British Aid — 2
Government Finance

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Government Finance

British Government aid to developing countries has been running, on average, at around £150m a year for the past five years. This most often quoted total figure is obtained by adding together many essentially different parts – different in form and purpose. Aid is made available on different terms and conditions, with a variety of motives and it is used by the recipients in a variety of ways.

Who are the recipients of British aid? For what purpose, and on what terms and conditions is this aid given? Is the form of aid best suited to the needs of the recipients? What impact does British aid have on their economies? What effect does the aid have on Britain's economy?

These are some of the questions considered in this survey. Factual accounts are given of aid to the colonies (including CD & W, Exchequer loans and the Commonwealth Development Corporation), to independent countries (including Export Credits Guarantee Department Loans) and of aid through the United Nations.

A final section of comment and analysis discusses the purposes and terms of aid and concludes that the British aid programme is often no longer suited to the needs of the recipients or to the aims of the programme. The controversial concluding chapter suggests that the effect of aid on the balance of payments is very much less than is generally supposed.

The study, which includes much unpublished material, is part of the ODI's factual survey of British aid (for full details see back cover) financed by the Nuffield Foundation. It has been prepared in the Institute by Athole Mackintosh and Andrzej Krassowski with the help of Juliet Clifford.

British Aid—2
Government Finance

a factual survey of Britain's government aid to developing countries

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Foreword

In the years since the war there has been a growing awareness of the problems of Overseas Development. This means the economic growth and greater use of the resources of the poorer countries of the world. Many of these countries have recently gained political independence and are determined to improve the economic lot of their people. Most of the richer countries in the world (including parts of the Soviet bloc) have recognised their obligation to help, and their interest in the success of plans for developing these countries. The unanimous decision of the United Nations General Assembly to proclaim the 1960s as 'the Decade of Development' was a public recognition of the mutual world interest.

For Britain with its old imperial and new Commonwealth ties, the problem was largely one of how to adapt existing methods to the new needs. For America too, with its successful experience in 're-developing' Europe through the Marshall Plan, the question was how to adapt those techniques to the much larger task of developing nations with little or no background of industrialisation or agricultural investment.

When Dean Rusk became Secretary of State in 1961, he suggested that the British and American governments should ask two non-governmental groups to study the changing needs of the newly independent countries, and the differing methods of the richer countries in trying to meet those needs. In America the Brookings Institution was assigned the task, and in Britain the Government asked the Overseas Development Institute – which had just been founded to provide a centre for work on development problems – to make its own surveys. Full collaboration by Government departments was promised, and we gratefully record that it is forthcoming; British firms, which help to finance the ODI, are also giving full co-operation.

The ODI studies – which started in the summer of 1962 and are financed by a three-year grant from the Nuffield Foundation – begin with a preliminary survey of British Aid for development. A series of papers was produced and discussed at a conference attended by British and American experts in this field.

These papers, revised in the light of discussion, are being published as a factual survey of British aid to developing countries – including contributions from non-government bodies such as commercial firms, universities and missionary societies.

The papers cover six somewhat arbitrarily defined areas: Government aid (including total and capital assistance, but not educational and technical assistance in detail); educational assistance; colonial background history; technical assistance; agricultural aid; and the private sector. These papers are factual; an additional comment paper is also being published, to underline some of the implications of the factual survey and point to some of the questions that need answering.

This paper, *Government Finance*, describes the role of the British Government in providing finance for developing countries. It was prepared in the Institute by Athole Mackintosh and Andrzej Krassowski with the help of Juliet Clifford.

1—Introduction

British Government aid to developing countries has been running, on average, at around £150m a year for the past five years. This most often quoted and simple total figure is obtained by adding together many essentially different parts – different in form and purpose. Aid is made available on different terms and conditions, with a variety of motives, to many countries and used by them in a variety of ways.

Who are the recipients of aid? For what purposes, and on what terms and conditions is this aid given? Is the form of aid best suited to the needs of recipients? What impact does British aid have on their economies? How could the aid programme be improved? These are some of the questions which will be considered in this pamphlet. As the title implies, the principal concern is to describe the workings of government financial aid – technical assistance is not looked at in detail. The transfer of people and skills, which is an integral part of technical assistance, presents special organisational and administrative problems and it is therefore convenient to discuss the detailed arrangements separately.*

The figures of 'aid' given in this pamphlet are, with a few exceptions, official figures and use is made of the British Government classification. Similarly the term 'aid' is used in the sense adopted by the Government. It is one of the aims of this pamphlet to show what falls within the official classification; it is not intended to offer any alternative definitions, although a number of observations will be made concerning the official classification and also some comment on the concept of aid in general.

In official statistical publications, for example *Financial Statistics*, the aid figures are entitled 'United Kingdom Government Economic Aid', with a footnote 'grants and loans to the developing countries for economic developments, technical assistance, budget support and emergency relief'. Until recently† these figures were entitled 'UK Government assistance for overseas development'. This earlier title, describing the specific purpose of the aid, was clearly inaccurate; a large part of British 'aid' is not for development purposes – it includes grants in aid of current budgets, grants and loans for payment of pensions, for relief and reconstruction after natural disasters, etc. – but it may of course release other resources to finance development.

All British Government payments made to developing countries‡ or multilateral agencies (for their own aid programmes) are classified as aid, with the following exceptions: (i) certain direct payments to individuals,§ (ii) all *regular* expenditure on equipment and upkeep of

* See British Aid 3 – Educational Assistance.
British Aid 4 – Technical Assistance.

† e.g. in the Annual Abstract of Statistics 1962.

‡ The British practice is to regard developing countries as: all Latin American and the Caribbean; all Africa except the Republic of S. Africa; all Asia except Japan and the Sino-Soviet bloc; Oceania; Yugoslavia, Greece, Turkey, Spain, Malta, Cyprus and Gibraltar.

§ Mainly for relief of hardship.

military and police forces, and (iii) *assessed* subscriptions to the ordinary operational budgets of multilateral agencies (even though part of their aid programmes are financed from these regular budgets). Certain payments for services performed in *Britain* on behalf of developing countries are also *included* as aid.

The exclusion of military assistance raises the difficulty of delimiting 'economic' assistance. Effective security forces may be a prerequisite for economic development. Furthermore, external assistance for the upkeep of such forces probably releases local resources for more specifically 'economic' uses, so that a classification of grants and loans according to their *immediate* purpose does not always reflect their ultimate effect. Moreover, only regular expenditure on security forces is excluded: irregular expenditure on police and armed forces made necessary by emergencies in Cyprus, Kenya, Malaya and Nyasaland is included in the aid figures as 'emergency assistance'. It would seem desirable to treat both regular and irregular expenditure of this kind in the same way, preferably by putting it in a separate category of aid* or excluding it altogether.

The figures of aid, as published at present, are gross figures; they do not take account of repayments of past aid in loan form. As long as such repayments were small in relation to new aid, this was of no great importance. However, in recent years repayments on past loans have been rising steadily and in a few years' time will become a significant reverse flow *into* Britain. It would seem desirable to show the value of repayments (and interest payments) in the aid tables, so that published aid figures provide a more accurate indicator of the value of resources channelled to developing countries in any one year.

In official publications aid is subdivided into 'technical assistance' and 'other' grants, loans and multilateral contributions. The distinction between 'technical' and 'other' assistance is somewhat blurred; broadly the former consists of the services of people (i.e. the transfer of *skills*) while the latter consists of transfers of money over the expenditure of which the recipient has considerable freedom of choice. To call this 'other' aid 'financial' aid is only roughly accurate shorthand. In some cases the 'other' aid is given in kind – in the form, for example, of relief services after natural disasters, or in the form of gifts in kind (e.g. aircraft). Here the recipient has no choice – the aid is given in that form or not at all. Or the aid may be given in money, but subject to severe restrictions on the way it should be spent – it may be given to meet an unusual need for a certain kind of expenditure and only to the extent that the expenditure is actually incurred is the aid given (e.g. emergency assistance). Or – a less severe restriction – it may be offered on condition that it is spent on a certain type of goods, supplied by the donor, and only if so spent will the aid be given (e.g. aid to be used on orders to be filled by British industries with surplus capacity). Beyond this the restrictions on use become less narrow and the recipient has a greater freedom of choice. In the extreme case, aid consists of freely disposable money which can be spent for any purpose whatsoever, including the purchase of imports from any source. Clearly it is misleading to describe all 'other' aid as 'financial' assistance. On

* As 'emergency assistance' was separated in the Annual Abstract of Statistics in 1961.

the other hand, much that is called 'technical' assistance on the British classification is a form of assistance in money to certain governments to enable them to meet certain closely specified expenditures on services which would otherwise have to be financed from their own revenue (or not made at all). It also includes aid for the purchase of certain equipment.

It is, however, convenient to use the shorthand distinction between 'technical' and 'financial' assistance, in spite of these qualifications. Most 'other' assistance is in the form of money, with the recipient having restricted or complete freedom of choice over its use – it adds to a recipient government's resources and ultimately allows a country to import more than it would have done, whereas technical assistance adds to the 'stock of skills' or raises the 'quality of know-how' of the population.

In the Government financial system there are eleven administrative or accounting channels through which aid is supplied. Broadly, each channel accounts for a specific group of recipients or for specific forms of aid. Although this division is not clear cut, it is nevertheless useful to lay out the descriptive material along these administrative lines.

In 1963–64 gross new aid – £175m – reached a new peak. It was distributed as follows:

British Aid in 1963–64

£m

	Grants				
	Technical Assistance	*Other*	*Loans (gross)*	*Multilateral contributions*	*Total (gross)*
Colonial Territories	11·3	30·4	24·0	—	65·7
Independent Commonwealth	12·5	9·1	48·9	—	70·5
Foreign Countries	1·4	6·8	13·4	—	21·6
Total Bilateral Aid	25·2	46·3	86·3	—	157·8
Multilateral Aid	3·9	—	—	13·3	17·2
Total Aid	**29·1**	**46·3**	**86·3**	**13·3**	**175·0**

Loan repayments during the year amounted to about £14m, so that *net* aid was about £161m. The channels through which this aid was made available are summarised below.

Aid to the Colonies

Colonial Grants and Loans Vote and Central African Office Vote – aid in support of colonial budgets, and to meet costs arising from 'emergencies' and natural disasters. Grants predominate – loans are generally on 'soft' terms.

(Disbursements in 1963–64, £17·7m).

Colonial Development and Welfare funds – this is the major channel for development aid to the colonies. Grants predominate, though loans are now becoming more numerous.

(Disbursements in 1963–64, £14·9m).

Exchequer loans to colonial governments – loans for a wide range of projects contained in colonial development plans. They are long term and at interest rates corresponding to HMG's own borrowing rate.

(Gross advances in 1963–64, £16·5m).

Commonwealth (formerly Colonial) Development Corporation – a public corporation which provides loans (to both private and government-controlled concerns) and risk-capital and sometimes operates its own projects. It is required to operate on commercial lines. (The CDC describes its own operations as 'investment in the development of resources'; it 'does not offer aid'.) It draws its finance mainly from the Exchequer, but also from other sources. Since 1963 it may carry on its full range of activities in independent Commonwealth countries (excluding India, Pakistan and Ceylon).

(Gross Exchequer advances to the CDC in 1963–64, £5·1m).

Aid to Independent Countries

Commonwealth Grants and Loans Vote – aid provided under independence settlements and as 'emergency' and relief assistance. Provision is also made for loans to meet part of the cost of certain colonies' pension and compensation payments to retiring expatriate officers, and for grants to the Indus Basin Development Fund.
(Disbursements in 1963–64, £18·1m).

Foreign Grants and Loans Vote – aid in support of certain non-Commonwealth countries' budgets and development programmes; also consolidation credits and relief after natural disasters, and certain contributions to UN aid programmes.

(Disbursements in 1963–64, £14·6m).

Export Credits Guarantee Department Loans – the largest single channel of aid to independent countries. These loans are formally tied to the purchase of British goods and services, and sometimes also to specific projects. They are generally long term (with grace periods before repayment commences) at interest rates corresponding to HMG's own borrowing rate; in certain cases a waiver of interest is granted for the first seven years.

(Gross disbursements in 1963–64, £49.7m).

