Britain's role in the second development decade

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Report of a Working Party sponsored by the Society for International Development (UK Chapter) and the Overseas Development Institute at the request of the UK Standing Conference on the Second United Nations Development Decade.

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Note
This document has been produced by a Working Party at the request of the Standing Conference. The views expressed in it do not necessarily represent the opinions of the Standing Conference or of any of its member organisations.

Introduction

As Chairman of the Executive Committee of the UK Standing Conference on the Second UN Development Decade I wish to thank the members of the Overseas Development Institute and the Society for International Development who undertook the work of producing this Report. They have expressed their views with clarity and precision, in a way which will ensure that they command the serious attention of everyone who is concerned about the problems of world development.

This document is being published at a time when the Third United Nations Conference on Trade and Development (UNCTAD 3) is meeting in Santiago. From the reports already received from that Conference it is apparent that there is still a credibility gap between the aspirations of the peoples of the Third World and the policies adopted towards them by governments of the industrialised countries. There is an urgent danger of that gap becoming so wide that it will no longer be possible to bridge it—with results that could be disastrous not only for the poorer nations but also, ultimately, for our own privileged part of the world. This Report does not pretend to contain all the answers to the problems of world poverty, but it does propose a number of practical steps that could be taken now by our own country towards narrowing the gap between declared intentions and actual policies. For that reason it deserves to be studied very seriously by everyone who wants to see Britain acting as an ally of the world's poor, rather than an obstacle to their progress, during the Second Development Decade.

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Foreword

This is the report of a working party sponsored by the Society for International Development (UK Chapter) and the Overseas Development Institute at the request of the UK Standing Conference on the Second United Nations Development Decade.

The working party included a range of informed opinion on development issues, and each of us took part in a personal capacity. Our report is therefore a broad consensus, and it does not necessarily reflect the views of any organisation represented or of each individual in every detail.

We acknowledge gratefully the assistance, as consultants, provided by officials of the Overseas Development Administration, Foreign and Commonwealth Office. They are, however, in no way responsible for the views expressed in our report.

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Britain's role in the second development decade

Lessons from the First Development Decade and Strategies for the Second

1. The achievements of the first Development Decade were extremely uneven. Ten years is not a long time in a nation's history; but in these last ten years some countries made remarkable progress; others did not. Many lessons can be learned from the experience of both. In the Second Development Decade (DD2) we have an opportunity to rectify and to explore alternative approaches. This is the urgent task for which the unanimously adopted UN International Development Strategy is designed.

2. The lessons of the first Decade can be divided into two main categories—those which derive from the development policies and performance within *developing countries;* and those relating to the policies of the *developed countries,* singly or collectively. Of course, these categories overlap, particularly where developed countries have urged less developed countries (LDCs) to adopt particular internal policies. But the division is useful, in locating primary responsibilities and in defining the type of assistance which is most urgently needed. The responsibility of *donor countries* is to adapt the terms and conditions of their aid in such a way as to ease, rather than complicate, the task of developing countries in their management of internal social change. Responsibility lies squarely with *developed countries* to modify their own trade, commercial and monetary policies.

3. In the first category, it may be worth highlighting four or five major lessons which will need particular attention in the Second Decade; this is not, of course, a complete list.

4. First, we have learned that the transfer of "developed country" technology, social institutions, standards (in education, medical service, administration, politics) and economic analysis works very unevenly, and often detrimentally in the very

different physical, technical, economic, and social systems of LDCs to which they are applied. Here the categories overlap, for both sides have made mistakes; it is often hard to say if a wrong choice was pushed by donors or demanded by recipients. Certainly, in DD2, far more thought needs to be given to adapting policies to the particular needs of individual countries and regions, and to their style and capacity for action.

5. Closely connected with this lesson is a weakness in administration and implementation in many LDCs arising from varied causes—overloading of the central government, shortage of skilled manpower in some countries, lack of training, sometimes over-sophisticated organisation. To manage development properly, each country must have institutions and procedures tailored to its own objectives and reflecting its individual physical and social conditions. Institutional change is a precondition for sustained development, and outside assistance may be needed for institution-building and to tide a country over periods of disruption caused by such reforms.

6. Administrative weakness emerges particularly in the key (and very difficult) subject of agricultural development. The failure to modernise the dominant agricultural sector not only holds up development in other sectors, but has detrimental effects on employment and on incomes, in the countryside where the mass of the poor live: the landless labourer, the small peasant, the sharecropper. This is a critical area for improvement in the '70s.

7. Low incomes, whether rural or urban, point to the next major issue, heavily underlined by the UN strategy—the gap between the relatively rich and the truly poor within developing countries, and the need for a direct attack on mass poverty.

8. Finally, there is the high rate of population growth, which in so many countries defeats a large part of the whole development effort.

9. These great issues lie primarily within the responsibility of developing countries. For it is clear enough that development, seen as a process of social, economic and political change, is in essence

a process internal to developing societies. It may be well to remember that, in seeking to achieve both rapid economic growth and greater social equality simultaneously, those countries which have adopted these objectives, and the developed countries which advocate them, are setting a particularly difficult task, hardly ever before achieved in history. The development of the rural economy and the creation of job opportunities are central to this task, and affect four out of five issues raised (suitable technologies and institutions; administration; employment and income distribution; agriculture itself). It is to these issues especially that aid should be far more closely adapted. In the pages that follow much is said about *forms* of aid which would be helpful in this field (local costs, technical assistance, suitable technology, research and development, administrative help). One of the outcomes of the move towards country programming by the United Nations Development Programme (UNDP) may, and should be, to achieve better *local* adaptation of aid policy to particular circumstances and needs, and this should be matched by stronger local expertise and discretion in bilateral aid, not least in UK aid administration.[1]

10. But without denying the primacy of internal development policies, the fact remains that LDCs also depend greatly upon the outside world, above all in trade, commerce and monetary policy, but also in many other areas. Here we move to the second category, where responsibility lies firmly with developed countries. Three main lessons are taken up in these pages. The first is the excessive burden of debt service to developed countries. The second is the over-centralisation and often arbitrary administration of aid itself. The third, and perhaps most important, is the disadvantage under which many developing countries labour in attempting to earn a living by international trade in a world dominated by a few developed countries. For instance, almost all institutions—e.g. the commodity markets, finance, insurance and shipping—are owned or managed by the developed countries, and developed countries keep the transformation of raw material into manu-

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[1]We hope that the weakening of British Missions in LDCs, resulting from the Duncan Report, can now be stemmed or reversed, since the temporary crisis which gave rise to it has passed.

factured product in their own control; and LDCs' exports have to compete with, directly or indirectly, protected production in developed countries. In fact, the rules of the game have mainly been set by developed countries. The Secretary General of the United Nations Conference on Trade and Development (UNCTAD) has recently complained that new international monetary agreements by the Group of Ten, and new developed-country trade agreements, have recently been made, not only without consultation with LDCs, but without even consideration of the effects on their economies. Today, the rich countries are squarely faced by a decision whether they will, or will not, make room for relatively new entrants to large areas of trade on fair terms. If they persist in using their strength to press short-term national interests, they would assuredly make a nonsence of the ideals of the Second Development Decade. The concentration of power in large blocs (the Common Market, USA, Japan, etc.) with LDCs becoming aligned as economic dependants, would make it even harder to move towards a just and rational system of international relations. A large section of this document is concerned with these international issues (trade, foreign investment, export credits, adjustment assistance, Britain and the European Economic Community).

11. Finally, the working party has addressed itself particularly to the performance of Britain and the British Government in the aid and development field, and especially to those issues in which we are falling behind other donors, and even falling short of internationally accepted targets. This is not a question of simply repeating "more aid on easier terms". It can be argued that the sheer volume of aid is in some ways less important than the skill and wisdom with which it is given and used. But volume is important in itself in view of the scale of the problem. So also are particular targets, as an earnest acceptance of the international effort as a whole, to avoid giving excuses for others to default, and as a basis of international influence, which a hesitant donor cannot expect to have.

