AID AND THE COMMONWEALTH

INTRODUCTION

Observations by the Commonwealth Secretary-General

The Commonwealth relationship in aid

The Commonwealth relationship remains highly significant in relation to aid. Seventy per cent of bilateral disbursements of official development assistance in 1973 (net of repayments) from the major Commonwealth providers of such assistance - Britain, Canada, Australia and New Zealand-went to Commonwealth recipients.

Commonwealth developing countries receive 36 per cent of their net inflow of official development assistance bilaterally from the four Commonwealth members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development listed in the preceding paragraph. They receive a further 20 per cent from multilateral agencies, which in turn obtain from the four Commonwealth DAC members about 15 per cent of the resources provided to them on concessionary terms by all DAC countries. The remaining 44 per cent of the net inflow of official development assistance into Commonwealth developing countries comes bilaterally from non-Commonwealth sources.[1]

In 1973 Britain, Canada, Australia and New Zealand, with about 12 per cent of the total GNP of DAC members, contributed 15.2 per cent of the net flow of official development assistance from DAC countries.

Multilateral aid, the CFTC and the Commonwealth Investment Bank proposal

About 75 per cent of net Commonwealth aid in 1973 was bilateral and some 25 per cent went through multilateral agencies such as the World Bank

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1. The figures for the distribution by sources of the net inflow of official development assistance into Commonwealth developing countries relate to assistance from DAC bilateral sources and through multilateral agencies in 1971-72. Bilateral aid from the centrally planned economies has remained a rather small part of the overall picture, and aid to Commonwealth countries from petroleum-exporting countries was not a major element during the period covered by this report.

Group and UNDP. These agencies, although they are important sources of assistance for Commonwealth developing countries, are of course outside the Commonwealth framework. The Commonwealth's own multilateral aid agency, the Commonwealth Fund for Technical Co-operation (CFTC), remains relatively small but has been growing rapidly. At their meeting in Ottawa in August 1973, Commonwealth Heads of Government stated their intention "...to make maximum use of the Commonwealth machinery to put the principles of the Commonwealth Declaration into practice and to accelerate the pace of social and economic development among the less affluent members."[1] In this spirit, contributions to the CFTC have been greatly increased, and the Fund's total expenditures are expected to increase from £615,000 in 1972-73 to £1,375,000 in 1973-74. One of the objects of Commonwealth assistance activities is to get away from a division of the world into "donors" and "recipients". Developing Commonwealth countries contribute to the resources of the CFTC and, perhaps more important, almost half of the long-term experts provided by the Fund have come from Commonwealth developing countries.

At the Commonwealth meetings of Heads of Government and Finance Ministers in 1973, the Governments of Kenya and Jamaica made proposals for the establishment of a Commonwealth Development Bank or Finance Corporation. A group of experts from six Commonwealth countries, convened to consider these proposals, agreed in July 1974 on an outline for a Commonwealth Investment Bank to help Commonwealth countries to mobilize finance from various sources for directly productive enterprises, especially public enterprises and public-private joint ventures. The Bank would need to take a financial participation in the investments, but its own contribution would typically be fairly small and the emphasis would be on putting together financial packages drawing, possibly, on a number of sources. The Bank's own funds would come from initial paid-up capital, supplemented by borrowing from a variety of sources, private as well as public. The experts considered that the initial paid-up capital could be kept quite small, thus allowing the contribution from public authorities in developing countries to outweigh that from public authorities in the industrialized Commonwealth countries and, here again, eliminating any sharp distinction between "developing" and "developed" countries. The 1974 Commonwealth Finance Ministers' Meeting requested the Secretary-General to organize further investigations of the desirability and feasibility of a Commonwealth Investment Bank along these lines. These investigations have been pressed ahead as urgently as possible, and I hope that the Commonwealth Heads of Government Meeting in April-May 1975 may be able to take a decision in principle on the establishment of such a Bank.

Aid volume trends

Thirty years after the end of the Second World War, official development assistance - $9,408 million from the DAC countries, net of repayments, in 1973 - still remains an important element in the international economic scene. However, the more affluent countries have shown rather little

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1. Final Communique of the meeting, paragraph 5.

disposition to increase their aid in real terms as they themselves have grown richer. According to the DAC figures, the total net flow of official development assistance from all DAC countries increased by less than four per cent in real terms between 1963-65 (average) and 1971-73 (average). That is, less than four per cent over the entire period, not per annum. Thus real net aid per head of population of the developing countries has actually declined. During the same period, the more affluent countries of the Commonwealth increased their net aid by 40 per cent; but this was made up by a somewhat more rapid increase of Australian aid and a very much more rapid increase of Canadian aid (though from a relatively low proportion of Canadian GNP in 1963-65), while British aid has decreased in real terms over the period considered. As a proportion of the GNP of the DAC countries, the net flow of official development assistance has progressively declined, from 0.51 per cent in 1963 to 0.30 per cent in 1973. By contrast, the total net flow to developing countries of private loans and investments has tended to increase in relation to the aggregate GNP of the DAC countries, so that the total flow, official and private combined, has remained relatively constant in relation to total DAC GNP, at a little below 0.8 per cent in most years.

