponding figures were 0.30 per cent in 1972 and 0.34 per cent in 1973.

#### Inflation and terms of trade developments

While total aid flows have decreased, at any rate in 1973, there has been a marked increase in recent months in the needs for aid of many developing countries. Global economic relations have undergone very significant changes, and the prospects for the economic and social progress of many developing countries have been seriously jeopardised. Changes which have taken place in the international scene include the re-alignment and floating of exchange rates, accelerated inflation accompanied by rapid rises in the prices of industrial exports, dramatic increases in petroleum prices, and shortages of foodgrain and fertilizer. In 1974, high prices for imports were offset, in many developing countries, by the sharp rises which had occurred in the prices of the primary commodities which they export. However, with gathering recession in the industrialized countries, there are indications that prices of many of the stable exports of developing countries will fall back, while prices of manufactured goods, petroleum and certain other imports into developing countries will remain high, leading to a renewed deterioration of many of these countries' terms of trade.

The impact of these developments is far-reaching. According to World Bank estimates, it is likely that GNP growth in many developing countries will fall below 6 per cent per year over this decade, while for the poorest and most populous countries the rate of growth will either stagnate or rise very little between now and 1980. These estimates suggest that, if even moderately acceptable rates of growth are to be achieved, there will have to be a substantial increase in the flow of external resources to developing countries. These countries are estimated to require \$2,600 million of additional long-term external capital in 1974 and about \$6,800 million in 1975 (World Bank Annual Report, 1974) after drawing on their own reserves and on the IMF Oil Facility.

Various moves have been made to stimulate the flow of funds, both concessional and otherwise. Following the UN General Assembly's Sixth Special Session in April-May 1974, a "special programme" was established by the UN, which consists of the UN Emergency Operation and a "special fund" for emergency relief and development assistance. The Emergency

Operation has tried to mobilize additional bilateral funds as well as provide assistance from resources specially made available to it by a number of industrialized and oil exporting countries. The most severely affected countries, eligible for assistance from the Emergency Operation, include nine Commonwealth countries, namely Bangladesh, Ghana, Guyana, India, Kenya, Lesotho, Sierra Leone, Sri Lanka and Tanzania. Under the second part of the UN Special Programme, a number of international organisations, including the IMF, UNDP, UNCTAD and FAO, have assisted a UN Committee in formulating recommendations for setting up a "special fund" for emergency relief and development assistance.

Summary details of the United Nations Special Programme (UNSP) and the IMF Oil Facility set up to provide emergency financial relief to the most severely affected countries can be found in Annexes I and II.

The European Economic Community, which has signed a new agreement (not yet ratified) with 46 African, Caribbean and Pacific countries<sup>1</sup>, providing for financial assistance from a European Development Fund over the five years of the Convention of 3,000 million units of account,<sup>2</sup> has also been considering proposals for increased assistance to other developing countries. As regards the UN Emergency Operation, the Community has offered to provide up to \$500 million of the United Nations target sum of \$3,000 million on condition that other developed and oil-producing donors contribute commensurate amounts. In October 1974, the Council of Development Ministers agreed in Luxembourg to make a first contribution of \$150 million to this Fund, and early this year the Community agreed to contribute another \$100 million out of the EEC budget, bringing the total so far to \$250 million. The balance of \$250 million is expected to be provided by the Community members through bilateral and other channels.

### Food Crisis

The difficulties faced by most developing countries as a result of energy price increases and general inflationary trends in the world economy were further compounded by a serious deterioration in the world food situation in 1972-73. Rising demand in both the developed and developing

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1. Including 22 Commonwealth countries: The Bahamas, Barbados, Botswana, Fiji, The Gambia, Ghana, Grenada, Guyana, Jamaica, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Sierra Leone, Swaziland, Tanzania, Trinidad and Tobago, Tonga, Uganda, Western Samoa and Zambia.
  2. This will include 375 million units of account under the new scheme for export earnings stabilisation. In addition, a further 390 million units of account will be available in the form of loans at concessional terms from the European Investment Bank.

countries and poor harvests due to drought over vast areas brought the world's cereal stocks to the lowest level in 20 years and resulted in fiercely rising food prices in 1973 and 1974. While many developing countries suffered from food shortages, the cost of food imports by developing countries is estimated by FAO to have risen to \$11,000 million in 1974 from \$4,000 million in 1971. Some developing countries were also faced with additional difficulties because of the shortages and high prices of fertilizers.

With food scarce and costly, the volume of food aid was drastically reduced in 1973. Food aid as a percentage of total ODA has been declining for some years. Between 1963 and 1972, DAC countries' bilateral and multilateral contributions in the form of food aid amounted, on average, to \$1.3 billion a year, representing about 19 per cent of total ODA; the comparable figure for 1971 - 73 was only 15 per cent. While the nominal value of food aid in 1973 declined only marginally to \$1.1 billion, its real value fell by 51 per cent as compared with 1972 due to sharp rises in food prices which had remained relatively stable in earlier years. The volume of cereals - the principal commodities supplied under food aid - dropped to 6 million metric tons from 11 million metric tons in the previous year.