Aid to All Countries

Department of Technical Co-operation Vote – technical assistance, including certain payments under the Overseas Service Aid Scheme, in support of various home-based and overseas training and research establishments, and contributions to UN technical assistance programmes.

(Disbursements in 1963–64, £29·1m.)

Ministry of Aviation Vote – grants for civil aviation installations in a number of countries.

(Disbursements in 1963–64, £0·5m.)

Subscriptions to World Bank – UK contributions to the World Bank and its affiliates.

(Advances in 1963–64, £8·6m, all to the International Development Association.)

Far from being the product of deliberate design, the current forms of British aid, and the terms on which it is given, appear to have become established as the result of a series of *ad hoc* responses to obvious needs.

Exchequer loans to the colonies, for example, were introduced in 1959 to supplement London market loans which had fallen off sharply; from the colonies' point of view they were not, in effect, additional funds from Britain. The 'new departure' of making loans to independent Commonwealth countries was partly forced by the balance of payments crisis in India and the political need for Britain to participate in the Aid-India Consortium, and partly by the need to find a new channel for continuing aid to Nigeria and others after independence.

The offers of aid – or the level of aid – to Libya, Jordan and Cyprus, among others, were certainly influenced by important political considerations. Large loans to Argentina, Brazil and independent Commonwealth countries (e.g. Kenya) were made to help these countries meet financial obligations to British citizens and firms – obligations which in all probability would have gone by default without British aid. The high allocations to the West Indies can in part be explained by the unrest in the area before the war, and subsequent recommendations of the Moyne Commission.

Although political and other 'non economic' circumstances have been important influences on the direction (especially to foreign countries) and levels of aid, these should not be exaggerated. The use of aid primarily for short-term political purposes, for example, is now confined to a small proportion of the whole, and the proportion of aid given with the aim of assisting development – rather than for refinance loans or compensation payments, etc. – has been growing and is about two-thirds of the total. Furthermore since 1958 there is no major developing country, within the Commonwealth at least, that has not been receiving aid from Britain. If the allocation of aid depended exclusively on economic criteria, some recipients might receive more and others less, but few if any would receive none at all. However, had there been an overall design firmly based on long-term assessments of recipients' needs, the forms and terms of aid would undoubtedly be different from what they are today.

In the case of the colonies, which until 1961–62 accounted for more than half of total aid, terms – if not in all cases the forms – were reasonably well suited to their needs. For independent countries, neither terms nor forms were well suited from the start. Given the strong objections, as late as 1957* to giving any assistance at all to independent Commonwealth countries, it is perhaps not surprising that when such aid was introduced on a substantial scale in 1958 it was not given in a more suitable form or on easier terms. Nevertheless, now that the idea of aid to assist the development of all poor countries is fully accepted, and now that most of the developing countries are independent, it is clear that the whole aid programme and its administration needs to be reconsidered and deliberately designed to achieve its objectives more effectively.

* * *

The detailed discussion of aid is divided into four parts. The first two are devoted to a detailed factual survey ofthe component parts of British

* Aid White Paper of 1957 (Cmnd. 237).

aid. Part I deals with present-day arrangements to aid colonial territories, and with the forms that this aid takes. Discussion of the evolution of colonial aid, which is the subject of a separate pamphlet in the series*, is confined to a few observations which help to explain current efforts and policy.

Part II begins with an outline of post-war development in aid policy towards independent countries, including the arrangements made to continue aid to colonial territories attaining independence. Chapters 7 and 8 describe the three major channels of aid to these countries. Technical assistance to colonies and independent countries is covered briefly in Chapter 9. Part III, which consists of a single chapter on British financial support of multilateral aid programmes, rounds off the detailed survey of the different channels of aid. This survey contains relatively little comment; it is a factual description of present direction, forms, terms and uses of aid.

A number of points of special interest, raised but not discussed at length, are expanded in Part IV. Chapter 11 focuses attention on the geographical distribution of bilateral aid; it examines some of the criteria used in the allocation of aid to the colonies. In the case of the colonies aid can perhaps be concentrated on the aim of developing the territories' resources, and need not be used to promote other objectives to the same extent as aid to independent countries. One might therefore expect economic criteria – say development potential or poverty – to be given the greatest weight. But the broad conclusion is that, even here, a great many of the differences in the allocations to different territories can be explained only by taking account of political considerations and special circumstances. There is a tendency for the original differences in allocations (made in 1940 and 1945) to persist, illustrating the difficulty of adjusting aid – especially downwards – to changing *economic* circumstances. Drastic alterations in aid policy have usually come about only with the arrival of independence.

The forms, terms and uses of aid are summarised in Chapters 12 and 13. Some of the points raised earlier (and also in the first pamphlet of the series‡) – particularly on aid policy towards the newly independent countries – are discussed at greater length. Emphasis is laid on the need for more aid not confined to the import content or *construction* costs of capital projects, but which can be used to cover local costs and also the running expenses of continuing programmes – something on the broad lines of development and welfare aid to the colonies. Chapter 13, on the financial terms of aid, draws attention to the consequences of the growing proportion of aid given in loan form. More than half of British bilateral aid (two-thirds of aid to independent countries) is now in loan form, and most of these loans are on more or less conventional banking terms.† Interest on and repayments of past loans amounted to about 20% of total bilateral aid in 1962–63, and these payments to Britain by developing countries will grow rapidly in the next few years. Yet, in measuring current aid contributions, no account of this is taken. If future debt-service

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* British Aid – 5 Colonial Development.

† Perhaps there is a case for excluding such loans from 'aid' altogether. It must be borne in mind however, that many developing countries would not be able to raise private loans on these terms (e.g. on the London market).

‡ British Aid – 1 Survey and Comment.

commitments on aid loans are taken into account in measuring current aid, the 'real' value of British is reduced to about *half its nominal value*.

Chapter 14, on aid and the balance of payments, takes the comments in Survey and Comment* a stage further. In discussions of the amount of aid 'we can afford'†, the adverse effects of aid on the balance of payments have been greatly exaggerated. Calculations on various assumptions are given in this chapter which suggest that aid in 1962–63 did not result in a loss of £148m (total gross aid), but could well have led to a small net *gain* through additional export earnings and the acquisition of overseas assets. It is argued, further, that in deciding priorities for Public Expenditure, the effects of aid on the balance of payments should be given no more and no less attention than the effects on the balance of payments of alternative *domestic* expenditure.

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* British Aid – 1 Survey and Comment.
† White Paper on Aid, Cmnd. 2147, 1963.

Part I

Aid to the Colonies

2—Colonial Grants and Loans

There are now five administrative channels through which aid flows to the colonies. The 'Colonial Grants and Loans Vote', which is described in this chapter, contains the oldest form of aid – grants in aid of administration. The remainder of this Vote is mainly assistance in civil emergencies and after natural disasters. The second channel is assistance under the Colonial Development and Welfare Acts of 1940 onwards; it is specifically for expenditure on economic and social development (see Chapter 3). Third are the Exchequer loans to the colonies which were introduced in 1959 by Section 2 of the CD & W Act of that year. These are additional sources of development finance, and may be used for a somewhat wider range of purposes than ordinary CD & W assistance under Section 1 of the 1959 Act (see Chapter 4).

Exchequer advances to the Commonwealth Development Corporation are included in the official classification of economic assistance to developing countries (see Chapter 5). This form of aid differs significantly from the first three. It is not a government to government grant or loan. The CDC draws finance from other sources besides the Exchequer; it does not often lend directly to governments although it may share in the financing of public corporation as well as participate in private ventures without government finance. Its business is on commercial terms and it is required to break even; in fact it has been earning a surplus in recent years.

Lastly, the Department of Technical Co-operation, established in 1961, took over from the Colonial Office the administration of technical assistance to the colonies, including part of CD & W assistance, and various advisory research services (see Chapter 9).

Annual figures of aid to the colonies since 1945–46 are shown in Chapter 6 (Table 16). But prior to the detailed discussion of each channel it is worth noting the overall magnitudes that are involved. From 1945–46 to 1962–63 the colonies received a total of £732m through all channels, or 61% of all aid disbursed in the period. Between 1957–58 and 1961–62, in a period when eight territories reached independence, annual aid to the remaining colonies rose from £47m to £95m. In 1962–63 the total was £60·6m, and will no doubt decline still further in future years as the colonial population becomes very small.

In 1962–63 some £14·2m of bilateral aid was provided through the Colonial Grants and Loans Vote. The main group of sub-heads in this Vote is entitled 'Financial aid to Colonial, etc., Governments' (£11·3m in 1962–63); the other groups are grants to South Arabia, under the heading 'Special Services' (£2·9m) and 'Subscriptions to International Organisations' (£44,000). Apart from this last group of subscriptions, the whole of the Vote is now classified as 'aid'.

Until 1962–63 this Vote was called the Colonial Services Vote and covered a wider variety of grants and services, including a number of sub-heads which did not fall within the official definition of 'aid' – (e.g. contributions to the cost of normal colonial internal security measures, grant in aid of the regular army of the Federation of South Arabia and other 'Special Services'). In 1962–63 these sub-heads, except for the subscriptions to international organisations, were transferred to the Colonial Office Vote, in which the other items are the salaries and expenses of the Colonial Office. This Vote does not normally cover any items of 'aid'; there were a few small exceptions (relief grants) in 1962–63.

Before the Department of Technical Co-operation came into being, certain provisions for technical assistance were carried on the Colonial Services Vote (e.g. the initial costs of the Overseas Service Aid Scheme). In July 1961 they were transferred to the Vote of the DTC. In 1962 assistance and services for Nyasaland and Northern Rhodesia were transferred from the Colonial Grants and Loans Vote (previously the Colonial Services Vote) to the Vote of the Central African Office. The elements of 'aid' in the latter Vote will be covered in the description of the Colonial Grants and Loans Vote. When a territory reaches independence, provision for assistance is transferred from the Colonial Services (since 1962–63 the Colonial Grants and Loans) Vote to the Commonwealth Grants and Loans Vote.

Between 1945–46 and 1962–63 aid amounting to £245m was supplied through the Colonial Services and the Colonial Grants and Loans Votes. Most of this aid has been for two main purposes – as general assistance to the current budgets of certain territories and as specific purpose assistance to meet the costs of 'emergencies' or of relief and reconstruction after natural disasters.

Table 1 summarises the Colonial Grants and Loans Vote appropriations in 1962–63 and the estimates for 1963–64 and 1964–65. Grants and loans to Nyasaland on the Central African Office Vote are shown separately (figures in italics). The sub-heads of the Vote under the headings 'Financial Aid' and 'Special Services' have been arranged in six groups, according to the purpose of the grants or loans as described in the estimates.

Aid through the Colonial Grants and Loans Vote is specifically not for purposes of development, but for the maintenance of administration, in normal circumstances and in emergencies. 'Financial aid to colonial, etc.,

Table 1

Colonial Grants and Loans Vote

Aid to Nyasaland on the Central African Office Vote is shown in italics

(£'000s)

	Appropriations	*Estimates*		
Financial aid to Colonial, etc., governments	1962–63	1963–64		1964–65
		Original	*Total*	*Original*
1 Grants in aid of administration	6,717	6,468	7,139	7,902
	682	*1,500*	*4,547*	*4,100*
2 Assistance to expenditure in emergency and after natural disasters:				
Grants	2,426	1,039	1,107	633
	125			
Loans	507	294	231	109
	59	*53*	*12*	—
3 Loans:				
Towards compensation of overseas officers	860	—	89	35
	—	—	*450*	*350*
Towards commutation of pensions of overseas officers	105	—	token	30
	—	—	*50*	*600*
4 Grants to Malta, mainly 'general aid'	706	757	757	—
5 Grants to S. Arabia—grants in aid and 'special services' *less* Appropriations in aid	2,866	3,402	4,075	3,898
6 Miscellaneous	14	—	token	100
			500	
Total 'financial aid to colonial, etc., governments' and 'special services'	14,201	11,960	13,398	12,707
Central African Office Vote: Special Assistance to Nyasaland	*866*	*1,553*	*5,559*	*5,050*
7 Subscriptions to International Organisations (not classified as 'aid')	44	42	40	44
Less Appropriations in aid not deducted in (5)	—	—3	—3	—3
Total Colonial Grants and Loans Vote (net)	**14,245**	**11,999**	**13,435**	**12,748**
Extra receipts payable to HM Exchequer:				
Interest on and repayment of past loans—				
Colonial Grants and Loans Vote	1,687	1,778		1,067
Central African Office Vote	83	83		86

Notes: The groups consist of the following sub-heads of the Colonial Grants and Loans Vote and Central African Office Vote (figures in brackets) Estimates for 1963–64; sub-heads in the original estimates are given first; those in the supplementary estimates are listed after the semi-colon;

(1) Colonial Grants and Loans Vote: A, B, C1, D, E, F, I, J, K, L3–9, O, Q; A, B, D, F, J, L4, L6, L10, O, Q. Central African Office Vote: (F; F).
(2) Grants C2, H1, L1, M, N; H1, L11, L13–16, QA, H1, M, N. Loans C3, H2, L2; H2, L12, C3, L2. (E; E).
(3) 1. —; EA (1), QB. (—; FA(1)).
b. —; EA (2). (—; FA (2)).
(4) G; —
(5) P1, P2, R, S, (Z); P2, R, (Z).
(6) —; QC. (—; FC; The Treasury has not yet decided whether this sub-head should be classified as aid.)
(7) T, U; U.