In real terms - that is to say, after allowance for the rapid price increases - the total net flow of official development assistance from the DAC countries as a group appears actually to have decreased by some 15 per cent in 1973 by comparison with the previous year. There appears to have been a similar, or somewhat larger, year-to-year decrease in the volume of net bilateral intra-Commonwealth aid. This was, however, somewhat offset by an increase in real terms of Commonwealth contributions to multilateral agencies which, as has been seen, are an important source of aid for Commonwealth countries.

The decrease in the real net flow of aid in 1973 was no doubt due in large part to failure to allow, in setting aid programmes in money terms, for the rapid increase of inflation. According to the estimates by the DAC Secretariat, prices of aid-financed goods and services rose by 10 per cent from 1971 to 1972, but by 27 per cent from 1972 to 1973. The price increase was particularly great - 80 per cent from 1972 to 1973 - for the food aid component. However, while failure to make sufficient allowance for the erosion of aid purchasing power by accelerating inflation was part of the story, it also appears that, at any rate in some countries, provision of aid may have been restricted as part of the effort to reduce inflationary pressures.

The governments of the affluent, industrialized countries have been wrestling with major problems of inflation, onset of recession, large increases of the prices of major imported goods and widespread unprecedented current account deficits as the inescapable counterpart of huge current account surpluses in several petroleum-exporting countries. In these circumstances, there is a danger that other industrialized countries may follow the United States into a state of aid-weariness. Aid is in any case an easy target for governments which feel the need to curtail government expenditures or foreign exchange costs.

Increased aid needs

On the other side of the account, many developing countries are in acute need of increased assistance. In 1973 and part of 1974, many developing countries, though by no means all, enjoyed relatively favourable terms of trade as a result of the major price rises for a wide range of primary commodities. More recently, the prices of imported petroleum, food, fertilizers, plant and machinery and other manufactured goods have remained high or have continued to rise, while prices of a wide range of primary products have fallen back. It must be a subject of particular concern that seven Commonwealth countries - Bangladesh, India, Kenya, Lesotho, Sierra Leone, Sri Lanka and Tanzania, with total population of 700 million, were included in the original United Nations list of the countries most severely affected by these developments. It was stated at the time that this list was probably incomplete, due to shortage of data on other countries.[1]

The pressing need of many developing countries for capital inflow on suitable terms and conditions has thus increased at a time when the latest available figures indicate a sharp fall in real terms of the flow of aid from the DAC countries, which have hitherto been the main source of aid on concessionary terms. Available information indicates that several of the surplus-earning, petroleum-exporting countries are now making commitments of aid which are very much larger in relation to their GNP than the flows of aid from the DAC countries. However, it is not clear how quickly the new commitments will be translated into an actual flow of resources, or the extent to which aid from the petroleum-exporting countries will be available to some of the countries which most need increased external resources.

There has been growing disillusion with aid in many of the developing countries which receive it as well as in many of the more affluent countries which provide it. Spokesmen of developing countries emphasize a strong preference for measures which would increase their export earnings and make them more secure, thus reducing or even eliminating the need for aid provided at the discretion of the "donor" countries, and on terms and conditions decided by them. There is undoubtedly much which could be done to improve the trading situation of developing countries. In the meantime, the need for concessionary aid, and for an increase in the provision of such aid, is acute.

Prospects for Commonwealth aid

In these circumstances, it is encouraging that the more affluent Commonwealth countries have set themselves targets for increase of their aid programmes. In 1974, Britain accepted in principle the target, advocated in the UN, of increasing net official development assistance to 0.7 per cent of GNP, though no time limit was set for attainment of this target. Canada also accepts the 0.7 per cent target, but with no date specified. Australia is committed to reach this target by the end of the 1970s. New Zealand will seek to reach it by the 1975-76 financial year. I hope that Commonwealth governments will see their way, in spite of all present economic difficulties, to sustain these increased commitments to international co-operation for development.

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1. Of these most seriously affected countries, two - Lesotho and Tanzania - had figured on the earlier UN list of the least developed countries. This also included Botswana, Malawi, Uganda and Western Samoa - six Commonwealth countries in all with a total population of 29 million. If Bangladesh had been a separate country at the time, it might well have been included according to the criteria used in drawing up the list of the least developed.