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Overseas Resources Development Bill

Second reading debate, Thursday 24th April 1969

Brief by the Overseas Development Institute

1. The Bill relates to the Commonwealth Development Corporation and has two purposes. The first is almost a technicality - to raise the limits of the CDC's outstanding borrowing from the Treasury and other sources. The second is to allow the CDC to operate in future in countries where it cannot operate at present.

Extending sphere of operations of CDC.

2. When first created in 1948 the CDC was allowed to operate only in colonial territories and had to cease operations when a colony became independent. The Commonwealth Development Act of 1963 extended the sphere of operations to include British colonies which had gained independence since 1948 - this brought in all Commonwealth developing countries except India, Pakistan and Ceylon. Extension to cover India, Pakistan and Ceylon was recommended by the Estimates Committee last year*. The new Bill proposes to remove all geographical limitation so that it would be possible to operate in any country whatsoever. The Minister would have power, however, to give directions to the Corporation about it operating in any country other than British colonies. Under the 1963 act the Minister had the same power to give directions. It would be valuable to have an indication of how the Minister has used this power since 1963 and how he proposes to use it in respect of India, Pakistan, Ceylon and foreign countries.

The limit on borrowing.

3. The CDC operates mainly by the use of funds advanced to it by the Ministry of Overseas Development. These advances are counted as part of the British aid programme and fall within the ceiling for aid expenditure. Parliament votes the advances annually - £10 million is in the Estimates for 1969/70. The advances are provided for specific projects being undertaken by the CDC. They have to be repaid to the Treasury and fresh money has to be borrowed for new projects. In so far as CDC makes a profit over and above the repayments and interest due to the Treasury, this money is not repaid and is available for further investment without passing through government hands. Because the amount advanced by the ODM tends to rise to keep pace with the expansion of CDC's activities the amount of borrowing outstanding at any time also rises. It is this figure which is controlled by legislation. Consequently, new legislation is required from time to time to raise the ceiling for such borrowing. There is a similar but much smaller ceiling for borrowing from non-government sources.

4. The last lines of sub-section (1) and sub-section (2) of Clause 1 allow the Minister to raise the new limits further by means of a staturary instrument subject to affirmative resolution in the House of Commons. But this power is limited to a certain figure and if more is needed there will still be a need for an amending act of parliament in future. It is not clear why, if the next increase is to be made by statutary instrument, it is necessary to revert to normal legislation for any increase after that. The affirmative resolution procedure and the fact that parliament has to vote the funds for any given year would always ensure parliamentary control.

CDC and the aid ceiling.

5. The feature about the CDC most open to criticism is the manner of its financing in relation to the ceiling on aid expenditure. Advances to the Corporation count as part of the aid ceiling but repayments to the Treasury are not deducted. This is the case with all aid loans but there is an important difference between normal aid loans and advances to the CDC. Nearly all normal aid loans are given on soft terms and the value of repayments is therefore lower than the value of the original loan. In the case of the CDC, however (leaving aside the very small part of its operations on which interest is waived) the Treasury gets back all of its money together with a full commercial rate of interest. The rate of interest is in fact the rate at which the government is able to borrow the money plus a small margin. No loss therefore falls upon HMG and it therefore seems wrong to count the out-payments as aid without making allowance for the receipt of repayments. Only the difference between these two constitutes genuine expenditure. The effect of the present procedure is to exaggerate Britain's aid expenditure. This effect will be increased as the CDC's operations expand as recommended by the Estimates Committee and approved by the Minister*.

22nd April 1969.

* Seventh Report from the Estimates Committee 1967/8: Overseas Aid paragraph 104 (7)

Seventh Report from the Estimates Committee 1967/8: Observations by the Minister of Overseas Development. CMND 3976. Paragraph 14 - 16.