12. Nor is it a question of the easy sniping at Government performance, to which all complex administrations are open. British aid has many achievements: but the working party believes that,

at the present time, we are falling further behind our own standards, and our international obligations, than is widely realised or would be generally acceptable. The recommendations in this document are designed to restore these standards.

Aid Policy

13. Many of the criticisms and disappointments relating to Britain's aid programme have resulted from a confusion of objectives. The prime objective of the aid programme should be to help to raise the level of living of the masses of the people in the poor countries as rapidly as is feasible: the aims of foreign or domestic policy should not be allowed to interfere with this objective. We believe that the firm adoption of this approach to development assistance would both improve Britain's international standing and increase public support for the aid programme. The distribution and the terms and conditions of British aid should be consistent with this central objective, and with the priorities of DD2. At the same time, it is essential that the quantity of aid should be increased and its quality improved, so that the flow of aid is at least in step with the modest aspirations of the Decade. Our recommendations on Britain's aid programme are made in the light of these requirements.

Volume of Aid

14. Britain's aid performance is poor if measured against the 0·7% GNP target for official aid proposed by the Pearson Commission and recommended by the UN. The latter half of the first Development Decade was marked by a steady deterioration in Britain's net official aid as a proportion of GNP: from 0·53% in 1964 to 0·37% GNP in 1970. Although this deterioration was not confined to Britain, Britain's position also compares badly with that of other donors. And while the proposed increases in aid will result in some improvement, in 1975/6 Britain's net aid will still fall far short of the target.

15. At present the British Government does not accept the need for a separate official aid target. It is, in fact, the only government to contest the principle of such a target and is prepared only to commit itself to the 1% GNP target covering all financial flows. It may be possible to make out a

case for this stance on grounds of immediate national interests; but it makes no sense for development. There are two compelling reasons. First, the 1% target fails to distinguish normal business transactions with LDCs from concessionary flows primarily intended to assist their development. The Government's exclusive concentration on this target implies wrongly that the two are substitutable within the 1%. Second, private sector flows are not within the Government's direct control: official aid flows are.

16. Thus a separate aid target is needed if the 1% GNP target is to acquire any meaning. We recommend that HMG adopts, as a minimum, the 0·7% GNP target for official aid, and aims to reach it by 1975. This is not to claim perfection for 0·7%. In particular it is based on a definition of aid which overstates the efforts involved for donors as well as the value of such efforts for recipients.[1] Were this target to be reached by all donors, aid flows would still be inadequate in comparison with the needs of LDCs. The target also is regressive since it implies that richer donors should make no more effort than the poorer ones. But since such a tiny proportion of each country's resources is affected, this is of only minor practical significance. None of these criticisms detracts from the importance of accepting the 0·7% aid target. It is an integral part of the strategy to which Britain is committed. Refusal to accept this target diminishes the prospects of achieving the goals of the strategy, not only because of the effects of unilateral default *per se*, but because such a default serves to weaken international resolve. Conversely, Britain's acceptance of this target, as with other targets adopted in the strategy, will both lead to an improvement in Britain's individual development efforts and to a strengthening of international efforts to achieve the aims of DD2.

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[1]It has been estimated that when account is taken of factors such as procurement-tying, lending terms and the real cost of commodity aid, the actual costs of the aid programme to DAC donors as a group may be between 55% and 70% below the nominal value of aid provided. Estimates for recipients indicate that the real value of aid may be as low as 30-35% of nominal values. q.v. J. Bhagwati, *Amount and Sharing of Aid* O.D.C., 1970, chapter II.

Project Aid: Local and Recurrent Cost Financing

17. The priorities of DD2 point to the need for additional development expenditure in the rural sector to increase agricultural production and employment opportunities, to improve educational and health facilities, and to boost efforts towards population control. The kind of projects implied by these priorities will tend, in general, to have a low import component and a high proportion of local costs in the total costs. Recurrent expenditure on these activities is likely to be high in relation to their initial costs. Consequently the provision of development aid, which makes only a limited contribution to the local costs of setting up a project and to its running costs, not only inhibits the use of aid in priority areas, but also creates a bias in the opposite direction: towards capital and import-intensive projects unsuited to the needs of development.

18. British financial aid suffers from these defects. Until recently, contributions to local costs have been made only "in exceptional circumstances and to a limited extent". The Government has however recognised that local costs may have to be met if Britain is the major donor, or if aid is given for rural development and other projects of high economic priority, and there has been a move towards a more generous provision for these costs. Even so, the tendency remains for project aid to be confined largely to the cost of imports required to set up the project. And although Britain provides a significant amount of non-project aid to finance current imports, such aid is generally tied to procurement in UK. Only a small amount of aid is provided which might finance the recurrent local costs of a project, and this has tended to decrease in recent years.

19. It is argued that the local cost contribution of the recipient establishes its financial stake in the project, and that this is an important condition for its successful implementation. This argument lacks supporting evidence. In any case, the recipient's commitment to the success of a project may be encouraged—if encouragement is needed—by other means. Perhaps the more important reason for the donor's limited assistance towards both local and recurrent costs is that the former will certainly, and the latter probably, involve an increased balance of

payments cost to the donor as compared with the same amount of project aid tied to imports from the donor country. However, as we argue below, Britain should reduce the extent to which aid is tied, and is in a position to do so.

20. The Government's move to raise its contribution towards local costs is a welcome improvement. However, so long as it is *easier* to finance the import content (and this will continue to be the case so long as donors make any distinction whatsoever between import content and local costs as a basis for determining financial eligibility), the bias towards import-intensive expenditure will remain. We therefore recommend that *all* British project aid should be specified in terms of a percentage of total costs, irrespective of the ratio of import to local costs. The percentage should be determined according to the ability of LDCs to contribute to the total costs of projects. Further, the restricted provision of aid for recurrent costs invites a bias towards capital-intensive projects with low running costs. Bearing in mind that the ability to shoulder these costs varies between LDCs, we recommend that contributions towards recurrent costs should be made more widely available. Here, again, no distinction should be made between local and import costs.

Procurement Tying of Aid

21. Almost all donor countries restrict a sizeable proportion of their aid to the purchase of goods and services in their own country through formal and informal tying agreements. In 1970, a high proportion —64%—of Britain's bilateral financial aid (excluding technical assistance, aid for compensation and pensions, refinancing and other compensatory payments) was contractually tied in this way.[1] Whereas some restrictions on aid, for instance project tying, may be explained by a genuine desire to increase its effectiveness, the procurement tying of aid is designed solely to benefit the donor. Its main purpose is to protect donors' balance of payments positions, both from the adverse effects of aid flows and from the erosion of export markets caused by the procurement policies of other donors. For the

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[1]FCO, ODA., *An Account of the British Aid Programme,* HMSO, 1971, p.13 This includes the procurement in UK from the portion of financial aid tied to procurement in the recipient or UK.

recipient, tying reduces the value of aid by raising the cost of imports and rendering the aid less flexible. And although the resultant excess cost of imports alone may reduce the nominal value of official bilateral aid by at least 10% and, more probably, by as much as 20 to 55%[1], repayment of aid loans has to be made according to their face value. Thus the argument that, given donors' obsession with their balance of payments, tying may have permitted a larger flow of aid to LDCs than would otherwise have occurred, is considerably weakened.

22. The strategy urges progress towards the generalised untying of aid. However, movements towards this, under the auspices of the Development Assistance Committee of the OECD (DAC), have come to a standstill as a result of the recent dollar crisis, and the present US position makes it unlikely that any collective agreement will be reached in the near future. Meanwhile, despite the improvement in the balance of payments, Britain actually increased the proportion of tied aid between 1969 and 1970. We therefore consider that HMG should revise its stated opinion that "no specific initiative" on untying is required.