Sources: Civil Appropriation Accounts and Civil Estimates.
Class II Commonwealth and Foreign: Colonial Grants and Loans Vote and Central African Office Vote:
1962–63 Vote 8 (Appropriation Accounts pp. 70–76);
1963–64 Votes 7 and 10 (Estimates (original) pp. II 49–53 and 64–65; Supplementary Estimates, July and November 1963 and February 1964);
1964–65 Votes 7 and 10 (Estimates (original), pp. II 52–56 and 68-71).

governments' in the total estimates for 1963–64 amounted to £13·4m. £7·2m, or over half, was in grants in aid of administration – budgetary assistance to fifteen poorer territories ((1) in Table 1). A further £4·1m was in grants to South Arabia, for similar purposes ((5) in Table 1). The remaining £2·1m was made up of £1·3m in grants and loans for relief and reconstruction after natural disasters ((2) in the Table) and £0·7m in 'general aid' to Malta ((4) in the Table); and lastly, a small amount in loans to Gambia and Zanzibar for compensation and commutation of pensions of overseas officers. Similar but larger loans were made to Uganda in the previous year. In the Vote of the Central African Office, a grant to Nyasaland for expenses of administration accounts for £4·5m out of the total Vote of £6·0m (1963–64 total estimate). Loans for compensation and commutation of pensions account for a further £0·5m in 1963–64.

Grants in aid of expenses of administration ((1) in the Table) are accompanied by control over the finances of the territory 'in accordance with arrangements approved by the Treasury' (Civil Estimates 1963–64, p. II – 53, note 2). The system of control is discussed below. The financial aid provided under the other headings, mainly for specific purposes, does not carry with it general financial control by the Treasury. 'Where appropriate, annual estimates for the services for which grants in aid or loans are provided' (under headings 2 and 3 in the Table) 'will be subject to approval by the Treasury' (Civil Estimates 1963–64, p. II – 53, note 3).

Budgetary Assistance and Treasury Control

General grants are made to meet the budget deficits of colonial territories which cannot raise sufficient revenue to cover their normal administrative expenses. These grants are often described as 'grants in aid'; but the use of this phrase is ambiguous. In the language of the Estimates and Appropriation Accounts, a 'grant in aid' is a sum voted, normally for current expenditure, which does not have to be accounted for in detail to the Comptroller and Auditor General; balances of sums issued do not have to be surrendered to the Exchequer. 'Grant in aid' is the term used to describe all the grants in the Colonial Grants and Loans Vote under the heading 'Financial Aid to Colonial, etc., Governments' (headings 1, 2, 4, 6 and part of 5 in the Table). Thus the specific purpose grant to Mauritius 'towards the cost of rehabilitation and reconstruction programmes following the cyclones' in 1960 is a 'grant in aid' (included under heading 2 in the Table). The term is, however, also used in the Colonial Office as an abbreviation of what is described more fully in the Estimates and Appropriation Accounts as a 'grant in aid of expenses of administration', and a 'grant-aided territory' is one which is receiving grants towards its ordinary current budget. These general grants subject the finances of the grant-aided colony to a traditional system of tight control from London.

This system of control was described in evidence to the Select Committee on Estimates in 1960 (4th Report, Session 1959–60). The annual estimates of the colonial government's revenue and expenditure have to be approved in advance and in detail by the Colonial Office and the Treasury. A Colonial Office witness before the Select Committee described the method of approval: 'Before the local budget is introduced into a local legislature, we see the draft . . . we go through it . . . we then agree on the deficit, on the basis of a reasonable estimate of the revenue and a reasonable estimate of the expenditure proposals. We then agree on the deficit which HM Government are prepared to provide. In some cases we undertake to provide a block grant – that is to say, a grant that is issued quarterly automatically, and in the subsequent financial year if too much has been issued there will be the necessary adjustments made. In other cases, depending largely on . . . (a territory's) degree of constitutional advancement . . . we issue quarterly on the basis of the estimated need of the territory during the quarter'. On the process of estimating the deficit, he explained that the Colonial Government's proposals were put forward in detail, and that the Colonial Office had to justify each item (i.e. each sub-head of the budget) to the Treasury before the deficit was agreed.* After approval of the estimates of revenue and expenditure, detailed control is thereafter enforced by requiring the prior approval of HM Government for (i) any excess of total expenditure over the approved estimates; (ii) any expenditure under individual heads exceeding the approved estimates by 10% or more; (iii) any change in numbers of permanent officers or in salary scales; (iv) any writing off of cash losses of stores above prescribed minimum values.†

The value and distribution of grants in aid of administration since 1958–59 are shown in Table 2. The majority of the territories receiving grants in aid have always been poor and have been fairly heavily dependent on this formal assistance to meet the costs of their normal administrative services for a considerable time (e.g. Virgin Islands, St. Helena, and the smaller West Indian islands). Other territories, e.g. British Honduras, have depended on these grants for a relatively small proportion of their expenditure, the amount varying principally with changes in earnings from staple agricultural exports. Table 3 shows grants in aid as proportions of the public revenues of certain territories in 1961–62.

The continued dependence of several territories on budgetary assistance through grants in aid from London, coupled with strict control over their estimates and expenditures by HM Treasury has tended to discourage the growth of local financial responsibility, even after the introduction of elected territorial governments. Attempts have been made to overcome this by introducing greater financial freedom for grant-aided colonies. The first departure from the traditional system was the introduction of block grants in the West Indies in 1953. Under the block grant system, any savings from 'careful and prudent administration' could be spent on 'deferred maintenance' of items in a specified list of public works. The Public Accounts Committee (1953–54) was extremely critical of this arrangement, holding that 'a system which allows colonies to retain surpluses which, though approved in principle, were not provided for in the British Parliamentary Estimates, involves an important departure from previous practice, and may tend to weaken Parliamentary control'. They agreed, however, to give the new proposals a two-year trial. In practice

*Fourth Report of the Select Committee on Estimates 1959–60 (pp. 113–114, Questions 693–700).

†White Paper 'Grants in aid of the Administration of the Somaliland Protectorate', Cmd. 9666, December 1955. See also the memorandum by the Treasury on the control of expenditure, on pages 215–218 of the Fourth Report of the Select Committee on Estimates 1959–60, and much discussion in the Minutes of Evidence published in that report.

it proved so difficult to agree on the savings that could be attributed to 'careful and prudent administration' that a maintenance allowance was eventually included in the block grant to give the necessary flexibility. A second method has also been tried of estimating the block grant over a period of several years (e.g. Aden for three years, West Indies for five years, Gambia for three years). Colonial governments clearly have a greater incentive to careful financial management if the British contribution to their budgets is a fixed amount and not the residual item in their budgets varying with the deficit; but the difficulties of forecasting revenue and expenditure in an economy like that of Gambia, which is heavily dependent on a single crop, and so on weather and world prices, are very great. There is a danger that HM Government might be forced, in some circumstances, to add to a grant which had been officially negotiated two or three years earlier, and if this were to happen and to become a recognised possibility, the whole purpose of providing a fixed amount of grant in aid would be defeated.

Table 2

Colonial Grants in Aid of Administration

Expenditure 1958–59 to 1962–63 and Total Estimates 1963–64
(£,000s)

	1958–59	1959–60	1960–61	1961–62	1962–63	*Total Estimate* (1963–64)
Kenya	—	—	—	4,725	101	—
Gambia	—	—	—	—	600	736
Nyasaland	—	—	—	—	682	4,547
N. Cameroons	—	—	350	—	—	—
Somaliland	682	659	1,145	—	—	—
Basutoland	—	120	425	1,141	1,441	1,567
Bechuanaland	600	650	970	1,155	1,363	1,609
Swaziland	—	—	—	262	534	1,008
St. Helena	83	93	121	120	113	133
Seychelles	121	76	84	108	90	25
Solomon Islands	298	347	436	378	512	437
Virgin Islands	87	95	189	214	188	159
British Honduras	225	187	125	375	469	204
West Indies Fed.	438	1,750	1,675	2,000	220	—
Antigua	—	—	—	—	63	18
Dominica	—	—	—	—	222	300
Grenada	—	—	—	—	127	261
Montserrat	—	—	—	—	137	218
St. Lucia	—	—	—	—	184	—
St. Vincent	—	—	—	—	163	227
St. Kitts-Nevis	—	—	—	—	106	107
Turks & Caicos Isl.	—	—	—	—	84	130
Total	**2,534**	**3,977**	**5,520**	**10,478**	**7,399**	**11,686**

Note: S. Arabia Protectorate and Aden are excluded.

Sources: Appropriation Accounts 1958–59 to 1962–63.
Civil Estimates and Supplementary Estimates 1963–64.

Table 3

Grant-aided Colonies – Public Revenue and Grants in Aid 1961–62

	Total public revenue £'000s	*of which, grants in aid* £'000s	%
Virgin Islands	363	214	59
Bechuanaland Protectorate	2,429	1,155	47
St. Helena	291	120	41
Basutoland	3,204	1,141	36
Solomon Islands Protectorate	1,440	378	26
Seychelles	717	108	15
British Honduras	2,516	375	15
Kenya	32,643	4,725	14
Swaziland	2,101	262	13
West Indies Federation*...	15,203	2,000	13

Sources: Appropriation Accounts 1961–62 (pp. 97–104).
'The Colonial Territories' 1961–62, Cmnd. 1751, Appendix II.

*The revenue figure given for the West Indies Federation excludes Jamaica and Trinidad and Tobago. (If their revenues were included, the percentage of grants in aid would be 2·3%). After dissolution of the Federation grants in aid went to the other, smaller islands.

Another attempt to counter the problem of colonial financial irresponsibility was made in the Somaliland Protectorate in 1955. The territory was receiving a grant in aid of about 50% of its annual expenditure. With independence very soon to come, it was essential to 'convey to the Somali members of the new Legislative Council some effective responsibility for financial matters, since political achievement without financial responsibility will achieve very little'.†

It is exceedingly difficult to reconcile the demands of Parliamentary control with the need for a system of aiding a territory's current budget in a way that will not discourage good financial administration in the territory. As long as colonial government was largely in the hands of British officials and not of elected representatives, financial irresponsibility was not an important problem. In recent years the problem has been recognised and various attempts have been made to deal with it. This will be an important aspect of any changes in methods of financial administration and of aid to the colonies to meet the new situation in which a much larger proportion of the population of the colonies will be in poor territories which have been dependent for a long time on assistance from Britain for their current budget as well as for development expenditure. In 1963, over half of the colonial population (apart from Northern Rhodesia, Nyasaland and Hong Kong) was in grant-aided territories.

†op. cit. Cmd. 9666, 1955. The expenditure side of the draft budget was divided into three parts —100% aided, 90% aided, and unaided services—with varying degrees of metropolitan assistance and control; but this system proved too complicated, was abandoned after only one year, and has not been tried elsewhere. Another slight modification of the usual system was practised in Kenya, where draft estimates were submitted in a more abbreviated form than usual (about thirty heads of expenditure) in order to reduce the Treasury control over individual Votes.

