

CHAPTER I

THE COMMONWEALTH AND INTERNATIONAL DEVELOPMENT AID

The developing countries of the Commonwealth contain 44 per cent of the population of all developing countries; and 80 per cent of the population living in the poorest countries - that is those with an average annual per capita income of less than \$200. The flows of official development assistance (ODA)¹ and other resources to the non-oil developing countries do not reflect this predominance of Commonwealth countries among the world's poor. To illustrate, the net receipts of bilateral ODA from the DAC countries to the Commonwealth developing countries amounted to \$2.0 billion in 1974, just over 27 per cent of such flows to all non-oil developing countries in that year. When receipts of concessional flows from multilateral agencies are included with bilateral ODA, the Commonwealth developing countries received a combined total of \$2.8 billion in 1974 representing 30 per cent of the total of such receipts by all non-oil developing countries. In the overall net flow of total resources from DAC countries and multilateral agencies, the non-oil developing countries received \$24.7 billion in 1974 of which the Commonwealth developing countries received \$3.3 billion, or 13 per cent. These 1974 net flows of total resources to Commonwealth developing countries financed just over 50 per cent of their estimated combined current account deficit, whereas in 1973 the flows covered most of the deficit. This is a measure also of the growing disparity between the needs for resources and the flow of such resources, a problem which, in the absence of counter-vailing forces, will loom very large in future years, not only for Commonwealth developing countries but for all developing countries.

The historical association between the countries of the Commonwealth and their frequent contacts in relatively small meetings at multilateral and other levels inevitably generates a keen awareness by all Commonwealth countries of the vital role which aid plays in the development process of large and small developing countries and the need for greater aid flows; this awareness can naturally be expected to influence both the size and direction of the aid effort of Commonwealth donor countries. To some extent this awareness appears to be reflected in the aid performance and in the direction of aid in 1974, although, as will become apparent, the quantum of aid flows clearly needs to be reappraised in the light of existing and expected circumstances.

¹ODA 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 7½ per cent have grant elements of around 25 per cent depending on their maturity and grace periods). Net ODA disbursements mean disbursements net of amortization - that is to say repayments on account of similar transactions in the past. If transactions are recorded net of interest as well as net of amortization, the term "net ODA transfer" is used.

The Commonwealth donor countries which are members of the Development Assistance Committee i.e. Britain, Canada, Australia and New Zealand disbursed (net) \$1.9 billion in ODA in 1974; in current dollars, this was 33 per cent above the level of disbursements in 1973; in real terms however, there was virtually no increase. The aid performance by the Commonwealth donor countries was better than that of other DAC countries as a group¹. The share of Commonwealth donor countries in total net ODA disbursements by all DAC members in 1974 was 17 per cent, as compared with an average of 15 per cent during 1970-73 even though their aggregate GNP comprised 12 per cent of the total GNP of all DAC countries. Nevertheless, when measured against the UN aid target of 0.7 per cent, Commonwealth donors as a group recorded a ratio of 0.45 per cent in 1974 and an average of 0.41 per cent in 1970-73.

Approximately 70 per cent of Commonwealth ODA was in the form of bilateral aid in both 1973 and 1974; and in 1974 as in past years there was a strong concentration of bilateral Commonwealth aid to Commonwealth recipient countries. Just over 70 per cent of Commonwealth bilateral ODA went to Commonwealth countries in 1974. What emerges from the data is that whereas Commonwealth donor countries in 1974 maintained the broad distribution of ODA disbursements between multilateral flows and bilateral flows and also the Commonwealth and non-Commonwealth distribution of bilateral ODA, the other donor countries did not follow this pattern.

The data given above refer to ODA disbursements. ODA commitments by Commonwealth DAC countries also increased in 1974 over 1973. Total commitments by the four countries amounted to \$2.4 billion and these comprised 0.57 per cent of their aggregate GNP, a figure which although higher than the ratio in 1973 was still some considerable distance away from the 0.7 per cent aid target. Commitments of ODA from these countries in 1974 maintained the high degree of concessionality that has characterised Commonwealth flows of ODA and the average concessional element in 1974 commitments was 72.2 per cent.