23. We consider that the terms and conditions of aid should be determined on developmental grounds. In any case the cost of the aid programme to the balance of payments is often exaggerated: it has been estimated at between 33% and 42% of the nominal value. The effects of untying on the balance of payments would be dependent on Britain's share of untied aid relative to its share in the demand for goods and services generated. Predictions of these effects are difficult to make. However, even if all British aid were untied unilaterally, the increased cost to the balance of payments would undoubtedly be less than the sum of aid untied. If aid were generally untied, past experience with multilateral untied aid[2] suggests that Britain's balance of payments might well benefit. Whether aid were unilaterally or generally untied, there would be a gain

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[1] q.v. Mahbub ul Haq, "Tied Credits: a quantitative analysis" in Adler and Kuznets (eds), *Capital Movements and Economic Development,* MacMillan 1967, also UNCTAD "The Costs of Aid-Tying to Recipient Countries" [TD/7 supp. 8] and J. Bhagwati, op. cit., p.17.

[2] q.v. Bryan Hopkin and Associates "Aid and the Balance of Payments" *Economic Journal,* Vol. LXXX, March 1970.

through a reduction of the administrative costs of the aid programme. It is true that, where tying has acted as a disguised subsidy for uncompetitive industries, the latter would suffer. However, while this has implications for domestic policies[2], it is a consideration that is inappropriate to an aid policy.

24. We recognise that the complete removal of tying will probably result only from a collective agreement among donor nations. Further, we realise that moves to secure such an agreement by Britain may be regarded as suspect by other donors, who consider that Britain's balance of payments is likely to benefit. Nevertheless, in view of its importance to LDCs, we urge HMG to make every effort to re-start negotiations which aim at such an agreement. At the same time, we consider that Britain, with its relatively healthy balance of payments, is in a position to take certain independent initiatives towards the untying of aid, without prejudice to Britain's ability to work for a collective agreement. We therefore recommend that HMG:

(i) immediately increases the proportion of aid that is available for the purchase of local goods and services in the recipient country;

(ii) immediately removes the restrictions on third country procurement, where the third country is an LDC;

(iii) pending a general agreement on untying, takes steps to reduce the effect of tying by establishing, where possible, reciprocal agreements on procurement with other donor nations. The EEC Commission has proposed such an agreement for EEC member countries. Similar agreements could be pursued in consortia and consultative groups, by extension to a total procurement list of the methods already used in certain project syndicates. Where the appropriate co-ordinating framework exists, aid should be available for purchases from any member of the group, from an agreed procurement list, roughly in proportion to the share of procurement which each member expects to win in competitive conditions: but the aid should

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[2]see the section on Adjustment Assistance.

not be tied to specific procurements in the country providing the aid.

Financial Terms of Aid

25. The combination of LDCs' need for an increased flow of development assistance and their growing burden of indebtedness has led to successive recommendations for the softening of the financial terms of official aid. Britain's response to these recommendations has not been outstanding. At present Britain's aid qualifies under the 1969 DAC Supplementary Terms Recommendation's tests for the minimal and average concessional elements of the total aid commitment. It does not, however, meet the requirements of the 1965 DAC Recommendation, adopted by the strategy. In 1970, Britain's aid commitments failed by a wide margin to qualify under the condition of the Recommendation that grants should form at least 70% of total commitments: only 50% of commitments were grants. And although over 90% of British loans were interest free, with a grant element averaging about 75%, Britain's aid narrowly failed to qualify under the alternative conditions of the Recommendation, since the average grace period of the loans was slightly shorter than that required. In fact, the terms of Britain's lending have actually hardened in recent years: the grant element in total loan commitments fell from 67% in 1968 to 63% in 1970. The grant element in the total aid programme only remained constant at 82% as a result of a small off-setting increase in the proportion of grant commitments. In 1970, only three DAC countries gave less aid as grants than Britain, and, largely because of the relatively low proportion of grants in British aid, only four had a lower grant element in the total commitments of aid.

26. Donors justify the provision of aid in the form of loans instead of grants in three ways. First, the provision of 'free' aid is sometimes thought to lead to inefficient use. Besides the lack of evidence to support this view, the fact that 65% of all aid commitments by DAC countries are in grant form indicates that it is not seriously held. Secondly, while some donors provide relatively hard loans, others are unwilling to provide grants or soft loans, which simply facilitate interest payments and repay-

ments to less generous lenders. Britain cannot credibly adopt this justification for its aid terms. Finally, donors argue that by adjusting the terms of aid to the economic circumstances of the recipient country, they are able to provide a greater flow of aid. Insofar as an LDC does not suffer from repayment difficulties and yet has limited access to other sources of finance, there may be a case for making loans rather than providing the smaller grant equivalent.

27. In general, there is little reason for providing loans in lieu of grants, and given the continuing problem of indebtedness, there is a strong case against doing so. Certain donors have broadly accepted this view: Australia, Norway and Denmark provided over 90% of their aid commitments in the form of grants in 1970, Sweden and Switzerland over 80%; Britain provided only 50%. While we are prepared to accept the Government's view that for some LDCs loans may be an appropriate form of aid, we consider that the number of these countries is very small. Certainly the countries of South Asia, which between them received most of Britain's loans disbursed in 1970, and whose development assistance from Britain consisted largely of loans, cannot be counted amongst them. We therefore recommend that HMG should raise the proportion of grants in total aid commitments to a minimum level of 70%, as recommended by DAC, by 1973, and should seek to increase this proportion steadily throughout the Second Development Decade.

28. It is not only the terms of present aid that need to be considered; the terms of past aid have a crucial bearing on the current problem of indebtedness. Between 1956 and 1969, the overall rate of growth of debt service in 80 LDCs was 14% per annum, and in Asia and Africa the ratio of debt service to foreign exchange earnings—an accepted indicator of a country's capacity to bear debt—grew rapidly[1]. In 1969 roughly three quarters of the external public debt outstanding was owed to official multilateral and bilateral creditors. It has been estimated that debt service obligations on this portion of the

[1]World Bank/IDA, *Annual Report,* 1971, p.50. Subsequent data on LDC indebtedness is taken from this report and relates to 80 LDCs only. The figures do not include debt or debt payments associated with unguaranteed suppliers credits, military assistance loans and unreported debt. Nor do they include outflows related to private foreign investment.

debt alone will amount to nearly $20 billion over the period between 1970 and 1975: that is, roughly two and a half times the gross aid from all DAC countries, and roughly twice the gross official flows to LDCs in 1970. And the debt service obligations to private creditors are relatively more onerous.

29. The basic problem for LDCs is that it is not sufficient for the returns of externally financed investment to meet the cost of the loans (and the loans, as noted earlier, may be worth less than their nominal value because of procurement tying). Nor is it sufficient that LDC governments are able, where necessary, to recoup those returns by fiscal means. The returns have somehow to be transformed into foreign exchange earnings, if the overseas creditor is to be repaid. Economic mismanagement and excessive reliance on export credits occasionally cause debt crises in LDCs[1]. But for the majority, the basic and growing problem is that, with only limited scope for raising their export earnings, LDCs have to meet ever-increasing debt service obligations in convertible currencies. Faced with this situation, LDCs have the option of repudiating their debts, at the risk of losing future development aid, or struggling to meet their obligations at the cost of restricting their development effort.

30. The donor countries, whose previous hard lending terms have considerably added to the problem, are in a position to alleviate this situation, which for some LDCs is already critically affecting their development. Any significant improvement must be the result of international action, and we consider this along with Britain's role in the next section of our report. Pending such action, we believe that Britain can take certain steps with regard to its aid to alleviate the problem of indebtedness. The total inflow of debt service payments of interest and amortisation on past aid amounted to 25·1% of Britain's gross official development assistance in 1969-70[2]. Only two other members of DAC had a higher proportion, and debt service payments on British aid account for roughly 12% of all such payments on aid provided by DAC countries. It is true that this partly reflects the longevity of Britain's

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[1]see later section on Export Credits.