Assistance after Natural Disasters and in Emergencies

Assistance is given through the Colonial Grants and Loans Vote towards the expenditures of colonies in abnormal temporary circumstances – after natural disasters or in 'emergencies' (which is the official name for civil disorders). For example, assistance was given for famine and flood relief in Kenya in 1961–62, for rehabilitation and reconstruction following damage caused by hurricanes in the West Indies and by cyclones in Mauritius in 1960. Aid towards expenditures arising out of 'emergencies' has been given to the governments of Malaya, Kenya, Cyprus and Nyasaland. Between 1949–50 and 1962–63 'emergency' aid amounted to £86m, of which about £14m was supplied through the Commonwealth Relations Office Votes to Cyprus and Malaya after their independence. Details of this 'emergency' aid are given in Table 2 in the Appendix. This assistance to expenditure on internal security services in emergencies is included within the official definition of aid. But other more regular contributions to expenditure on internal security measures (one of the 'special services' now on the Colonial Office Vote) are excluded.

Originally all such aid for relief and emergency expenditure was in the form of grants, but in 1954 a new policy was introduced of making partial use of loans. This was explained as follows to the Select Committee on Estimates 1959–60 (4th Report, p. 116), by Mr. Galsworthy of the Colonial Office:

'In the case of a territory which year in, year out, has relied for grant aid on the United Kingdom, we have found in the past that it has tended to blunt local initiative in the search for new sources of revenue. . . . . [One system of overcoming this effect] . . . we first introduced in Kenya when Kenya was in receipt of grant in aid assistance towards the cost of the emergency. In order to ensure that Kenya adopted a proper attitude of economy in spending HM Government's money, we provided each year that part of her assistance should be taken in the form of grant and part over and above a certain level by means of loans. . . . Because this was a loan for a non-revenue-earning service, it was provided as an interest free loan . . . but the capital sum has to be repaid. It was therefore an incentive to the Kenya Government to exercise caution in drawing only the amount they necessarily had to take for the expenditure that was really required. This worked extremely well in the case of Kenya and we adopted the same procedure in relation to Cyprus for the same reason. . . . It is a system which, I think, we shall be inclined to follow in suitable cases in the future.'

This policy of giving aid partly in loan form was later used in 'emergency' assistance to Nyasaland. It has also been used in giving assistance for relief after natural disasters, e.g. grants were accompanied by a loan of up to £175,000 to the West Indies after the hurricane 'Donna' in September 1960, and by loans of up to £1,128,000 to Mauritius after the cyclones in early 1960.

Loans for Compensation and Commutation of Pensions

Item 3 in Table 1 shows instalments of loans to Uganda in 1962–63, to Gambia, Zanzibar and Nyasaland (on the Vote of the Central African Office) in 1963–64 and further instalments to Gambia and Nyasaland in 1964–65. The loans to Uganda and Zanzibar are now carried on the Commonwealth Grants and Loans Vote. The loans for compensation are interest free; those towards the cost of commutation of pensions for retiring overseas officers bear interest at a rate linked to the British Government's current borrowing rate. They are repayable in 19 annual instalments, commencing after a grace period of six years during which only interest (if charged) is paid. These loans are in addition to the grant contributions towards compensation and pensions made by the Department of Technical Co-operation under the Overseas Service Aid Scheme.*

Assistance to Malta and South Arabia

Items 4 and 5 in Table 1 consist of grants to Malta and South Arabia. The history of the grants to Malta up to 1960 through the Colonial Services Vote is described in the Fourth Report of the Select Committee on Estimates 1959–60, pp. 102–3, and in the Minutes of Evidence, questions 785–8. At that time assistance was being given to the Malta Government's development programme in four ways: by CD & W assistance, by Exchequer loans under Section 2 of the CD & W Act, by grants under the Malta Reconstruction Act and by grants on the Colonial Services Vote. The grants on this Vote represented 'that element in the Malta capital expenditure programme which is not eligible for financing under the CD & W Act, because it is not to be used for purposes which can be brought fairly and squarely within the ambit of that Act'. These grants included £1m (in 1960) described as 'general financial aid', which is the main item in assistance to Malta in later years through the Colonial Grants and Loans Vote. It was explained that this aid was to be used to finance capital expenditure and not to finance a budget deficit on current account.

The grants to South Arabia provide for the expenses of the administration of Aden, which are borne directly on United Kingdom funds, there being no substantial local revenues, and include grants in aid of certain states and also financial assistance for the Federation. Military assistance to South Arabia is provided separately on the Colonial Office Vote. (Report of the Select Committee, pp. 106–107 and Questions 715–718.)

Purposes and Terms

In principle no assistance on the Colonial Grants and Loans Vote is given for the purposes of 'development'. This was explained to the Select Committee on Estimates, 1959–60, by Mr. Galsworthy.† He referred to grants on the Colonial Services Vote to the Government of Grenada after hurricane damage in 1956: 'This money was purely to enable repairs to

*See Chapter 7, Table 20 and Chapter 9, Table 25.
†op. cit., see especially Questions 740–741 and 750–752.

be carried out and to restore damage. It was not for development purposes'. (Question 740.) Some of the services that were destroyed by the hurricane were, however, restored to a higher standard than they had been before. The element of improvement or development was borne on the CD & W Vote 'and not on the Colonial Services Vote' (Question 741.) In general, 'if we are assisting a colonial government to repair damage, . . . [and] if there is no element of improvement the expenditure is charged to the Colonial Services Vote, but if there is an element of improvement or development, it is charged to the CD & W Vote' (Question 750). 'If money is required for a project which is developmental in nature, unless there are very special circumstances involved, the money should come on the CD & W provision' (Question 752. See also page 217). Assistance on the Colonial Grants and Loans Vote 'may all be said to be related to the maintenance of administration, normal or emergency'.

Most of the assistance on the Colonial Services and the Colonial Grants and Loans Votes has been provided in grant form, but loans have been made in certain cases, 'where a territory is likely to be able, without excessive difficulty, to repay at least some of the money, for schemes which in themselves are likely to be economic. The terms of loans have been measured to suit the individual case. With the introduction, however, of Exchequer loans under the CD & W Act 1959, it is now the Treasury's policy, so far as possible, to finance loan-worthy schemes from this source. These are essentially long-term loans and the rate of interest is strictly related to the current rate for Exchequer borrowing'. (Memorandum by the Treasury to the Select Committee on Estimates, p. 217 of the Fourth Report 1959–60.) The terms of the loans on the Colonial Grants and Loans Vote and the conditions of repayment are described in the estimates. Many of them have been free of interest, e.g. the loan to Nyasaland towards its emergency expenditure in 1960 was interest free and repayable in 25 annual instalments, beginning five years after issue. Another example is the loan to Mauritius for rehabilitation and reconstruction after the 1960 cyclones. The amount was not to exceed £1,128,000, of which about half was interest free to be repaid in fifteen annual instalments beginning five years after issue; the other half was at a rate of interest a quarter of one per cent above the corresponding HM Government borrowing rate, with repayment in fifteen equated annual instalments of principal and interest, beginning one year after issue.

Past Loans – Interest and Repayment

The aid through the Grants and Loans Votes of the Colonial Office and other departments, as shown in the Estimates and Appropriation Accounts, consists of grants and new instalments of loans provided during the year. In calculating the totals of aid through these Votes, Appropriations in Aid (revenue receipts of individual departments) are deducted; these are relatively small amounts (about £60,000 in the Colonial Grants and Loans Vote, almost all from South Arabia – see ((5) in Table 1). But interest on and repayments of past loans are not treated as Appropriations in Aid of the Vote, to be deducted from the total – they are paid directly to the Exchequer. 'To bring these receipts to account as Appropriations in Aid would tend to obscure the current level of aid granted to the colonies.'* Thus the amounts of aid shown in these Votes, and included in the official aid totals, are gross amounts.

Receipts during the year of interest on and repayments of loans made in the past through these Votes are shown in the Estimates and Appropriation Accounts as 'Extra receipts payable to HM Exchequer'. The figures are given at the foot of Table 1. In the total estimates for 1963–64 these receipts amounted to £1,860,000 or 10% of the amount of aid through the Colonial Grants and Loans Vote and the Vote of the Central African Office.

*Treasury memorandum to the Select Committee on Estimates 1959–60, Fourth Report, p. 217. See also Questions 1386–70, p. 204.

3—Colonial Development and Welfare

Colonial Development and Welfare has been the most important single channel of British overseas aid during the post-war period, accounting for 20% of all aid disbursed. Under the CD & W Acts 1945–1959, £315m was allocated for the period 1 April 1946 to 31 March 1964, and in the seventeen years up to 1962–63 £250m was spent. In 1963 a further £25m was provided for the period up to 31 March 1966.

The first CD & W Act was passed in 1940, to replace and enlarge the provision under the Colonial Development Act of 1929. The legislation of 1940 was introduced by a 'Statement of Policy on Colonial Development and Welfare', Cmd. 6175. This was an important statement. It made a firm departure from the principle that colonial territories should rely on their own resources and it accepted that many needed outside help for their development. It acknowledged the problems of fluctuating incomes and the burden of debt. It stressed the importance of social development, especially of education, and the need for research and planning. It committed the Government to make assistance available annually on a much larger scale than before, for a very wide range of purposes, including recurrent as well as capital expenditure. This commitment was made for a period of 10 years ahead in order to encourage long-term planning.

The CD & W Act of 1940 'empowered the Secretary of State, with the concurrence of the Treasury', to make schemes for any purpose likely to promote the development of any colony or the welfare of its people'. It provided up to £500,000 a year for research, for the ten-year period 1941–51. Section 1 of the Act expanded the 'fair conditions of labour' clause of the 1929 Act, laying down, as a condition for assistance, that 'the law of the colony provides reasonable facilities for the establishment and activities of trade unions'.

Under the CD & W Act of 1940, only £10m was spent in the period up to 31 March 1946. A second CD & W Act was passed in 1945 to make available £120m over the period 1946–1956. This was the first of a series of amendments to the 1940 Act which increased the amount of CD & W assistance and extended the period for which it was available. The 1945 Act also removed the earlier provision that unspent allocations lapsed each year. These could now be carried forward from one year to the next, provided that the amounts paid out in any one year, in total and for research, did not exceed certain limits. These annual limits were increased by the Acts of 1949, 1950 and 1955, removed by the Act of 1959 and re-introduced by the Act of 1963 (Commonwealth Development Act). The 1950 Act extended the interpretation of 'colonies', which were eligible for assistance, to include those with 'responsible government'. Otherwise there was no major change in CD & W legislation until the 1959 Act, which provided 'that if a colony ceases to be a colony, any scheme made solely for its benefit shall cease to have effect at that time' and, more important, introduced Exchequer loans to the colonies (under Section 2). Exchequer loans are described in the next chapter; they are not included in the terms 'CD & W funds' and 'CD & W assistance' as normally used.

The periods covered by the CD & W Acts, the amounts provided and the annual maxima are shown in Table 4 below. It will be seen that the periods for which the Acts make provision have grown gradually shorter – the Acts of 1940 and 1945 provided for ten years ahead, those of 1950, 1955 and 1959 for five years ahead, and the latest Act of 1963 for only three years ahead (1963–66). But the amounts made available per head of colonial population have increased significantly in the last decade. The new provision in the 1959 Act (£95m for the five years to March 1964) was larger than the £80m provided in 1955, also for five years, despite the fact that Ghana and Malaya had become independent in 1957, and that no allocation was made to Nigeria in 1959 because her independence was so close. The new amount provided by the 1963 Act was £25m over three years. But an additional £13m was also made available from earlier provision for the benefit of territories that remained dependent, largely from unspent balances of allocations to countries which were now independent.* Taking together the new amount and the additional amount transferred, the average amount provided by the 1963 Act, for a colonial population of 15 million, was £13m p.a. over the three-year period. This compares with a new amount of £16m p.a. provided by the 1955 Act,

Table 4

Colonial Development and Welfare Acts 1940–1959 and Commonwealth Development Act 1963

Date of CD & W Act	*Period*[1]	*Total amount provided for whole period*	*Annual Maxima Total*	*Annual Maxima Research*
		£m	*£m*	
1940	1941–51	55 (max.)[2]	5·5	0·5
1945	1946–56	120[3]	17·5	1·0
1949	1946–56	120	20·0	2·5
1950[4]	1946–56	140	25·0	2·5
1955	1946–60	220	30·0	3·0
1959	1946–64	315	no limit[5]	
1963	1946–66	340	—[7]	—[6]

Notes: 1 The final date, beyond which schemes cannot continue in force, does not apply to research schemes.
2 Amounts of up to £5m plus £0·5m for research could be provided in any one year; but unspent allocations could not be carried forward.
3 The £120m included £20m committed under the 1940 Act.
4 The 1950 Act (2) repealed the restriction to colonies 'not possessing responsible government'.
5 The 1959 Act removed the limits on the sums to be paid out in any one year.
6 Research was transferred to DTC Vote in 1961–62.
7 The 1963 Act brought back limits of £30m in the year ending March 1964, or £55m in the two years ending March 1965.