In 1974, ODA comprised just over 40 per cent of the net flow of resources from Commonwealth DAC countries. More than one half of the flow of resources consisted of private foreign investment including guaranteed private export credits, the remainder being other official disbursements. Private and direct foreign investments from Commonwealth DAC countries to all developing countries almost doubled in current dollar terms between 1973 and 1974 to reach \$2.4 billion in the latter year; and partly as a result of this, the total net flow of resources from Commonwealth DAC countries amounted to \$4.6 billion, nearly 17 per cent of the \$27.6 billion which flowed from all DAC countries to all developing countries in that year.

¹The increase in total net flows of 30 per cent is attributable largely to the emergence of OPEC countries as a new category of donor in 1974; if OPEC countries are excluded, total net ODA flows in current dollars increased by 21 per cent in 1974 over 1973.

DAC Countries - In 1974, the DAC countries provided \$ 11.3 billion as net official development assistance, a 21 per cent increase over the 1973 figure of \$ 9.4 billion and a 30 per cent increase over the 1972 amount of \$ 8.7 billion. In real terms, ODA flows remained at about the same level as that of 1973 since the prices of goods and services financed by aid are estimated to have also increased by just over 21 per cent. Total net disbursements in current dollars from DAC countries, as a percentage of their collective GNP, increased to 0.33 per cent in 1974 from 0.30 per cent in the previous year, the first significant reversal in the downward trend recorded so far in the 1970's. Thirteen DAC members¹, including the four Commonwealth countries, contributed to the improvement in the net ODA/GNP ratio in 1974. Sweden became the first DAC member country to attain the 0.7 per cent target.

OPEC Countries - While the DAC countries remained collectively the largest source of bilateral and multilateral aid for developing countries, a number of OPEC countries emerged in 1974 as major aid providers. Revised estimates by the DAC Secretariat show that \$ 2.2 billion of economic assistance was disbursed in 1974 by OPEC countries to other developing countries and multilateral organisations as compared with \$ 0.5 billion in 1973. Their assistance was however, concentrated on a small number of countries, with four countries (Egypt, Syria, Pakistan and India) accounting for nearly 78 per cent of bilateral disbursements by OPEC countries in 1974. The bulk of their multilateral assistance on concessionary terms was also concentrated on the recently established Arab/Islamic institutions. Net ODA provided by the major OPEC donors amounted to 1.4 per cent of the combined GNP, twice the UN target for such aid.

¹ Australia, Canada, New Zealand, United Kingdom, Austria, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden and the United States. All these countries, except the United States, have now accepted the 0.7 per cent target - Belgium, the Netherlands, Norway and Sweden without reservation; Australia, Denmark and New Zealand with a target date after middle-decade; Canada, Finland, France, Germany, Japan and the United Kingdom without a target date, though Canada and France are likely to reach the target before the end of the decade. Besides the United States, the DAC countries which have not yet accepted this target are Austria, Italy and Switzerland.

Centrally Planned Economies - Flows of concessional assistance from the centrally planned economies rose from \$1.1 billion in 1973 to \$1.3 billion in 1974. A salient feature of this group of countries is that while the share of China in these flows is continuously rising the share of Eastern Europe is rapidly declining. Another feature is the increased orientation in recent years of Soviet and Eastern European aid to the stimulation of export-oriented output with emphasis on the creation of complementarities in the production structure and on the promotion of export lines which would have markets in the centrally planned economies. The bulk of the aid from the centrally planned economies is directed towards four countries - North Vietnam, Cuba, Yugoslavia and Tanzania.

ODA Disbursements (Net) US \$ Million

	<u>1973</u>			<u>1974</u>		
	<u>Bilateral</u>	<u>Multilateral</u>	<u>Total</u>	<u>Bilateral</u>	<u>Multilateral</u>	<u>Total</u>
DAC Countries	7,110	2,268	9,378	8,256	3,060	11,316
o/w Common-wealth	1,075	358	1,433	1,425	480	1,905
OPEC Countries	n.a.	n.a.	500	1,873	351	2,224
o/w Nigeria	n.a.	n.a.	n.a.	2	9	11
Centrally planned economies	n.a.	n.a.	1,100	n.a.	n.a.	1,250
Total	<u>7,110</u>	<u>1,910</u>	<u>10,978</u>	<u>10,129</u>	<u>3,411</u>	<u>14,790</u>

Source: Development Cooperation, 1975 Review OECD, Paris.