[2]Calculations based on data reported in DAC *Development Assistance Review*, 1971.

aid programme, but it also reflects the relative hardness of Britain's past lending. Since present lending terms are less onerous, particularly with regard to interest payments, and more in line with individual countries' debt servicing capacities, we recommend that HMG puts all past aid debt on the same terms as current lending to individual LDCs. As a first step, we recommend that HMG waives all interest payments on past aid loans from those LDCs currently receiving grants and/or interest-free loans under the British aid programme. Subsequently, HMG should seek to reschedule the amortisation and remaining interest payments due from individual LDCs, so that the terms of past aid loans from Britain are no more onerous than the terms imposed on new lending to each of these countries.

A Multilateral Solution to LDC Indebtedness

31. Britain as an individual creditor country can take some measures to alleviate the growing burden of indebtedness in LDCs. However, if a solution appropriate to the magnitude of the problem is to be devised, international action is required. Donor countries have in the past been reluctant to alleviate the debt burden of LDCs except as a last resort. Their reluctance, besides being based on attitudes to debt that are somewhat irrelevant with respect to LDCs, stems from three quite reasonable objections. First, bilateral action to mitigate indebtedness serves to subsidise less generous creditors. Secondly, such efforts are thought to encourage debt mismanagement. Finally, debt relief is regarded as inequitable: when the bad debtor is let off the hook, the good debtor, who may have made sacrifices, is effectively penalised.

32. Piecemeal rescheduling and refinancing of debt, whether by consortia or individual donors, fail to meet these objections. They are, moreover, time-consuming and distasteful tasks for all parties concerned. It is probable, however, that unless alternative action is taken, these operations (or the repudiations of accumulated debt) will increase in the 1970s. And although many LDCs will probably avoid debt crises, they will do so at the cost of development. Therefore we consider that radical and generous international action is required to cancel the burden of existing debt on past aid, and to guard

against the accumulation of unmanageable debt. Such action on a multilateral scale would considerably reduce the force of the objections noted above. It is true that some LDCs would benefit more than others, but *all* would benefit. Amongst the major beneficiaries would be the South Asian countries—candidates for assistance under any criterion of need. We recommend therefore that HMG, while taking the action recommended above should:

(1) press for an international agreement by all DAC countries to waive all past debts on official development assistance.

(2) continue and increase its effort towards the establishment of DAC agreements on the harmonisation of lending terms and on the generalised untying of aid, so that current lending policies do not contribute to future debt problems.

Export Credits

33. Britain's net flow of officially guaranteed export credits to LDCs quadrupled between 1967 and 1970, and in 1970 was roughly equivalent to Britain's net aid. These export credits to LDCs are rightly considered by HMG to be outside the purview of the aid programme. Although they may provide capital for development in LDCs, they form part of a commercial operation whose primary object is to promote British exports. They have, nevertheless, an important bearing on Britain's development policy and the problem of indebtedness in LDCs. The rapid growth of export credits as a source of finance to LDCs is to a large extent due to the relative stagnation of aid flows in recent years. However, although export credits may often entail less supervision by the lender over the use of finance, they are, on the whole, a poor substitute for aid. The terms of export credits are hard compared with aid and, for some countries, their beneficial effect in raising the level of available external finance for development tends to be offset by the relatively heavy debt servicing required. While outstanding debt to private creditors amounted to only a quarter of total external public debt outstanding in 80 LDCs in 1969, debt service payments due between 1970 and 1975 on this portion of debt amounted to 40% of total payments due.

34. A number of LDCs have already reached positions where their debt servicing obligations are unmanageable. Ghana is a recent example. When LDCs cannot meet their obligations to the Export Credit Guarantee Department (ECGD), the debt may be rescheduled by ECGD, or relief may be given by a refinancing loan, usually a charge on the aid programme. This allows repayment of debts incurred for purposes which might never have been financed under aid-giving criteria. Government to government debt financing (about 5% of all bilateral aid in 1970, mainly to India) is not subject to this objection. However, relieving debt obligations on aid loans—particularly in a situation where debt has become unmanageable because of a heavy reliance on export credits—does facilitate repayment of other non-aid debt. While recognising this, we recommend that HMG should at least ensure that the relief of debt owed to ECGD is not a charge on the aid programme.

Science and Technology

35. There are many substantial differences between conditions in developing and developed countries, differences in climate, social and economic structure, natural resources, capital and skills. As a result of these differences there are many problems in developing countries to which existing scientific and technical knowledge, largely emanating from the developed countries, provides no answer, or an inappropriate answer. The UN World Plan of Action for the Application of Science and Technology to Development (UN, 1971) has ~~identified some~~ 30 concrete problems that urgently need solving. In addition, there is a general need for a more appropriate technology. LDCs have an urgent need for efficient capital-saving and labour-intensive types of investment, so as to conserve their scarce capital resources and increase employment to deal with the huge and growing unemployment problem. They also need technology suited to small-scale and rural operations, to help correct the growing imbalance in their economies. Yet the kind of technology available from the developed countries has been produced with the economic structure of the developed countries mainly in view, and is therefore generally capital-intensive and large-scale.

36. A massive research effort is therefore needed to increase the efficiency with which LDCs use their resources, to improve agricultural techniques, increase the use of local materials, adapt existing technology, and develop new and more appropriate technologies. At the moment, the research and development (R & D) capacity of LDCs is very limited. In contrast, developed countries have a very large capacity for R & D. It has therefore been recommended by the UN and the Pearson Commission that developed countries devote 5% of their public expenditure on R & D to the problems and needs of the LDCs. Britain has entered reservations on this target, although HMG has indicated its intention to increase R & D expenditure on LDC problems. However, acceptance of an internationally agreed target is important as a means of encouraging others to increase their efforts, as well as in itself. In the field of research and development the UK is in a particularly good position to assist as a result of former colonial research institutions, small but effective research centres in Britain, Commonwealth links, and the large number of people with directly relevant expertise and experience. We therefore recommend that Britain accepts the 5% target. Wherever appropriate, such expenditure should take place in LDCs. This will help to ensure its relevance, while assisting the transfer of technology and the development of an indigenous R & D capacity. Increased multilateral effort is also required to solve the priority problems of DD2. UNDP has devoted 1% of its budget to this research. We consider that UNDP's proper role lies in the solution of global problems, rather than in a marginal addition to available technical assistance personnel, and we recommend that HMG seeks to raise the proportion of UNDP expenditure on this research to at least 5% of its budget.

37. It is not just a question of developing new methods; it is also one of communicating better existing ones. In some cases knowledge of elements of a more appropriate technology already exists in developed countries. What is required is full identification and communication of the technology to LDCs. Sometimes the technology exists in one LDC and requires communicating to others. The Intermediate Technology Development Group has made valuable pioneering efforts in a limited field, but it

has only a small budget. We believe that Britain could make a major contribution. First, more resources are needed for assembling information on the range of methods of production in different industries. Secondly, improved methods of communication are required within LDCs. Britain should provide technical assistance to help build up improved methods and institutions for acquiring information on more appropriate technology within LDCs, and to carry out field trials to test and demonstrate the applicability of intermediate and advanced technologies. British technical assistance is particularly well placed to ensure that information gained in one country is communicated to others.

38. The British Government should also examine the lessons to be learned from such international research institutes as those set up by the Ford and Rockefeller Foundations, and consider ways of strengthening these international research efforts in agriculture, industry, education, health, nutrition, and population policy.