Sources: CD & W Acts *1940, 1945, 1949, 1950, 1955* and *1959*;
CD & W (Amendment) Act 1959; Commonwealth Development Act 1963.

*Commonwealth Development Act 1963, Despatch of 18 November 1963 from the Secretary of State: Colonial No. 357.

when the colonial population was 80 million, and £19m p.a. by the 1959 Act, with a population of 44 million.

The funds provided are divided, at the time of the Acts, into three groups: 'territorial allocations' to individual colonial territories, various central allocations including research, and a reserve. These allocations are shown in Table 5. The territorial allocations permit colonial governments to draw up development programmes for the period of the Act, knowing how much CD & W aid they can expect. The reserve is allocated later in the period of the Act either to individual territories or for central schemes.

When the Department of Technical Co-operation was set up in 1961, most of the central and research allocations were transferred to it, so that CD & W funds are now administered by three departments: (1) the Colonial Office – allocation to individual territories and one or two small central allocations; (2) the Central African Office – allocations for Northern Rhodesia and Nyasaland; (3) the DTC – up to March 1962 nearly all central allocations including research; since March 1962, research and some other central allocations (technical schemes but not CD & W educational schemes) have been detached from CD & W and are now carried on the DTC's vote. This last re-arrangement means that *new* funds are provided (on the DTC's Vote) for these detached schemes. The CD & W funds previously provided for these schemes are freed for allocation to other CD & W schemes – the total amount of CD & W funds already authorised is not reduced.

CD & W funds are 'freed', in a similar way, when a colony becomes independent with a balance of its CD & W allocation unspent. It will normally receive, as part of the independence settlement, grant aid equal in amount to the unspent balance; this is provided through the Commonwealth Grants and Loans Vote, and is not considered as CD & W assistance. It is 'new' aid and does not diminish the total authorised amount available under CD & W. It was in this way that the additional £13m already mentioned was made available in 1963 for the benefit of territories that remained eligible for CD & W assistance.

CD & W funds are provided through three separate Votes – 'Development and Welfare (Colonial Office)', '. . . (Central African Office)' and one sub-head of the DTC Vote – corresponding to the three departments responsible for their administration. (Exchequer loans to the colonies under Section 2 of the 1959 Act are made from the Consolidated Fund and *do not* appear on the Votes.) Provision is made on these Votes for the amounts expected to be issued during the year from CD & W funds already agreed in advance for the whole period of the Act. Interest on, and repayment of past loans, are also listed in the Estimates (as 'Extra receipts payable to HM Exchequer'), and are now running at about £225,000 p.a.

The allocations for each territory under the various CD & W Acts are given in the Appendix (Table 3). They are discussed in detail in Chapter 11. The initial allocations indicate the (minimum) amount of CD & W assistance which a territory can expect to receive; but they do not represent authority to spend. After the allocation, the next step is the approval

Table 5

Colonial Development and Welfare Allocations 1945, 1950, 1955, 1959 and 1963

	1945	1950	1955			1959			1963		
			(*for 5 years*)			(*for 5 years*)			(*for 3 years*)		
	Total (for 10 years)	*(Addit. to 1945 total)*	*Unspent balance at* 31.3.55	*New allocation*	*Total*	*Unspent balance at* 31.3.59	*New allocation*	*Total*	*Unspent balance at* 31.3.63	*New allocation*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Allocations to Colonial Territories	85·5		26·0	53·3	79·3	29·7	72·8	102·5	27·8	18·2	46·0
Central Allocation	23·5		13·0	14·4	27·4	10·3	16·9	27·2	2·0	3·0	5·0
General Reserve	11·0		—	12·3	12·3	5·5	5·3	10·8	13·7	3·8	17·5
Total	**120·0**	**20·0**	**39·0**	**80·0**	**119·0**	**45·5**	**95·9**	**140·5**	**43·5**	**25·0**	**68·5**

Note: The 'unspent balances' are: total allocations to date *minus* issues to date.

Sources: 1945, 1955, 1963: 'Despatch . . . to Colonial Governments'; Cmd. 6713, 1945; Cmd. 9462, 1955; Colonial No. 357, 1963.
1959: Hansard, House of Commons, Vol. 609, cols. 136–141.
1950: CD & W Act 1950.

by the Colonial Office (with the consent of the Treasury) of 'schemes' – or projects – submitted by the colonial governments or other administering authorities. Once a scheme is approved funds are committed, and then issued as required. Commitments and issues for approved territorial and central schemes are shown in Table 6.

Table 6

CD & W (Section 1) Commitments and Issues 1946–63

£m	1 *April* 1946 *to* 31 *March* 1955	1 *April* 1955 *to* 31 *March* 1959	1 *April* 1959 *to* 31 *March* 1963	*Total* 1946–63
Commitments:				
Grants	130·6	73·8	87·8	292·2
Loans	2·0	0·1	7·8	9·8
Total	**132·6**	**73·9**	**95·6**	**302·0**
Issues	101·2	73·8	97·1	272·1

Sources: CD & W 'Return of Schemes' 1955–56, 1958–59, 1962–63.

Classification of Schemes

Lists of CD & W schemes for which funds have been committed are published annually in the 'Return of Schemes made and Loans approved'. A 'scheme' is a *specific* project, large or small, proposed by colonial governments for financing in part or whole from CD & W funds. It is put forward within the context of a development plan and may be a revenue-earning, training or infrastructure project. The capital and recurrent cost of the project, its intended impact on the economy, the rate of return expected (if any), the availability of construction or operating staff, and the sources of finance available (in addition to CD & W funds), all have to be submitted before the 'scheme' can be approved by the Colonial Office (in conjunction with the Treasury). The most common form of financing such schemes is by means of grants, but revenue-earning schemes are loan-financed. An example of the latter is the scheme to provide electricity supply in the Turks and Caicos Islands (£14,905 loan).* An example of a large capital project is the road construction programme in Fiji (£165,000 grant).† An example of the many small schemes is the training course for Assistant Secretary (Finance) in the Seychelles (£240 grant).‡

*'CD & W Return of Schemes' 1962–63; House of Commons Paper 342, p. 22.
†op. cit. p. 18.
‡op. cit. p. 17.

The distribution of commitments by type of scheme is shown in Table 7.

Table 7

CD & W Commitments: Classification of Schemes 1946–63

Figures are percentages of the total commitment for the period

	1 *April* 1946 *to* 31 *March* 1955	1 *April* 1955 *to* 31 *March* 1959	1 *April* 1959 *to* 31 *March* 1963	*Total* 1946–63
	%	%	%	%
Administration and Surveys	**7·1**	**5·8**	**6·6**	**6·6**
Communications	**15·4**	**32·2**	**22·7**	**21·8**
Roads	11·4	26·5	15·2	16·2
Other	4·0	5·7	7·5	5·6
Economic	**20·3**	**17·2**	**27·4**	**21·8**
Agriculture, Fisheries and and Forestry	14·6	13·6	11·3	13·3
Irrigation, Drainage and Soil Conservation	4·3	2·3	2·8	3·3
Industrial Development	0·9	1·0	8·5	8·0
Other	0·5	0·3	4·8	2·2
Social	**43·7**	**37·6**	**35·6**	**39·6**
Education	18·1	20·2	22·5	20·0
Primary and Secondary	(9·0)	(7·7)	(11·1)	(9·3)
Tech. and Vocational	(4·0)	(2·3)	(3·2)	(3·3)
Higher	(5·1)	(10·2)	(8·2)	(7·4)
Health	11·9	4·1	5·2	7·8
Housing, Water and Sanitation	11·3	11·0	6·4	9·7
Other	2·4	2·3	1·5	2·1
Miscellaneous	**3·8**	**1·4**	**3·4**	**3·1**
Research	**9·7**	**5·8**	**4·3**	**7·1**
Total %	**100·0**	**100·0**	**100·0**	**100·0**
	£m	*£m*	*£m*	*£m*
Total	**132·6**	**73·9**	**95·5**	**302·0**
Grants	130·6	73·8	87·8	292·2
Loans	2·0	0·1	7·8	9·8

Sources: CD & W 'Return of Schemes' 1955–56, 1958–59, 1962–63.

Since 1946, 40% of CD & W funds have been committed for schemes of social development, including about 20% for education. Communications and schemes of 'economic' development (mainly agriculture) in equal proportions have taken most of the remainder.

Over the period since 1946 the proportion for social development has fallen slightly, with the share of education rising and that of health, housing, etc., falling. Within economic development, the marked increase in 1959–63 in the proportion for industrial development is almost entirely due to development in Malta, financed by loans (under Section 1 of the CD & W Act, not Exchequer loans under Section 2). If this Maltese industrial development is excluded, the proportions for each of the three main classes of scheme are about the same in the last four years as they were in total over the whole period since 1946.

The proportions for social development are relatively high, but it must be remembered that, in most colonies, CD & W assistance has been only one of several sources of funds for the whole of the public sector development programmes, in which economic development has been given greater emphasis. But, CD & W assistance being available in the form of grants, it is advantageous for colonies to use it for non revenue-earning projects. This is discussed in the section on grants and loans (see below).

CD & W as an Inducement to Planning

The 1940 Statement of Policy (Cmd. 6175, 1940) laid down that the receipt by a colony of CD & W assistance 'will not entail upon it the system of financial control which is now associated with the receipt of grants in aid'; but HM Government proposed to 'invite colonial governments to prepare development programmes for a period of years ahead'. CD & W has in fact been used to persuade colonial governments to make long-term plans for their development expenditure. Since the 1945 Act, colonies have been expected to send copies of their plans to the Colonial Office as soon as possible after the announcement of new CD & W allocations, so that 'schemes' can be considered in the context of these plans as well as on their individual merits. In 1955, the territorial allocations themselves were worked out by the Colonial Office partly on the basis of draft plans submitted by colonial governments. Plans are entirely the responsibitity of the colonial governments, but as each government corresponds more or less continuously with the Colonial Office about its schemes, there is plenty of opportunity for the Colonial Office to give advice. Colonial governments may also submit requests for help with development planning as well as their CD & W schemes, and a number of colonies have had economic missions in the last few years. Development 'plans' of the colonies are usually lists of projects to be undertaken in the public sector, rather than forecasts and programmes for the whole economy as is the case with the Indian Five-Year Plan.

In his despatch to colonial governments describing the latest CD & W legislation (the Commonwealth Development Act 1963),* the Secretary of State repeats the emphasis on the need for governments to prepare development plans approved by the legislature and himself. An approved plan is a prerequisite to the approval of Exchequer loans (under Section 2) and it is 'desirable also that grants and loans for CD & W schemes should be approved within the framework' of such plans. The principles to be followed in preparation of plans are briefly described – the assessment of the economic situation, the statement of purposes, the classification of

*Commonwealth Development Act 1963. Despatch dated 18 November 1963 from the Secretary of State for the Colonies to Colonial Governments. Colonial No. 357, HMSO 1963.

programmes, the enumeration of sources of finance and the assessment of the impact of each major project on the purposes of the plan. The Secretary of State notes the 'inevitable time lag' between commitments and actual expenditure. As the 1963 allocations cover only a short period – of less than two and a half years from the date of the despatch – he suggests that colonies should prepare reserve lists of projects to be implemented if expenditure lags behind the estimates in the main plan or if additional funds become available.