Composition of ODA

Almost two-thirds of net ODA disbursements from the DAC countries in 1974 was provided in the form of grants. Total ODA grants (including capital subscription payments to multilateral agencies) from these countries increased by 25 per cent from \$6.6 billion in 1973 to \$8.3 billion in 1974 and the percentage of grants in total ODA rose from 71 per cent to 74 per cent. Almost half of the increase resulted from larger grants to multilateral agencies from DAC members whose net disbursements to these agencies rose in current dollars from \$2.2 billion to \$3.0 billion.

As for the bilateral grants from the DAC countries, technical assistance increased by 10 per cent to \$2.5 billion, a nominal increase which in fact implied a stagnation in real terms; while food aid rose by some 34 per cent to \$1.5 billion in current prices, much of the nominal increase being the result of higher prices.

Terms and Commitments of ODA

DAC Countries - The terms of new ODA commitments hardened slightly in 1974. The share of grants in new commitments fell from 66.2 per cent in 1973 to 64.9 per cent in 1974, while at the same time loan terms hardened significantly, their grant element falling from 63.0 per cent to

60.3 per cent. The 1972 Recommendation on Terms of Aid states that ODA commitments to the least developed countries "should preferably be in the form of grants and the average grant element of all commitments from a given donor either be at least 86 per cent to each least developed country over a period of three years, or at least 90 per cent annually for the least developed countries as a group". All DAC members except Italy have committed themselves to the 1972 Terms Target¹ of a grant element of 84 per cent in their individual ODA programmes. In 1974 the DAC members collectively achieved a grant element of 87.0 per cent, compared with 87.5 per cent in 1973. These terms applied to total commitments which were, at \$14.9 billion, 15 per cent higher in current prices and exchange rates than in the previous year.

The 1972 Terms Target was met in 1974 by eleven countries, including the four Commonwealth members, whose ODA programmes remain among the most concessional (Table 10). Canada and New Zealand were among the 6 countries² which raised their grant element above the level reached in 1973, while Australia and the United Kingdom remained at or close to the levels of concessionality recorded in the previous year.³

OPEC Countries - The financial terms of OPEC countries' concessional aid commitments appear to be less concessional than those of DAC countries; the grant element in 1974 commitments is estimated to be about 65 per cent compared to 87 per cent for DAC countries. However, the volume of commitments by OPEC countries rose very sharply to \$5.3 billion in 1974.⁴

Centrally Planned Countries - The concessional element in the assistance provided by the centrally planned economies, particularly the USSR, is also estimated to be appreciably lower than the DAC aid. The bulk of commitments by China, however, continued to be provided in the form of long-term interest free loans with grant elements varying between 75 and 85 per cent, though the share of grants in 1974 dropped to less than 5 per cent from almost one fifth in 1973.

Total Net Flow of Resources

Apart from net ODA, financial resources are also provided to developing countries directly or through multilateral institutions in the forms of "other official" and private flows. The total net flow of all external financial resources received in 1974 by the developing countries is estimated to have amounted to over \$40 billion, compared with some \$35 billion for the previous year, which suggests that the nominal increase was probably not large enough to have prevented a continuing decline in real terms.

¹Debt reorganisation or relief recorded as ODA (\$280 million in 1974) is excluded in assessing compliance with the 1973 Recommendation, but included in statistics of total ODA.

²Belgium, Canada, Germany, New Zealand, Norway and Sweden.

³Denmark, France and Netherlands were the other DAC countries to maintain the concessionality of their commitments at the 1973 level.

⁴Revised estimates by the OECD.