Technical Assistance

39. The main feature of the British technical assistance programme has been the provision of personnel under the Overseas Service Aid Scheme, and other similar schemes, to supplement the existing stock of skilled personnel in LDCs. This particular type of demand is, as anticipated, declining. Nevertheless, the demand for other forms of technical assistance for institution-building, for research, indeed to supply expertise on a wide range to problems facing LDCs, is large and is likely to grow rapidly during DD2. The elements of a technical assistance programme designed to meet this demand already exist in the present British programme. However, a shift in emphasis is required. We recommend that HMG seeks to adapt the technical assistance programme so that it is better suited to meet the demands of the Second Development Decade.

40. We recommend that HMG should consider, in particular, the possibility of expanding technical assistance in the following key areas. First, one of the chief needs of the Decade is for LDCs to adapt their

institutions—often relics of the colonial government machinery not designed for the management of economic and social change—to the requirements of development. In the rural areas in particular, the strengthening of agricultural extension services and training facilities is essential for development. Technical assistance can help in this task. Secondly, technical assistance can help in the expansion and diversification of manufactured output in LDCs, identified as a priority requirement in the Decade. In both these areas, technical assistance will often be more effective when provided on a project basis, in combination with financial assistance. This implies a departure from the general tendency to keep technical assistance separate from capital aid. Finally, as was noted in the preceding section, there is scope for expanding British technical assistance for the development and transfer of appropriate technologies and for basic research into priority problems. In the field of research, we recommend that HMG should also consider the possibility of allocating additional technical assistance resources to research into the market opportunities for manufactured exports from LDCs in the UK, and to the provision of advice to LDC producers, who frequently lack the resources to obtain such information for themselves.

41. There is a further area where HMG should advocate and give practical support to the provision of multilateral technical assistance. Some LDCs lack the experience and expertise required in negotiations with prospective foreign private investors. Misunderstandings at this stage can lead to later disappointment in the host country, when the consequences of private investment differ from their expectations. This in turn may lead to retaliatory action which is harmful to a country's reputation for sticking to agreements freely negotiated, and so may act as a deterrent to future private overseas investment. Technical assistance to build up expertise in LDCs in negotiating procedures and related matters could help to reduce this particular difficulty. Such technical assistance would best be provided through multilateral channels. A small start has been made by the Commonwealth Fund for Technical Co-operation. We recommend that HMG examines the possibility of promoting further action in this field.

Allocation of Aid

42. There are two general questions which any aid agency has to answer in determining the distribution of its aid programme.

(1) What proportion of the aid programme should be allocated through multilateral channels?

(2) What principles should be applied in determining the distribution of the remaining bilateral programme among individual countries?

43. The proportion of total British aid going through *multilateral* channels was 10·6% in 1970. It would have been higher if the third replenishment of the resources of the World Bank's International Development Association (IDA), for which funds had already been earmarked, had not been held back by the delay in US Congressional approval. The allocation of British funds to multilateral agencies should increase at least in proportion to increases in the total British aid programme.

44. If funds allocated to multilateral agencies are increased, which agencies should be given priority? Three criteria may be applied. Funds could be allocated to:

(1) the most "efficient" agencies;

(2) the agencies which most clearly reflect the LDCs' aspirations, thus going some way to redress the inherent inequality of the donor/recipient relationship in bilateral and some multilateral assistance;

(3) the agencies which play a key role in rationalising and imparting coherence to the international agency system as a whole.

The first and second criteria may be in conflict with each other. In judging an agency "efficient", the donor makes an assessment which must in part be subjective. If the LDCs are to develop their own institutions of co-operation, reflecting their own aspirations, there may be a case for allocating some multilateral funds to agencies currently believed to be inefficient, provided that they have the support of their LDC members. For one thing, refusal to support an institution on the grounds of its supposed inefficiency tends to be self-justifying; it may be weak precisely because it is not supported. The "efficiency" criterion is normally considered to point to increased support for the World Bank Group. While we would endorse the continuation of IDA funding at least at its present level, we believe it would be a mistake to concentrate too heavily on this channel as the major source of multilateral development finance. We therefore recommend that a more than proportionate share of any increase in British support for multilateral agencies be allocated to the regional development banks. In particular, we believe that the African Development Bank is unlikely to be able to strengthen itself, and earn the respect it needs, without increased support. Insofar as the UNDP succeeds in bringing greater coherence into international agency aid at the country level, we would recommend an increased UK contribution. On the other hand, we view with some disquiet the tendency to create special-purpose funds, which are liable further to complicate UN procedures and become monuments to outmoded fashions.

45. The distribution of British bilateral aid, like that of most other donors, is difficult to justify if the acceleration of development is the central aim. Historical factors inevitably limit the donors' ability to distribute aid freely to those who need it most. We do not believe that a completely rational distribution of bilateral aid, on developmental grounds, is an attainable ideal. We would merely reiterate here two obvious and familiar points:

(1) the need for increased allocations to very large, very poor countries, notably India, which has consistently received less aid per head than other countries which have less effective development programmes;

(2) the need to exclude from the aid budget, expenditure at very high levels on relatively wealthy countries such as Malta, where the British interest is clearly not primarily or even partially the promotion of development.

Aid Administration

46. The recommended changes in the terms and conditions of aid would, if implemented, reduce the need for certain forms of aid administration. At the

same time, if aid is to be used more effectively, there is a need for more professionally qualified personnel in the LDCs themselves. The decentralisation implied would enable the British aid programme to be more responsive to the needs of individual recipients. It would also assist in the co-ordination of British activities with other donors and would improve Britain's ability to implement its aid programme. In particular, more much needed support could be extended to technical assistance personnel. We welcome HMG's decision to set up three more Development Divisions, which should improve the situation for the countries concerned. However, some of the major recipients of British aid will not be covered by such arrangements. Therefore, we recommend that efforts should be made to introduce equivalent arrangements for those countries.

47. There is also a need to improve aid representation in the British missions in LDCs. Such personnel should be able to view Britain's development assistance in the total political and social context of the recipient country. The "aid specialist", often a technician specialising in a particular sector rather than someone trained to look at the whole range of alternative aid uses, is not suited to this role. Career officers in the foreign service possess some of the basic expertise required, but tend to lack knowledge of the specific developmental issues that should be considered. We recommend that aid representation in overseas missions should be increased and the posts should be filled, not by "aid specialists", but by career officers whose normal professional skills have been supplemented by extensive training in the analysis of developmental issues, social and political as well as economic. Thus we would see a pattern developing, in which scarce professional and technical expertise is concentrated at the regional level, where it can be applied to aid programmes in different countries with the added strength of local knowledge; while the developmental reporting function, which needs to be performed as a basis for a realistic and practicable aid programme, is provided by developmental generalists working within the existing diplomatic framework, i.e. in British embassies and high commissions.

British Private Overseas Investment

48. British private overseas investment constitutes nearly a quarter of the total net flow of financial resources from Britain to LDCs. Although the distinction between private overseas investment and official aid is made in Britain's records of these flows to LDCs, there is a popular tendency to regard both as aid. This tendency is encouraged by HMG's concentration on the 1% GNP target for all financial flows to LDCs and its refusal to accept even the principle of a separate target for aid. Yet clearly private overseas investment is not aid. It is a business transaction intended for the benefit of the investor. We therefore recommend that any policies for the encouragement of British overseas investment should be clearly distinguished from Britain's aid policy. In this way, criticisms that British aid is being used to protect and advance sectional interests within the UK can be avoided, and the moral basis of Britain's aid policy given greater prominence.