Grants and Loans under Section 1 of CD & W Acts

Assistance under Section 1 of the CD & W Acts may be given in grants or loans. In practice almost all the assistance has been in the form of grants. Of the £302m (including £21m in research grants) committed up to the end of March 1963, only £10m has been in the form of loans, including £6·4m in loans to Malta, largely for industrial development. The CD & W Acts themselves lay down no criteria for choosing between grant and loan assistance for a given scheme, but in practice the rule has been followed that no project likely to earn direct revenue is eligible for grant assistance. Among the revenue-earning projects for which assistance has been given under Section 1 of the Acts have been marketing schemes, fisheries, and, the largest group, for the conversion of Malta's dockyards to commercial use. The rate of interest on loans for such schemes may be anything from zero to about 5%, and if it is doubtful whether such a project will earn revenue, provision will be made for the loan financing it to be converted to a grant. Loan assistance is included in the total amount allocated to a territory and there is no provision for varying the territory's allocation according to the ratio of grants to loans that it requests. It is therefore in the interests of the territories to have as much as possible of their allocation for the period covered by the Act committed and issued as grants and not as loans. This means that colonial governments avoid as far as possible putting up revenue-earning schemes for CD & W assistance. When a colony's CD & W allocation is only a small proportion of its total development expenditure, this is of no great consequence, since it can select as its CD & W schemes those projects within its total programme which will not earn revenue, and reserve revenue-earning projects for financing from other sources. When, on the other hand, CD & W is the primary, possibly even the only source of development finance, this reluctance to put forward schemes which will earn direct revenue may have a seriously distorting effect on development programmes.

Of those colonies that have formal development plans, nineteen are dependent on CD & W funds for at least half of their current development programmes, and in six CD & W is the only source of development finance for current plans (Aden Protectorate, St. Helena, St. Lucia, Dominica, St. Vincent and Montserrat). From these nineteen territories, which together have a population of less than three million and are all heavily dependent on CD & W assistance, only seven put up schemes which were directly revenue earning for loan assistance under CD & W Section 1. Malta is an extreme case, taking a third of its total CD & W allocation for 1959–64 in loan form; the other six territories are taking on average less than 1% of their current allocations in loans. In general, except for Malta, the colonies which depend on CD & W for more than 50% of their current development plan expenditure are using relatively little loan finance from all sources (less than 15% on average of known plans) while those which depend less heavily on CD & W are on average financing about half their plan expenditure by loans.*

The correlation between loan finance and revenue-earning projects is not, of course, exact – not all loan financed projects earn revenue and some grant financed ones will earn revenue, directly or indirectly. Nevertheless the contrast is enough to suggest an unduly low proportion of revenue-earning projects in the plans of colonies which are heavily dependent on CD & W assistance.

Recurrent Costs

Under all the CD & W Acts from 1940 onwards, assistance may be given to meet the recurrent costs of economic and social development; but it has been a general rule that only projects whose recurrent costs would eventually be taken on to the ordinary current budget should be financed from CD & W. The maximum period for assistance to recurrent costs from CD & W has normally been five years, since each CD & W Act has had a fixed term with no absolute assurance of extension. This has raised difficulties particularly in the case of grant aided territories, since any scheme which adds to current expenditure merely increases the deficit to be met from grant in aid and so is unlikely to obtain Treasury consent. The governments of these territories and the Colonial Office are left with a choice between dropping all such schemes from applications for CD & W assistance, or, with Treasury consent, embarking on them on the understanding that their recurrent costs would be financed indefinitely from CD & W. The use of CD & W for financing recurrent costs in this way has meant that in grant aided territories the distinction between CD & W assistance and grant in aid has become increasingly difficult to sustain.

As the larger and more prosperous colonies become independent, the majority instead of a minority of the reduced colonial population will be in small territories, many grant aided and some possibly permanently 'unviable'. Very small territories present certain special problems, since 'experience shows that the cost per head of administering a territory rises sharply when the population is less than about 50,000 to 100,000. This is mainly because of the impossibility of combining certain services and administrative functions, which have to be organised on a certain minimum scale if they are to be provided at all. Some such territories may have to be permanently subsidised on both capital and current account if they are to maintain even the barest minimum level of services' (CD & W Acts 'Report on the use of Funds', Cmd. 672, 1959, p. 6). The problem of finding the most appropriate forms and criteria of assistance to the remaining colonial territories is becoming increasingly important.†

*From limited information: see Table 4 in the Appendix. See also 'The Colonial Territories 1961–62', Cmnd. 1751, Appendix 1: Development Plans, and also the pamphlet in this series on Colonial Development'.

†See Chapter 2.

Local Costs and Tying

In common with other forms of assistance to the colonies, assistance under the CD & W Acts may be used to meet the local costs of development expenditure, and the greater part of it is so used. That part of it which is used directly to finance imports from industrialised nations is now (since October 1962) required to be spent in the United Kingdom except where British industry cannot supply the goods or services on 'reasonably competitive terms'. There are no restrictions on imports which arise indirectly from the local expenditure of CD & W funds.

4—Exchequer Loans to the Colonies

Exchequer loans to the colonies were introduced in the CD & W Act of 1959, having been promised at the Montreal Commonwealth Economic Conference in 1958. A new supply of loan finance for colonial development was needed mainly because the supply from the traditional source – the London market – had greatly diminished towards the end of the 1950's. An important part of development finance has been provided by the issue of colonial stock on the London market since the middle of the nineteenth century, and particullarly since 1900 when colonial stocks qualified for trustee status on certain conditions. Between 1919 and 1939 the colonies borrowed over £100m in London. Since 1945 sterling commonwealth and colonial governments have had a preferential position in the London market, and between 1946 and 1959 colonial governments raised nearly £200m by the issue of loans.

The White Paper outlining the Exchequer loans proposal (Cmnd. 672, February 1959) records that between 1946 and 1957 colonial development expenditure amounted to very roughly £1,000m out of a total expenditure of the order of £4,000m. The development expenditure was financed as follows:

Table 8

Colonial Development Expenditure 1946–1957

	£m
Local resources	600
CD & W assistance	137
Borrowing on the London market	187
IBRD loans	13½

In about the same period the Colonial Development Corporation invested an additional £53m and committed a further £29m (Cmd. 672).

In 1950–54 the London market provided an average of £27m a year in loan finance for colonial governments (see Table 9). When development plans were being made in 1955 it was hoped that this flow would continue. But growing uncertainties about political conditions after independence and about attitudes to expatriate capital led to a serious decline in the number and value of colonial issues. In 1958 their value was less than £5m. Simultaneously a fall in primary commodity prices led to falling colonial revenues. Certain territories had financed their development expenditure only by making great use of short-term advances and by 1959 they were in urgent need of longer term loans to retire these advances.

It was against this background that Exchequer loans to the colonies were introduced. It was intended that colonial governments should 'continue to look in the first place to the London market' and also to 'other sources of external funds'. But when the funds required could not be raised in other ways, Exchequer loans would provide colonies with an assurance of the 'basic minimum of external loan finance' required for planning development on a reasonable basis (Cmnd. 672). These loans provide 'last resort' finance.

Table 9

Trustee Stock issued in London by Colonial Governments 1945–1962

	No. of Issues	*Value £m*		*No. of Issues*	*Value £m*
1945 to 1948	4	9·9	1955	3	9·7
1949	5	17·1	1956	3	11·3
1950	8	25·3	1957	3	15·5
1951	6	27·9	1958	3	5·0
1952	9	30·9	1959	2	3·0
1953	7	23·5	1960	1	3·4
1954	5	16·1	1961	–	–
			1962	–	–

Sources: 'CD & W Report on the use of Funds . . .', Cmnd. 672, 1959, p. 8.
'The Colonial Territories', Annual Blue Book.

Section 2 of the Colonial Development and Welfare Act 1959 provides that 'the Secretary of State (for the colonies) may with the approval of the Treasury make loans to the government of any colony for enabling that government to provide finance for any of the purposes of a development programme approved by the Secretary of State and by the legislature of the colony'. The phrase 'development programme' is defined later in the Section as 'a programme of public expenditure for promoting the general development or welfare of the colony in question, whether by the provision of new services or the promotion of new enterprises or by the improvement of existing services or enterprises'.*

The CD & W Act authorised the provision of loans to the colonies up to certain limits. Loan proposals approved in any financial year must not exceed £25m, and total approvals for the five years ending 31 March 1964 must not exceed £100m. In the first four years of the Act up to March 1963, loan proposals amounting to £73·2m were approved. The Commonwealth Development Act of 1963 extended the period during

*While 'schemes' made under Section 1 of this and earlier CD & W Acts had in fact been approved by the Secretary of State in the context of a development programme, and a colony which did not prepare a development programme would only in very rare cases have been given a CD & W grant towards any 'scheme' it put forward, this is the first mention of colonial 'development programmes' in an Act of Parliament.

The White Paper (Cmnd. 672) explains that the purposes for which Exchequer loans could be given would allow a slightly greater latitude (than for assistance under Section 1 of the CD & W Acts) and 'make possible provision for capital expenditure on administrative and security services, and on the maintenance of standards of government already achieved, all of which are not considered suitable subjects for Colonial Development and Welfare Schemes', just as in the past general loan resources had been used for a wider field than CD & W funds. But loans would not be made available for expenditure normally falling on the current budget.

which loans could be approved until 31 March 1966 and limited the amounts to be approved to £20m in the year ending 31 March 1964 or £35m in the two years ending 31 March 1965, or £105m in total (for a smaller colonial population).

The rate of interest on Exchequer loans is 'one quarter per cent above the rate at which the Government provides loans for a number of public corporations, which in turn is based on its costs for raising money for comparable periods of time' (Cmnd. 672).* The period of the loan will 'not normally exceed 30 years'; in almost all cases it has been 25 years. The loans are repayable by a series of equal annual instalments of principal and interest over the life of the loan. This method of repayment differs from that of a loan in the London market, for which the normal procedure is that the Stock Exchange insists on a minimum 1% sinking fund. (Question 1831, Fourth Report of the Select Committee on Estimates 1959–60.) While the actual rate of interest is likely to be lower on those Exchequer loans than on a loan in the London market, the annual cost to the borrower of servicing an Exchequer loan is likely to be higher than the annual cost of servicing a market loan.

Exchequer Loans 1959–63

Lists of Exchequer loans approved during any one year are published in the 'Return of Schemes made and of loans approved under the CD & W Act in the period from 1 April 196– to 31 March 196–'. The name of the recipient, the amount of the loan approved and a short description of its purpose are given; but the periods of the loans are not stated, nor is there any mention of grace periods for repayment. The total amounts of Exchequer loans outstanding, the amounts issued and repaid, and the interest payments are published in the Finance Accounts, in the Statement of Issues, Repayment, etc., below the line (e.g. on p. 30 of the Finance Accounts 1962–63). Similar information about individual recipients' outstanding loans, repayment, etc., is not published.

In the four years to 31 March 1963, the total amount of loans approved was £73·2m and the total amount issued was £63·7m (Table 10). About two-thirds of these loans have been 'for the general purposes of the programme of development' of the receiving territory. For the remainder (about £20m) of the loans, the purposes are specified more precisely: for example, electricity (£6m to be re-lent to the Uganda Electricity Board), communications (£7½m to be re-lent to the East African Railways and Harbour Board), housing (£900,000 to Mauritius) and education (£335,000 for a programme of development of African education in Southern Rhodesia). (See Table 5 in the Appendix for lists of loans approved in 1961–62 and 1962–63.)

Exchequer loan commitments were made to twenty colonial territories, 40% to Kenya and Uganda. The main recipients are listed in Table 11, which also shows the loans raised in the London market in the ten years since 1952 by the same territories. 13 of the 20 recipients of Exchequer loans (receiving 85% of the total) borrowed in the London market at

*See Chapter 13.

Table 10

Exchequer Loans 1958/59–62/63

	No. of loans	*Amount committed £m*	*Amount issued £m*
1959–60	8	17·0	8·3
1960–61	12	25·0	22·7
1961–62	12	15·9	18·8
1962–63	10	15·3	13·9
	42	73·2	63·7

Sources: 'CD & W Return of Schemes', Annual House of Commons Paper (summary tables). Annual Abstract of Statistics 1963, Table 297.