In recent years, there has been a trend towards a declining share of concessional funds in the total net flows, as the developing countries had to meet their growth of capital needs increasingly by non-concessional funds in the form of official and private export credits, bonds, bank loans and Euro-currency credits. This trend was, however, reversed in 1974, as the growth in non-concessional funds was relatively small, with the Euro-currency lending stabilizing at close to its 1973 level, while there were substantial increases in OPEC aid flows and in multi-lateral concessional assistance. The concessional funds, however, still remain only between a quarter and a third of total net flows.¹ Moreover, the terms of non-concessional funds hardened significantly in 1974.

The relative stagnation of other official and private flows in 1974 was not, however, fully reflected in bilateral flows from the four Commonwealth members of the DAC, though only Britain and Canada provide more financial resources as private and other official flows than in the form of ODA; Canada is also the only Commonwealth country which provides official export credits. As a percentage of GNP, total net official and private flows of the United Kingdom recovered in 1974 to 1.20 per cent, while Canada also exceeded the 1 per cent target by a considerable margin. Australia and New Zealand have still not reached the target but significant increases were recorded for both; total net official and private flows from Australia increased to 0.69 per cent of GNP and from New Zealand to 0.40 per cent.

Net Transfer of Resources

Available data on amortization payments by the developing countries suggest that the 1974 figure would be around \$ 14 billion or about one quarter of the gross flows (over \$ 50 billion). For DAC countries' ODA, the corresponding ratio was of the order of 12 per cent of gross ODA flows. As regards interest payments, and dividends, tentative estimates by the DAC suggest that these would have been about \$ 10 billion, of which only 7 per cent was bilateral ODA lending. Taking the amortization, interest and dividend payments together, it would appear that they accounted for nearly 44 per cent of gross flows, so that net transfer of resources were reduced to only 56 per cent of gross transfers.

Net concessional loans rose in nominal terms from \$ 2.7 billion in 1973 to \$ 3.0 billion in 1974 although they declined as a percentage of total ODA from 29 per cent to 26 per cent.

¹Including Euro-currency borrowing (net) which is estimated by DAC to be \$7.0 billion in 1974.

Aid and the Deficit of the non-Oil Developing Countries

While aid flows in current dollar terms recovered in 1974 from the low levels reached in 1973, the response must be seen in the context of the special difficulties which the non oil developing countries encountered as a result of the steep increases in the import prices of petroleum, manufactured goods and essential food on the one hand and the end of the short-lived boom for commodity prices and natural disasters which increased the need for food imports on the other.

ODA has never been a major source of foreign exchange receipts to the developing countries; but it has supplied a critical minimum volume of resources necessary to cover the balance of payments gap resulting from a positive increase in output in these countries. This gap has been of the order of \$ 9 billion to \$ 10 billion when growth rates averaged between 4 per cent and 6 per cent and ODA flows have been of this order of magnitude as well. But in 1974 countries with a per capita income of \$ 200 and over achieved a growth rate of only 4 per cent while those with incomes of below \$ 200 achieved no growth at all. As the deficits of all non-oil developing countries increased from \$ 11 billion in 1973 to \$ 41 billion in 1974, ODA flows covered only one third of the gap and the countries were forced to rely predominantly upon the short term market to finance their deficits. In 1974 their recorded borrowing from Eurobanking channels amounted to \$ 9.0 billion, their drawings from the IMF oil facility and other regular sources amounted to \$ 1.5 billion, with the remainder coming from a reduction in reserves and other unrecorded credits.

This accumulation of substantial debt, much of it short-term, does not provide a durable solution to the balance of payments deficits which the non-oil developing countries encountered in 1974 and which, according to estimates made by the World Bank and the IMF, based on negligible growth rates, are likely to persist at 1974 levels in the foreseeable future. It is clear therefore that unless new initiatives are forthcoming early to increase the assured flows of foreign exchange on free or concessional terms to these countries, the prospects for avoiding stagnation in the poorest and most populous countries of the world do not appear to be very promising.