49. In so saying, we do not overlook the point that British private investment can often make a large and valuable contribution to the development and growth of those LDCs willing to receive it. Not all are, however. Moreover, some LDCs, regardless of their attitudes towards private overseas investment, are unlikely to attract the foreign private investor, given either the size of their markets or their particular resource endowments, or both. Yet these countries may be in need of aid which they could be denied, if aid came to be regarded always and only as a complement to private investment. This is not to deny that aid can complement private investment, nor that it can sometimes make good sense to ensure that aid, especially when it is intended for infrastructure investment, is complementary to direct productive investment already undertaken or proposed. It is true that the provision of aid for infrastructure investment linked with British private investment is, as it should be, made only at the request of the recipient. Further, the volume of aid so linked is small. Our concern is simply lest aid and private investment should become so closely associated in the minds of policy makers that the provision of the former except in support of the latter is not seen as desirable.

Britain's Role in the Common Market

> "Aid and development planning on a European basis should enable all the donor countries involved to make a more effective contribution to the improvement of living standards in the developing countries. . . . Once we are in the Community, its increased means and will to tackle the problems of the under-developed world is likely to be one of the most important features of international life in the '70s."
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> *The Rt. Hon. Edward Heath, M.P., in a speech to the Foreign Press Association, 16 March, 1972.*

50. In 1973 the United Kingdom will join the European Economic Community (EEC). So far no coherent EEC development policy has been adopted. There are, however, four aspects of the joint policies of the EEC which have particular significance for developing countries: agriculture, trade, preferential agreements, and the European Development Fund (EDF). On each of these the UK can make unique contributions which will be to the mutual benefit of LDCs and the enlarged Community. This applies not only to the EEC's own formalised relations with LDCs, but also to the willingness of the enlarged Community to foster those mutual interests in other negotiating forums; e.g. UNCTAD, GATT, OECD high level trade discussions, and bilateral discussions with the United States and Japan in 1973.

EDF, Association and EEC Development Policy

51. Insofar as the EEC has a development policy, it is characterised, apart from the Generalised Scheme of Preferences (GSP), by a series of preferential arrangements with heterogeneous collections of LDCs. However, the main benefits both through trade and community aid tend to be concentrated in the African and Mediterranean countries. Despite Britain's historical and commercial links with the Commonwealth Asian countries, it is unlikely, on the basis of the present proposals, that they will receive a significant degree of preferential treatment after Britain's entry. Indeed they are likely to suffer, particularly if the existing regional bias in EEC development policy is strengthened. With the major

agreements between the EEC and the various associate countries coming up for review, we believe that Britain should press for greater consideration of the interests of the Commonwealth Asian countries. To the extent that the EEC remains Africa-oriented, we recommend that HMG seeks to ensure that any agreements between the EEC and associate and associable countries should encourage trade between these LDCs, and not only trade between them and the EEC. We recommend that the reverse preferences required of associate LDCs should be dropped and that, if the EEC wishes to retain the element of reciprocity, it should consider the possibility of seeking an agreement from associate countries on the gradual preferential removal of barriers against trade with other associate countries, so as to encourage intra-regional trade.

52. Community policy on aid is largely confined to the operation of the EDF, which currently provides only a small proportion of the total aid disbursements of the Six. Britain is in principle committed to contributing to the Fund in 1975. Contributions to the EDF are supposed to be additional to bilateral aid commitments. Some aspects of aid channelled through the EDF are preferable to British bilateral aid. In particular, recipient countries participate in the Fund's operation; further, EDF aid may be used to procure goods and services from any member country and not just the donor countries. Less favourable is the slow disbursement rate of aid funds by the EDF as compared with British bilateral aid. But more significant than this is the fact that eligibility for EDF aid is confined to certain EEC associate countries. Since only some countries now receiving British aid may become eligible through association, Britain's contribution to the EDF is likely to result in a relative worsening of the position of ineligible countries. This would be an undesirable outcome: the non-associable and—by the present rules—ineligible Commonwealth LDCs already stand to lose in other ways from Britain's EEC entry. We therefore recommend that HMG ensures that the relative share of ineligible countries does not diminish as a result of Britain's contribution to the EDF. In particular, HMG should consider the possibility of making those Commonwealth countries that will lose their special trade preferences with Britain, and will be offered no adequate alternative

arrangement, eligible for EDF aid in compensation. This would be consistent with the original aim of the EDF, which was set up chiefly to compensate the colonial territories of EEC member countries that lost their special preferences when the Common Market was formed. Further, we recommend that HMG seeks to ensure that the efficiency of EDF operations is improved, particularly with regard to the disbursement of aid funds.

The Merging of the British and EEC Generalised Preferences

53. Between 1960 and 1970, the export earnings of LDCs increased by 7% p.a. But, if the small group of LDCs exporting petroleum and manufactured goods is excluded, the growth rate is considerably less. It is widely considered that LDCs must expand their export earnings in order to sustain their development. Since over 80% of LDCs' exports currently go to developed countries, and 40% to the ten countries that will form the enlarged EEC, it is clear that such an expansion will have to take place largely through trade with developed countries and with the EEC in particular. It is therefore crucial that their access to the markets of developed countries is improved. The introduction of generalised schemes of preference (GSPs) for LDCs in response to UNCTAD recommendations marks a step towards trade liberalisation by the rich nations in favour of LDCs. However, the various schemes differ widely in their scope and generosity. We consider that the British scheme is more favourable to LDCs than that of the EEC. Thus, when it has to be merged with the EEC's GSP, any advantage that LDCs may have gained from it should be preserved.

54. The advantages of the British scheme may be summarised as follows. First, although the British GSP makes the major exception of textiles on the manufactured side, it extends greater preferences on a wider range of processed agricultural goods than the EEC offer. Secondly, it does not impose tariff-quota restrictions as does the EEC *de jure* on all manufactured goods and *de facto* on a wide range of "sensitive" manufactured goods. The EEC offer thus effectively limits the growth of tariff-free LDC imports, quite severely for some products, and so protects domestic producers. The British GSP does

contain an escape clause allowing the imposition of trade restrictions for the protection of domestic producers. Unless this is invoked, however, the scheme has the advantage of permitting trade expansion and encouraging investment in LDCs, consequent on their expanded export markets—a major purpose of the UNCTAD proposal. On the other hand, it must be recognised that such investment will also depend on investors' expectations about the likelihood of a resort to the escape clause, and so its very existence may act as a deterrent.

55. When the two schemes are merged, we hope that certain undesirable features of each individual scheme will be removed. As a minimum, the resultant GSP offer should be guaranteed for a period of at least seven years, and should not be subject to restrictions designed to protect uncompetitive domestic producers. It should extend over a wider range of agricultural processed goods than the present EEC GSP offer. Existing quotas, if not entirely removed, should be substantially enlarged to allow for a significant increase in LDC imports. In particular the importing country quotas, which create uncertainty and encourage potentially harmful, competitive bunching of LDCs' exports and reduce incentives to investors, should be removed. We consider that, given the comparative generosity of the British scheme, HMG will have a relatively strong bargaining position when the two schemes are reviewed and merged. We therefore recommend that HMG seeks to incorporate the above proposals into the joint offer of the enlarged EEC.

Policies towards Primary Producers in LDCs

56. British agricultural policy in the past has sought to achieve a balance between giving support and encouragement for domestic agricultural production through the tax system and maintaining relatively low tariffs on imported agricultural imports to the overall benefit of the consumer. The Common Agricultural Policy (CAP) of the EEC on the other hand, through a complex system of indirect subsidies and import barriers, operates to encourage and protect domestic producers at a high cost to both governments and consumers. We consider that, unless major changes are made to the CAP, Britain's adoption of the EEC's agricultural policy will have

adverse effects not only on other non-EEC developed countries and on the British consumer, but also on LDCs, whose opportunities for exporting non-tropical agricultural goods or tropical products that are substitutes for EEC agricultural products will be severely limited.