Table 11

Exchequer Loans and London Market Borrowing

	Exchequer Loans 1959–60 *to* 1962–63			*London Market Loans* 1952–53 *to* 1962–63	
	Number	*Commitments* £m	%	*Number*	£m
Kenya	4	17·6	24·0	4	16·2
Uganda	4	11·3	15·4	1	3·8
East African High Commission	1	8·3	11·3	8	35·4
British Guiana	4	6·9	9·3	1	3·5
Southern Rhodesia ...	1	3·9	5·3	—	—
Tanganyika	2	3·5	4·8	4	9·2
Nigeria	1	3·0	4·1	—	—
Sierra Leone	2	3·0	4·1	1	1·2
Malta	1	2·5	3·4	—	—
Swaziland...	4	2·0	2·8	—	—
Fiji	2	2·0	2·7	—	—
Nyasaland...	2	1·9	2·6	1	2·1
Total (12 territories) ...	**28**	**65·8**	**89·9**	**20**	**71·4**
Others which raised:					
1 London loans since 1952 also (5 territories: note 1)	7	6·1	8·3	8	21·6
2 Exchequer loans only (3 territories: note 2)	7	1·3	1·8	—	—
3 London loans only ...	—	—	—	9	15·7
Total	**42**	**73·2**	**100·0**	**37**	**107·7**

Notes:
1 The other recipients of Exchequer loans since 1959 which also raised loans in the London market in the ten years 1952–53 to 1962–63, were N. Rhodesia, Aden, Mauritius, Jamaica, Cyprus.
2 The other recipients of Exchequer loans which had not raised loans in the London market were S. Cameroons, Basutoland, Bechuanaland.
3 Borneo and Sarawak, Malaya (independent before 1959), Barbados, Trinidad, Antigua, Grenada, St. Lucia.

Sources: Exchequer loans: 'CD & W, Return of Schemes', Annual House of Commons Paper. London market loans: 'The Colonial Territories', Annual Blue Book.

some time during those ten years. Although there were some new borrowers to whom Exchequer loans were made, the concentrations of Exchequer loans and London market loans in these periods were much the same – half of the Exchequer loans since 1959 and half of the market loans since 1952 went to the first three (East African) recipients listed in the Table.

5—The Commonwealth Development Corporation

The Corporation was set up in 1948 'for the purpose of assisting colonial territories . . . in the development of their resources'. Its funds are drawn from the UK Exchequer and from other sources. It has the power to borrow up to £150m on a long or medium term basis and £10m on short term. Of the £150m it may have up to £130m outstanding at any one time from the Treasury. In 1963 its name was changed from Colonial to Commonwealth Development Corporation, and it is now able to carry on the full range of its activities in any part of the Commonwealth, except in those countries already independent when the Corporation was set up – thus excluding India, Pakistan and Ceylon.

In 1963 CDC lent or invested £6·8m (in 1962 £9·5m). Sources of funds in the same years are shown in Table 12 below.

Table 12

CDC Sources of Funds in 1962 and 1963

£m

Sources of Funds	1962		1963	
CDC operating surplus	(4·4)		(4·8)	
Less interest payments to Government and repayment of deferred liability	(2·8)	1·6	(3·5)	1·3
Repayments of investments under contract...		1·5		3·1
Sales of shares and debentures		0·2		1·4
Retained profits of subsidiaries		0·4		0·5
Net borrowing from other sources than Government ...		1·1		0·6
		4·8		6·9
Net borrowing from Government		4·7		—0·1
Gross investment in development		**9·5**		**6·8**

Source : CDC Report and Accounts, 1963, p. 17.

The purpose of the CDC was (and is) to bridge the gap between colonial governments' own development efforts (helped by CD & W. London loans, and now also Exchequer loans) and straightforward private investment. It may undertake any type of enterprise open to a private concern; it may own and run projects entirely by itself, invest in enterprises in partnership with private or Government concerns, or both (either through equity or dated-loan participation), or it may make investments of the 'finance house' type, i.e. loans to governments and statutory bodies, and loans guaranteed by Government. Its investments are restricted by statute to agriculture, fisheries, mining, manufacturing, public utilities, transport, building, hotel-keeping, warehousing, and construction. It may not take part, except as a building or engineering contractor, in education, health, or similar public services. It can process, market or store any products of its enterprises (see Table 13).

Like most public corporations, the CDC has some difficulty in reconciling its statutory obligation to meet all outgoings from its revenue, taking one year with another – an obligation which inclines it to behave like an ordinary commercial concern – and its obligation to assist in the development of colonial economies, which is backed up by the Secretary of State's statutory power to influence its decisions. The Secretary of State 'may, after consultation with the Corporation, give to it directions of a general character as to the exercise and performance of its functions in relation to matters appearing to him to concern the public interest, and the Corporation shall give effect to any such directions', and this is backed up by the financial provision, which states that 'the power of the Corporation to borrow shall be exercisable only with the approval of the Secretary of State, given with the consent of the Treasury, as to the amount, as to the source of the borrowing, and as to the terms on which the borrowing may be effected'* – in practice, the Secretary of State rarely questions the Corporation's judgement on technical or commercial grounds, and an example of the kind of general direction that he may make is his statement in the Commons (on 27 July 1956) that the Corporation would make an effort to see that investments of the 'finance-house' type would not in future 'constitute an undue proportion of the Corporation's activities'. Commercial prudence had been inclining the Corporation to increase the amount of this type of loan, to offset its riskier equity investments. The original criticism of the Corporation's 'finance-house' type of investment had been made by the Public Accounts Committee in 1953–54, on the grounds that the CDC existed largely to provide risk capital.

A committee was set up in 1959 to investigate the financial structure of the CDC, and in its report (Cmnd. 786, 1959) it recommended that the terms of Exchequer lending to the CDC should be altered. The system up till then had been that the rates of interest charged on all Exchequer advances, whatever their maturity, should be related to the current Government borrowing rate, and that interest payments should be waived on loans which had been written off with the agreement of the Secretary of State and the Treasury. The Committee estimated that, if the CDC were to borrow nothing further, it would be unable ever to repay its outstanding liabilities, at the rate of interest at which it had been borrowing. Their proposal was that the Treasury should make three kinds of loan to the Corporation, depending on the type of investment being financed. 'A' stock, repayable on normal Government terms, and with no 'fructification' period for interest, should be issued in respect of all 'finance-house' business; 'B' stock, on which interest would be payable up to an annual maximum of 5% to the extent of available earnings in the year, should be issued to cover all other CDC advances; and 'C' stock

* Overseas Resources Development Act, 1959.

Table 13

Functional Distribution of Continuing Projects, 1963

Type of Project	*% of total funds* Committed	Invested
Basic Development	**54**	**55**
Power and Water	33	37
Housing Finance...	17	15
Transport...	4	3
Primary Production and Processing	**33**	**35**
Agriculture, Ranching and Processing...	21	21
Forestry	9	11
Minerals	2	3
Commerce and Industry	**13**	**10**
Factories	5	5
Development Agencies	6	3
Hotels	2	2
Total	**100**	**100**
	£119m	**£92m**

Note: Figures are approximate only as they are derived from a chart.
Source: CDC Report and Accounts 1963, p. 14.

should be issued to cover net losses on projects abandoned with the Secretary of State's approval, up to 1 January 1959. Repayment of 'C' stock would only be made after 'A' and 'B' stock had been repaid in full. These arrangements would give the Exchequer a form of equity interest in the CDC's activities, which would be more appropriate to the Corporation's risk-bearing function, and the burden of past losses would also be relieved. The Committee's recommendations were not followed very closely by the Government, and the changes announced by the Secretary of State in the Commons on 27 April 1961 were as follows:

1. The £9m CDC debt to the Exchequer in respect of written-off losses was frozen and placed in a special account, along with the accumulated 'fructification' interest (estimated at £11m on 31 December 1960) which would have been payable by the CDC in instalments over the next 30 to 40 years. This debt would be repaid by annual amounts related to CDC profits in each year according to a special formula.

2. Interest payments would in future only be deferred in respect of advances made for 'equity type' investments narrowly defined.

Geographically, the CDC's scope had narrowed considerably since 1957, when Ghana and Malaya became independent. In 1959, the Overseas Resources Development Act empowered the Corporation to continue its *existing* enterprises in countries which became independent and to undertake new managerial and advisory functions in these countries, provided the services were paid for at a price which covered their cost. In December 1963 the Commonwealth Development Act gave the CDC the power to make new investments in the independent Commonwealth. This was an important change, as it meant that the Corporation's experience and enterprise would not be confined within a narrowing field.

The special value of the CDC is usefully summarised in its Annual Report and Accounts, 1961 (page 10). '(The) Colonial Development Corporation is unique in that it alone of the metropolitan governmental development agencies maintains a permanent resident organisation in the areas in which it operates. . . . We believe that the presence of Colonial Development Corporation staff on the spot, ready to share the risks of local ventures by equity investment, engenders a sense of partnership not present where development finance is provided only as block loans from abroad.' On management, the Report continues 'Colonial Development Corporation itself managed, or at least carried some responsibility for the management of more than half of the 102 continuing projects which had been approved at 31 December 1961. . . . It is the Colonial Development Corporation's view, which has received support by recent action of the IBRD in establishing a new Development Advisory Service that in many territories it is not enough to lend money and provide (possibly) technical assistance. If the money is to be spent effectively help must be given in the first instance with management from overseas. Thereafter, every effort must be made to train local men for executive posts of responsibility', where necessary by 'providing scholarships at agricultural and technical colleges and (by means of) project training schemes.'

When set up the CDC was very much a pioneer project – it differs from other channels of aid in several respects. First, it is not merely an administrative channel through which aid is disbursed, but the Corporation itself operates a variety of projects – this enables it to direct and keep an interest in complete operations from inception, through construction and finally operation, with full control (where it has a majority holding, see Table 14) over the uses to which funds are put and the policy of the enterprises. Second, concurrently with finance it provides expatriate or trains local personnel to operate both its own and other projects. Third, it is organised on 'commercial' lines – i.e. it is obliged to break even on its operations. Fourth, it draws funds from the Treasury, *and from other sources*. In 1963, for example, CDC investments were made entirely from non-Treasury funds – see Table 12. (It can thus be misleading to look at Treasury advances to CDC alone – repayments must also be noted. In 1963, *net* Government aid through this channel was, in fact, *negative*). Fifth, CDC funds are not (officially) tied to British imports, nor is there a rule as to the proportions that may be spent on local costs and on imports.*

With the rapid expansion of other forms of aid in recent years, the CDC has been dwarfed. In the first four full years of its life, gross advances from the Treasury averaged £7m p.a. – in the last four years they have risen to £9m p.a. Total aid in the same periods rose from about £45m to over £150m a year. Originally the CDC was to provide funds for projects not well suited to qualify for aid through other channels, or which private investment might neglect. However, both the nature and territorial distribution of its investments (see Table 14 and Appendix Table 6) suggests that circumstances have forced the CDC to depart somewhat

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* It is difficult to see, though, how the CDC could operate effectively if its investments were tied to imports.

from its original intentions. The rising cost of borrowing*, the statutory obligation to break even, and the losses incurred on early investments have forced the Corporation to make a somewhat high proportion of 'finance-house' type loans and very 'safe' commercial type investments; it has had to hedge its *limited* number of high risk investments (which private capital is likely to avoid) with a considerable number of 'finance-house' type loans and 'safe' share capital investments.

Investment in Partnership

Where the CDC is financially associated with other commercial-type enterprises, the CDC share capital may range from a majority holding of 98% (e.g. in B.G. Timbers Limited in which Industrial Holdings B.G. Ltd. as a subsidiary of Booker Bros., McConnell and Co. Ltd. hold the balance) down to a minority holding of as little as 4% (e.g. in the Tanganyika Extract Co. Ltd., a company formed by the Mitchell Cotts Group). Full details of the associated shareholders have not been published in all cases, but CDC has been especially active in obtaining co-operation with local commercial, banking and insurance companies in the territory. Some of these associates are quite independent locally financed enterprises, whilst others may be subsidiaries of UK firms. Local Governments are important shareholders especially in the concerns where CDC has the controlling interest. Several UK companies are also associated in CDC ventures, some on a 50:50 basis like the £5m Swaziland Usutu Pulp Co. Ltd. (CDC with Courtaulds Ltd.). CDC has also associated with foreign firms in a number of projects (e.g. with W. R. Grace of New York for the Federation Chemicals Ltd. in Trinidad; with Consolidated Gold Fields of South Africa for the Tangold Mining Co. Ltd. of Tanganyika; and with Dutch firms in several plantation ventures, etc.).