Discussions have been taking place over the past few years on specific devices which would increase the foreign exchange earnings and receipts of the developing countries and cushion such foreign exchange receipts in times of temporary export shortfalls. Some of these devices will be considered at the forthcoming UNCTAD IV meeting, among them being commodity arrangements, improved compensatory financing schemes and better access to markets for manufactured goods produced in the developing countries. This is the area where the final solution lies. But it is not yet clear whether even these discussions have fully come to grips with the qualitative and quantitative change in the balance of payments position of the non-oil developing countries which is now set in the frame of \$ 30-35 billion. Further, it must be recognized that even if early agreement is reached on the main issues involved - and this is by no means assured - the negotiations of the details will take some considerable time; besides if the developing countries are to be able to exploit any new opportunities which might emerge from the on-going negotiations, they will require an adequate and assured flow of foreign exchange to enable them to establish the required infrastructure to exploit them.

Food Aid

The food situation which developing countries encountered in 1974 continued to be serious; the weather in some areas, fertilizer shortages in others and other difficulties reduced per capita food production in 1974 to 1 per cent below the 1973 level, a year in which food production was also relatively low. The FAO estimates that the decline in cereal production in 1974, the staple food in poor countries, was of the order of 40-50 million tons, 3 per cent of the 1973 output. In North America and Oceania, traditionally large food exporters, and in the populous Far East, declines of 3 per cent per head in food production were recorded; these declines were only partially offset by increases of 2 per cent per head in Western Europe, Latin America and Africa, and by 4 per cent in the Near East. Developing shortages of pesticides also threatened the recovery of production in 1975.

Food import prices, particularly cereals, were very high in 1974, and the necessity to import food contributed to the burgeoning balance of payments deficit of the net importing countries. In these circumstances the decline in food aid, which continued in 1974, was particularly serious.

Levels of food aid in cereals and other commodities

	1960/61- 1964/65 average	1965/66- 1969/70 average	1970/71	1971/72	1972/73	1973/74
(.....thousand tons.....)						
Wheat	12 959	10 629	9 487	7 985	5 962	5 116
Coarse grains	1 264	1 831	1 164	1 391	1 467	862
Rice	582	921	2 021	2 273	1 550	906
Cereals	14 805	13 381	12 672	11 649	8 979	6 884
Edible oils & oil seeds	392	348	379	380	219	202
Dairy products	318	227	176	141	116	104

(Source: FAO)

The solution to the food problem faced by developing countries lies in assisting them to produce as much food as they can, to reduce losses of food in harvesting and storage in food deficit areas and in expanding their export earnings to enable them to purchase any deficiencies they may experience. Many donor countries, some of which recently took the decision to concentrate their aid on the poorer countries, have also decided to give priority in their capital aid programmes to agriculture and rural development generally; to some extent, this is reflected in 1974 aid flows where in current dollar terms, capital aid commitments from DAC bilateral and multilateral agencies increased by 40 per cent over 1973 as compared with an increase of 33 per cent for all aid; but the aid effort as a whole was not particularly high in 1974.

Given the size of the food deficit that faces the populous developing countries even at their present low calorie intake, it is clear that a sustained effort is required to establish the basic preconditions for an adequate food supply. In addition to physical works designed to improve conditions of cultivation, a considerable amount of new research is required to deal with the semi-arid areas and the problems of economic food storage systems under tropical conditions; research and development effort is required in the developing countries to facilitate progress in the area but productive results from these efforts will necessarily take some considerable time. Unless, therefore, special arrangements are concluded which would increase the foreign exchange earnings of the non-oil developing countries to enable them to import the additional food that they require under current market conditions, and which they will continue to need until their own production reaches the desired level, the indications are that the scope for food aid cannot be expected to diminish in the course of the present decade.

The World Food Council, which was established in the light of the most recent food crisis, has a fixed minimum annual target of 10 million tons of food aid, and some Commonwealth countries have promised support for the Councils' efforts. Commonwealth countries have also given ministerial consideration to the question of providing an adequate food supply in net importing Commonwealth countries; they decided to establish a separate division in the Commonwealth Secretariat to advise and assist developing countries to benefit from their common experience in food production and storage and rural development generally and so reduce their dependence on food aid. These efforts will complement other efforts at the national, regional and international levels to deal with the very serious problem of the food crises and ensure minimum dietary levels for the population of developing countries.