The biggest decline was in the food aid supplied by the United States whose share fell to 55 per cent of the total in 1973, compared with the average of over 85 per cent during 1963-72. The remainder of the food aid in 1973 was provided by the EFC countries (23 per cent), Canada (9 per cent), Japan (9 per cent) and other countries (4 per cent). Most food aid in recent years has gone to low and middle-income countries in Asia, with Bangladesh, India, Pakistan, Republic of Korea and Vietnam as the principal recipients, though the geographic distribution is being considerably extended.

Although food aid has been criticised as distorting trade in food and adversely affecting production in recipient countries, it does make a positive contribution to the development efforts of poorer countries, for example, by releasing foreign exchange for other purposes. There have been advances in production in many deficit countries with some major importing developing countries becoming self-sufficient but the scope for food aid is not expected to diminish in the course of the present decade. According to FAO projections, the excess of effective demand for food which cannot be met from domestic production or imports in developing countries, is expected to be about \$2,200 million in 1980. Even if this projected demand were fully met, some 42 countries with 1,440 million inhabitants would have average calorie intakes below requirements which means that supplies of protein foods must also be increased for the improvement of nutrition.

Apart from the exceptional difficulties of 1972-73, the long term trends of agricultural production in the developing countries are giving rise to considerable concern. The strategy for the Second United Nations Development Decade calls for a 4 per cent average annual increase in the agricultural output of the developing countries. In 1971, however, there was only a 1 per cent gain and a stagnant position in 1972. Per caput food production in the developing countries as a whole is now below the average level of 1961-65 with a particularly sharp fall in the heavily populated Far East region (including Southeast Asia). Many developing countries continue to be extremely vulnerable to shortages as for example the Sahelian

zone of Africa, where as a result of the prolonged drought, famine continues to threaten more than 6 million people. In spite of the growing burden of food imports for the developing countries, currently estimated at about 14 per cent of their total imports, as well as significant advances in production in some countries, practically nowhere in the developing world are the minimum calorie requirements satisfied, the deficiency being greatest in Asia, the Far East and Africa.

The recent crisis has sharply underlined the need for giving greater attention to increasing agricultural production in developing countries as well as the necessity, for all countries, of having a sufficient margin of security to deal with unexpected shortages. The report of the World Food Conference, held in November 1974, concluded that if developing countries were not to increase beyond present levels their dependence for food on a small number of developed countries, "they must aim to raise their food production growth rates on a sustained basis above the recent trends, by over 50 per cent in Africa, over 40 per cent in Asia and the Far East, 30 per cent in the Near East and nearly 25 per cent in Latin America". Even if these efforts were successful, the 4 per cent target for annual increase in agricultural production in the second Development Decade would not be fully realized.

The World Food Conference also considered an action programme including measures for increased food production in the developing countries, policies and programmes for improving consumption patterns in all countries, the strengthening of world food security, specific objectives and measures in the area of international trade and adjustment to the food problem, and arrangements for follow-up action. The four principal recommendations of the Conference were as follows:

- (i) the establishment of a world food council which would co-ordinate the activities of various international agencies for policies concerning food production, nutrition, food security and food aid;
- (ii) the creation of an international fund for agricultural development to channel investment towards the improvement of agriculture in the developing world, with contributions to come on a voluntary basis from developed and developing countries;
- (iii) agreement on an International Undertaking on world food security based on a co-ordinated system of nationally held cereal reserves supported by a world wide food information and food shortage detection service;
- (iv) the commitment to use their "best endeavours" to provide on a 3 year forward planning basis, commodities and financing for food aid to a minimum level of 10 million tons cereals each year plus certain other food commodities.

There remains doubt as to whether the new fund for agricultural development and commitment to provide commodities and financing for food aid will get off the ground as the US and other developed countries, including

the EEC, have indicated that they would prefer to channel their resources through existing institutions such as the World Bank. And yet, in the words of the DAC Chairman, "Somehow developing countries must find the means to obtain the food they need, or they must be helped to achieve their food producing potential. The answer to this basic problem will determine the evolution of relations among the rich countries and the Third World Countries".<sup>1</sup>

The importance of practical measures, both by the developed and developing countries, to increase agricultural production and improve the related sectors in developing countries was further stressed in Commonwealth consultations during the World Food Conference. This led to a meeting in March 1975 of Commonwealth Ministers concerned with agricultural and rural development in the developing countries and those responsible for aid in the developed countries of the Commonwealth. The meeting considered ways and means of utilising more effectively the experience and resources of Commonwealth countries, particularly in agricultural and management skills and in research and training, for supporting development priorities in the agricultural and rural sectors. It recommended that developing Commonwealth countries should strengthen and adapt their institutions for rural development with particular attention to be paid to land reforms, to inputs such as fertilizers and water, to the pricing of farm products and to helping farmers to improve their techniques. The meeting also stressed the need for increased international assistance for rural development and adopted a proposal that the Commonwealth Secretariat should set up a new division concerned with agricultural and rural development to intensify the Secretariat's existing involvement with technical assistance in this area.

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1. Development Co-operation, 1974 Review, Report by M.J. Williams, Chairman of the DAC, OECD, November 1974.