57. Sugar figured largely in Britain's negotiations for entry, and has resulted in some safeguards for the position of LDC sugar producers. LDC beef producers have also been protected to some extent. But other LDC producers, in particular the suppliers of oil seeds and vegetable oils, and of rice, face the possibility of market disruption through Britain's adoption of the CAP. It is important that their interests are also protected. We recommend the HMG works within the Community for the establishment of a CAP which ensures effective agricultural reform in EEC countries and brings to an end the present system that perpetuates high-cost, surplus-creating, import-limiting production.

58. More broadly, steps should be taken to redress the balance of power in world trade in primary commodities. The existence of protected producers in developed countries, enjoying closed markets and unfair access to other markets, severely limits and erodes the markets available to LDCs. Action on behalf of LDC producers, particularly the non-associable Commonwealth LDCs, is needed not only with respect to primary commodities which compete with goods domestically produced in developed nations, but also with respect to non-competing tropical primary products. Suitable commodity agreements, by controlling price fluctuations and regulating markets, provide a possible, if imperfect, solution to the problems created by LDCs' declining export earnings from primary products. The EEC has indicated its willingness to consider negotiating such agreements where international efforts fail. If international agreements fail to be reached, we urge HMG to support their establishment by the EEC. At the same time we recommend that HMG actively support efforts to reach international commodity agreements and, in particular, to reach agreements on cocoa and tea.

Adjustment Assistance

59. The result of any trade liberalisation is that domestic industries, previously protected by trade barriers, face increased competition, while consumers benefit from the availability of cheaper goods. However, though the majority may benefit, it is the vociferous minority of workers and employers engaged in uncompetitive domestic production that frequently jeopardises the successful implementation of measures to liberalise trade. It is for this reason that the strategy proposed the adoption of a programme "for assisting the adaptation and adjustment of industries and workers in situations where they are . . . ., or may be threatened to be, adversely affected by increased imports of manufactured or semi-manufactured goods from developing countries".[1] Such a set of domestic policies is also implied if measures to improve the market access of agricultural exports from LDCs are to be implemented. Similarly, but less importantly, these policies may be needed when aid is untied, because tying has acted as a disguised subsidy to certain export industries.

60. HMG has entered a reservation on this proposal, saying that it will consider adjustment measures in appropriate circumstances, but cannot agree to work out a specific adjustment assistance programme. It is true that adjustment assistance in these specific cases is essentially no different from what already occurs elsewhere in the economy, and what will be required after Britain joins the Common Market. The British Government has assisted in the contraction and reorganisation of certain industries, in the public and private sectors, in response to anticipated changes in the pattern of demand. And a number of domestic policies already exist that are designed to assist and encourage the redeployment of workers and the structural change of the economy. On joining the EEC, Britain will contribute to various Community funds—the most important now being the European Social Fund, established to encourage adjustment assistance policies in member countries—and if Britain is to benefit from these funds it will have to devise appropriate national policies.

61. Nevertheless if trade liberalisation policies are not to founder in the face of opposition from those

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[1] *UN International Development Strategy,* 1970, p.7, para. 35.

engaged in the affected industries—as has happened in the past—it is necessary to anticipate their particular needs. The adoption of specific adjustment policies would, first, help to avoid hardship for particular groups and would provide those threatened with some guarantee for the future. Secondly, it would reduce the wastage attendant on inefficiency, while, at the same time, assisting the creation of an industrial structure for the long-term benefit of the British economy. We therefore urge HMG to establish a set of policies which will both forestall the minority opposition to trade liberalisation with LDCs and assist the adjustment and adaptation of these non-competitive industries. In view of the long-term benefits to the community, and the fact that any expenditure incurred may also be related to the effects of trade liberalisation on entry to the EEC as well as that undertaken towards LDCs, such adjustment assistance should be considered quite separately from the aid programme. Further, we recommend that HMG seeks to ensure that the joint institutions of the Common Market give further support and encouragement to the adoption of adjustment assistance policies by member countries, so as to permit further trade liberalisation with LDCs.

Trade Restrictions

62. *Ad hoc* restrictions on trade to protect certain domestic producers tend to be imposed without adequate representation of the consumers' interests in Britain, or producers' interests outside Britain, despite the fact that they are likely to suffer from the restrictions. Such measures are generally the result of private consultation between the Department of Trade and Industry and the affected industry. When Britain joins the Common Market, the range of groups consulted will not be enlarged. We therefore recommend that HMG seeks to establish a tariff board, or its equivalent in the context of the EEC, so that the interests of consumers and those of LDC producers may be fairly represented in the consideration of any proposal designed to restrict trade in order to protect domestic producers.

International Monetary System and the SDR Link

63. Many issues of vital importance to LDCs have to be settled at the international level. Although their

governments represent the vast majority of the world's population, the balance of power is weighted heavily in favour of the minority of rich nations. And although they are able to voice their interests in international forums, LDCs can do little without the cooperation of the rich, whose indifference to the problems of the poor is all too often reflected in the decisions made and the issues shelved. Indeed some major decisions are made by organisations from which LDCs are excluded. We have already considered some actions which Britain should take in international forums to further and protect the interests of LDCs. Here, we concentrate on one international issue, which is of major concern to LDCs, where Britain can and should play a significant role in bringing about a favourable solution.

64. The reform of the international monetary system is of prime importance not only to developed countries but also to LDCs. Though LDCs have little influence in the International Monetary Fund (IMF) and play no part in the off-stage activities of the Group of Ten, they are nevertheless affected by the actions taken by rich member countries as a result of the defects of the system and previous failure to remedy them. The latest dollar crisis alone has had widespread, adverse repercussions both on LDCs' trading positions and on their reserves. More generally, they suffer from the restrictions on trade and on private and official flows, imposed by the rich nations largely because of the system's inadequacies.

65. The introduction of Special Drawing Rights (SDRs) was a significant step towards international monetary reform, allowing planned additions to world liquidity. The introduction of new reserves created a potential for a rational allocation of liquidity. However, since the member countries of the IMF were unable to agree on a more rational or equitable distribution, the $9 billion SDRs created have been allocated in proportion to IMF quotas. And since these reflect a country's wealth rather than its reserve needs, 72% of the SDRs went to developed countries and only 28% to LDCs. The proposal of the UNCTAD Group of Experts to link the creation of SDRs with the provision of additional finance provides an opportunity to meet the needs of planned

growth in world liquidity while satisfying the requirement of global equity.

66. The Link provides for a major proportion of new SDRs to be allocated to LDCs. There are a number of ways of doing this: probably the most acceptable is for the SDRs to be allocated to the World Bank Group to be channelled through IDA as development aid. As the aid is distributed to LDCs it will add to world liquidity: while initially increasing the reserves of the LDCs, the SDRs will be transferred to developed countries in payment for goods and services bought as a result of aid. The scheme would allow for an increase in the volume of aid and an improvement in its quality, since IDA aid is multilateral and untied, and also involves soft terms. The scheme would enable the developed countries to acquire additional international liquidity as a result of the export orders generated by the aid. It would enable them to transfer resources to developing countries, while guaranteeing them against the risk of a balance of payments loss as a result. Some developed countries, because of the structure of their trade, would be likely to gain more SDRs by this scheme than if they were allocated according to IMF quotas. The UK is in a particularly strong position in this respect, and therefore has every reason to take a lead in pressing for the Link proposal. Historically, the acquisition of international monetary assets involves the transfer of resources to the gold producing countries and to the key currency deficit countries. The creation of SDRs provides a unique opportunity for a more rational disposition of resources: the Link scheme would use this opportunity to transfer resources to those who need them most.

67. We believe that there is a strong case, besides the basic advantages of the scheme outlined above, for creating additional SDRs through the Link as soon as possible. Two factors lead us to this conclusion. First the US, whose balance of payments deficit in recent years has led to a massive increase in world liquidity, has clearly stated its resolve to move its current account into surplus. Secondly, those developed countries that are now running balance of payments surpluses on current account are unwilling to move into deficit. It is impossible for all developed countries to maintain surpluses with one another at

the same time. However, the creation of additional SDRs distributed through the proposed Link, by generating export orders from outside the industrialised world, would allow the achievement of the otherwise contradictory aims of the US and the rest of the developed countries. The developed countries will be able to maintain balance of payments surpluses, and the poor countries will be able to increase their imports, needed for development. While unemployment prevails in developed countries, the Link would involve little or no resource cost. We therefore urge HMG to declare its support for the SDR Link at UNCTAD and the IMF, and to press for its earliest establishment. We welcome and support HMG's efforts to secure the long-term reform of the international monetary system in cooperation with the LDCs, and recommend that the Link should be incorporated in the set of measures required to improve the functioning of the system.

Summary of Recommendations[1]

Aid policy (13)

1. The prime objective of the aid programme should be to raise the level of living of the masses of the people in the poor countries of the world. This objective should be part of British domestic and foreign policy.

Volume of aid (14–16)

2. HMG should accept the need for a separate aid target and should adopt, as a minimum, the target of 0·7% GNP for official aid, aiming to reach it by 1975.

Project aid: local costs and recurrent costs financing (17–20)

3. All project aid should be specified in terms of a percentage of total costs, determined according to LDCs' ability to contribute to project costs and irrespective of the ratio of import to local costs.

4. Contributions towards the recurrent costs of development projects in LDCs should be made more widely available under the aid programme, without making any distinction between local and import costs.

Procurement tying (21–24)

5. HMG should make every effort to re-start negotiations which aim at a multilateral agreement on the generalised untying of aid.

6. Pending multilateral agreement, HMG should take the following independent initiative on the untying of aid:

   (i) immediately increase the proportion of aid that is available for the purchase of local goods and services in the recipient country;

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[1]The figures in brackets after each section heading refer to the relevant paragraphs in the report.

(ii) immediately remove the restrictions on bilateral aid regarding third country procurement, where the third country is a less developed country;

(iii) take steps to reduce the effect of tying by establishing, where possible, reciprocal agreements on untying with other donor countries.

Financial terms of aid (25–30)

7. HMG should raise the proportion of grants in total aid commitments to a minimum level of 70% by 1973.

8. HMG should put all past aid debt on the same terms as current lending to individual LDCs. As a first step, HMG should waive all interest payments on past aid loans from those LDCs currently receiving grants and/or interest-free loans under the British aid programme. Subsequently, HMG should seek to reschedule the amortisation and remaining interest payments due from individual LDCs, so that the terms of past aid loans from Britain are no more onerous than the terms imposed on new lending to each of these countries.

LDC indebtedness (31–32)

9. While taking the action on bilateral debt, recommended above, HMG should press for an international agreement by all DAC countries to waive all past debts on official development assistance.

10. HMG should continue and increase its efforts towards the establishment of DAC agreements on the harmonisation of lending terms.

Export credits (33–34)

11. HMG should ensure that the relief of debt owed to ECGD is not a charge on the aid programme.

Science and Technology (35–38)

12. HMG should accept the UN target on research expenditure and should allocate at least 5% of public research and development expenditure to problems relating to LDCs. Wherever appropriate, such expenditure should take place in LDCs.

13. HMG should seek to raise the proportion of the UNDP expenditure on research into LDC problems to at least 5% of its budget.

14. HMG should provide technical assistance

(i) to assemble information on the range of methods of production in different industries;

(ii) to help build up improved methods and institutions for acquiring information on more appropriate technology within LDCs; and

(iii) to carry out field trials to test and demonstrate the applicability of intermediate and advanced technologies.

15. HMG should examine the lessions to be learned from the international research institutes, and consider ways of strengthening these international research efforts in agriculture, industry, education, health, nutrition, and population policy.

Technical assistance (39–41)

16. HMG should seek to adapt the technical assistance programme so that it is better equipped to meet the needs of the 1970's. In particular, technical assistance and financial aid should be combined in projects to assist institution-building, especially in the rural sectors of LDCs, and to assist the expansion and diversification of manufactured output. Besides the expansion of research activities mentioned above, HMG should also expand research into market opportunities in the UK for exports from LDCs, and increase the information and advice available to LDC producers in this area.

17. HMG should press for the provision of multilateral technical assistance to build up expertise in LDCs in negotiating procedures and other matters related to drawing up agreements with foreign private investors.

Allocation of aid (42–45)

18. The allocation of British funds to multilateral agencies should increase at least in proportion to increases in the total aid programme.

19. A more than proportionate share of any increase in British support for multilateral agencies should be allocated to the regional development banks, in particular the African Development Bank.

20. Insofar as the UNDP succeeds in bringing greater coherence into international agency aid, the UK contribution to the UNDP should be increased.

21. HMG should increase the allocations of bilateral aid to the very large, very poor countries, notably India, which has consistently received less aid per head than other countries which have less effective development programmes.

22. HMG should exclude from the aid budget expenditure at very high levels on countries where the British interest is clearly not primarily or even partially developmental.

Aid administration (46–47)

23. HMG should make efforts to introduce Development Divisions, or their equivalent, for those major recipient groups of countries that at present are not and will not be served by Development Divisions.

24. Aid representation in overseas missions should be increased, and the posts should be filled by career officers whose normal professional skills have been supplemented by extensive training in the analysis of developmental issues, social and political as well as economic.

British private overseas investment (48–49)

25. Any policies for the encouragement of British overseas investment should be clearly distinguished from Britain's aid policy.

EDF, Association and EEC Development Policy (51–52)

26. HMG should press for greater consideration of the interests of the Commonwealth countries that will receive inadequate compensation for loss of preferences on Britain's entry to the EEC.

27. HMG should seek to ensure that any agreements between the EEC and associate and associable countries should encourage trade between these LDCs, and not only trade between them and EEC, and that the reverse preferences required of associate LDCs are dropped.

28. HMG should ensure that the relative shares in aid of non-associable LDCs do not suffer as a result of Britain's contribution to the EDF. HMG should consider the possibility of making those non-associable Commonwealth countries eligible for EDF aid.

29. HMG should seek to ensure that the efficiency of EDF operations is improved, particularly with regard to the disbursement of aid funds.

The merging of British and EEC Generalised Preferences (53–55)

30. When the two schemes are merged, HMG should seek to ensure that the resultant offer

(i) is for a minimum period of seven years and is not subject to restrictions designed to protect uncompetitive domestic producers;

(ii) extends over a wider range of agricultural processed goods than the present EEC offer;

(iii) is not subject to tariff quotas, as in the present EEC offer; or, if quotas remain, that the offer has substantially enlarged quotas, transferable between products.

(iv) does not include importing country quotas.

Policy towards LDC primary producers (56–58)

31. HMG should work within the Community for the establishment of a Common Agricultural Policy which brings to an end the present high-cost, surplus-creating, import-limiting system.

32. HMG should actively support efforts to reach international commodity agreements, particularly on cocoa and tea.

33. Where international agreements fail to be reached, HMG should support their establishment by the EEC.

Adjustment Assistance (59–61)

34. HMG should establish a set of policies to assist the adjustment and adaptation of non-competitive industries threatened by trade liberalisation with LDCs. HMG should seek to ensure that the joint institutions of the EEC give further support and encouragement to the adoption of adjustment assistance policies by member countries.

Trade restrictions (62)

35. HMG should seek to establish a tariff board or its equivalent, in the context of the EEC, so that the interests of consumers and low-cost exporters from LDCs may be represented in consideration of any proposal to restrict trade.

International monetary system and the SDR Link (63–67)

36. HMG should declare its support for the SDR Link at UNCTAD and at the IMF, and press for its earliest establishment.

37. HMG should seek to ensure that the SDR Link is included in any set of measures to reform the international monetary system.

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