Many CDC enterprises as they grow change in form from direct projects into locally registered subsidiaries (including local Development Agencies like the Industrial Promotion Corporation of Rhodesia and Nyasaland) with an increasing percentage of other shareholders as the undertakings become firmly established, and with time these other shareholders will eventually include not only firms and governments but also local individuals (e.g. the majority of the 2,000 shareholders of the Nigerian Cement Company are individual Nigerians). Other CDC ventures have been initiated in co-operation with one or more groups of associates; local and foreign firms and governments as well as other UK companies.

In its total investment in both direct and indirect forms, CDC capital consists in fact predominantly of loans rather than share capital. About £87m of loans have been committed and £67m made (or just over 70% of the total CDC investment at 31 December 1963). Loans and share capital is about equal in joint projects where CDC has a controlling interest (see Table 14).

Besides the joint share capital ventures, the CDC is associated as a joint creditor in several of the thirty or so loan-type investments. The largest of these for the CDC is its £15m loan to the Kariba Dam project

* Borrowing from the Treasury averaged 5·2% in 1963 as opposed to 4·7% in 1960.

of the Central African Federal Power Board, which like many other CDC loans is guaranteed by the local Government. Among other creditors of Kariba is the World Bank with the Commonwealth Finance Company Limited which will have altogether provided a total of £63m. In the case of the Trinidad Mortgage Company, £1m of loan capital will be provided by the Bank of London and Montreal Ltd., the Commercial Union Assurance Co. Ltd., the Guardian Assurance Co. Ltd. and the Sun Life Assurance Company of Canada in addition to a £2m loand from the CDC.

Capital assistance programmes have sometimes been ineffective because they were divorced from technical and 'managerial' assistance. In this respect the CDC has an inspiring record; it manages all its own direct and subsidiary projects and also several of its associated company ventures (e.g. the forest plantation side of the Usutu project whilst Courtaulds manages the factory). It has conducted many feasibility studies and also has an advisory and technical service which is generally available to colonies and to ex-colonies (though usually on a fee paying basis).

Table 14

Risk-capital and Loan Forms of Investment by CDC at December 1963

	No. of Projects	Amount of CDC Investment (£'000s) COMMITMENTS Risk-Capital	Loans	INVESTMENTS Risk-Capital	Loans
(a) Direct Project Investment ...	12	7,104	—	6,330	—
(b) Capital Participation in Companies					
1 100% share ownership ...	8	1,166	4,071	1,032	3,224
2 51% share ownership ...	10	8,016	5,969	5,155	3,000
3 50% share ownership ...	6	2,753	2,766	579	673
4 below 50% share ownership	53	12,909	29,739	11,000	25,036
(c) Loans to governments and public authorities ...	26	—	44,778	—	35,778
Total	**115**	**31,948**	**87,323**	**24,096**	**67,711**

Table 15

Regional Distribution of CDC Projects at 31 December 1963

Region	*No. of Projects*	*Commitments (£'000s)*	*Investments (£'000s)*
Caribbean	18	17,641	12,097
East Asia and Pacific	21	20,685	15,556
East Africa	36	22,980	17,229
Central Africa	12	24,327	22,237
High Commission Territories	10	20,509	17,203
West Africa	18	13,129	7,485
Total	**115**	**119,271**	**91,807**

Note: The complete territorial distribution is given in the Appendix (Table 6).
Source: CDC.

Part II

Aid to Independent Countries

6—The Growth of Aid to Independent Countries

Total British bilateral aid between April 1945 and March 1963 amounted to £1,207m. About one third of this went to countries which were independent for the greater part of the post-war period – £400m divided between India (over £120m), Burma, Libya and Yugoslavia (about £40m each), Jordan and Pakistan (about £30m each), Argentina (about £20m) and Turkey, Greece and Sudan (about £10m each). The Commonwealth countries which achieved independence in 1957 and after received £76m between their independence dates and March 1963.

In the first two post-war years, the greater part of British aid was given to foreign countries. Between 1947 and 1957, aid to foreign countries declined to an average of £12m a year while aid to the colonies grew substantially from £8m to £47m a year. After 1957 aid to the colonies continued to rise, and, (a new development), aid to the independent countries of the Commonwealth began to be provided on a substantial scale.

The distribution of British bilateral aid since 1945–46 is shown in Table 16. Between 1945–46 and 1956–57 a total of £528m was disbursed, of which 66·5% went to the colonies and 32% to foreign countries, and only 1·5% to the independent countries of the Commonwealth. Thereafter the independent Commonwealth countries received growing amounts. In 1962–63 their share was larger, for the first time, than that of the colonies – 45% of the total, divided equally between countries that became independent before and after 1957.

Table 16

Direction of UK Bilateral Aid – 1945–46 to 1962–63

£m

Year	**Total**	*Commonwealth* *Independent before* 1957	*Independent in or after* 1957	*Colonial**	*Foreign* *£m.*	*as % of total UK aid*
1945–46	**30·4**	—	—	8·8	21·6	71
46–47	**41·2**	—	—	9·3	32·9	80
47–48	**13·9**	—	—	8·1	5·8	42
48–49	**15·8**	—	—	10·1	5·7	36
49–50	**32·0**	—	—	28·1	3·9	12
50–51	**43·3**	—	—	29·9	13·4	29
51–52	**59·3**	—	—	39·8	19·5	33
52–53	**45·9**	0·2	—	34·5	11·2	27
53–54	**44·0**	0·3	—	36·3	7·4	16
54–55	**66·2**	3·4	—	55·3	7·5	11
55–56	**76·4**	2·3	—	45·3	28·8	38
56–57	**59·7**	1·9	—	46·1	11·7	19
57–58	**62·2**	2·7	2·0	47·2	10·3	16
58–59	**85·5**	20·6	5·2	49·0	10·7	12
59–60	**109·6**	35·5	4·2	57·5	12·4	11
60–61	**130·0**	31·6	14·0	71·8	12·6	9
61–62	**153·9**	24·3	20·2	95·6	13·8	8
62–63	**138·0**	31·8	30·5	60·6	15·1	11
TOTAL	**1,207·3**	**154·6**	**76·1**	**732·3**	**244·3**	**20%**

* Includes aid to countries now independent before the dates of independence.

Sources: 1 Annual Abstract of Statistics 1961, Table 277 (for years 1945–46 to 1953–54).
Annual Abstract of Statistics 1962, Table 278 (for year 1954–55)
Annual Abstract of Statistics 1963, Table 277 (for years 1955–56 to 1962–63).
2 Aid to Developing Countries, September 1963 (Cmnd. 2147).

The United Kingdom emerged from the Second World War without any tradition of aiding independent countries – virtually all the financial assistance she had given in the past had been to colonies through the Colonial Development Fund, CD & W assistance and grants in aid. Assistance to independent developing countries was not contemplated except as an emergency measure to be used in special circumstances only – immediately after the war help was given to Greece and Burma to restore economic and financial stability after their liberation from the enemy. Apart from expenditure by Turkey of a loan agreed in 1938, and aid to Jordan, which has continued up to the present day, no other developing country received any substantial aid from Britain up to 1949. Although India, Pakistan and Ceylon became independent in 1947–48, the custom of giving a 'golden handshake' to newly independent Commonwealth countries was not to be established for another dozen years – in their case ownership of substantial sterling balances accumulated during the war seems to have effectively disqualified them from help at this stage.

The 1949 Export Guarantees Act empowered the Board of Trade to make loans for the purpose of rendering economic assistance to overseas governments. This new power was used to make extensive loans (£17m to Yugoslavia between 1949 and 1951) and smaller loans to Pakistan, Iran and Iraq, but did not become an important channel of aid until 1958.

In 1950 the Colombo Plan was launched and Britain started to give technical assistance, but not yet financial aid, to the independent countries of South and South-East Asia. Despite its small scale the inauguration of the Plan was significant, for it represented a regular programme of assistance to which Britain and the other developed Commonwealth countries in the area were committed.

There were no major new developments in this field in the early 1950's, apart perhaps from the long-term commitments entered into in respect of Jordan and Libya, and the agreement in 1957 with Argentina on debt consolidation. The 1958 Montreal Commonwealth Economic Conference marked something of a turning point however. It came at a time when interest in development was increasing rapidly throughout the world, and in the Commonwealth in particular two extremely important changes were taking place. First, more than half of Britain's colonial empire was about to become independent (Ghana and Malaya had already achieved independence in 1957); and second, India and Pakistan had reached a situation of economic crisis in which their sterling balances had been virtually exhausted and their development plans were endangered without further economic aid. Faced with this situation the UK announced its readiness to make more use of existing powers under the Export Guarantees Act to grant loans (known as Commonwealth assistance loans) to independent Commonwealth countries. The increase in the use of the Act since 1958 has been impressive. Between 1949 and September 1958 there were three loans to foreign countries and two to Commonwealth countries. Between September 1958 and December 1963 there were 11 loans to foreign countries and 33 to Commonwealth countries. Some of these loans in 1963–64 have been tied to the products of British industries with surplus capacity, in accordance with the British Government's offer (announced in December 1962) to make available additional aid if it could be so tied. Apart from these loans Britain has also helped newly independent Commonwealth countries in recent years with other assistance as part of independence settlements, and in some cases (particularly Tanganyika and Uganda) with substantial help under the Overseas Service Aid Scheme (see Chapter 9). Technical assistance agreements have been signed with most of the more important independent developing countries of the free world.

Aid to Foreign Countries

The main foreign recipients of aid during the 18 years 1945–46 to 1962–63 and during the 5 years 1958–59 to 1962–63 are shown in Table 17. Of the £244m disbursed (gross) since 1945 two thirds has gone to five countries – Yugoslavia, Burma, Libya, Jordan and Argentina. These countries received three quarters of all grants and three fifths of all loans. Some countries have received regular annual instalments over most of the period; others have received isolated large or small amounts.

Table 17

Bilateral Aid to Foreign Countries
(gross disbursements)

		1945–46 *to* 1962–63				1958–59 *to* 1962–63
	*No. of years**	*Total Aid*		*Grants*	*Loans*	*Total*
		£m.	*% of total*	*£m.*	*£m.*	*£m.*
Yugoslavia	14	42·8	17	19·3	23·5	6·7
Burma	2	36·8	15	32·4	4·4	—
Libya	13	42·6	17	41·7	0·9	16·3
Jordan	18	26·1	11	15·3	10·8	14·2
Argentina	1	19·0	8	—	19·0	—
Turkey	9	10·6	4	0·2	10·3	3·8
Greece	1	12·5	5	2·5	10·0	—
Iran	5	9·8	4	0·2	9·6	1·8
Sudan	2	7·9	3	3·8	4·1	4·5
Iraq	2	2·8	1	0·1	2·7	—
Chile	2	1·8	1	—	1·8	1·8
Brazil	2	2·5	1	—	2·5	2·5
Other	—	29·4	12	28·8	0·5	13·0
TOTAL	**18**	**244·3**	**100**	**144·3**	**100·0**	**64·6**

* Figures in first column indicate the number of different years, out of 18, in which aid was disbursed to the country.

Sources: Annual Abstract of Statistics, 1961 Tables 277, 278.
Annual Abstract of Statistics, 1962 Tables 278, 279.
Annual Abstract of Statistics, 1963 Tables 277, 278.

Aid to foreign countries will be described in more detail under the following four headings:

1 Export Credits Guarantee Department loans;
2 aid to regular recipients – Jordan and Libya;
3 miscellaneous isolated large lumps of assistance – for Greece, Burma and Argentina;
4 technical assistance.

1 Export Credits Guarantee Department Loans

Turkey was the first country to receive an ECGD loan in 1938; the bulk of this was not used until after the war. Tied loans under Section 3 of the Export Guarantees Act of 1949 have gone to Yugoslavia, Iraq, Iran, Sudan, Chile, UAR, Bolivia, Nepal and (again in 1963) to Turkey. Yugoslavia, with £23m of loans, has had the largest share; the political motivation in this case is obvious, for four ECGD loans totalling £17m were made available between 1949 and 1951. Yugoslavia also received over £19m in grants and technical assistance over the period (£12m of this in 1951 and 1952). It will be observed that apart from Chile and

Bolivia all the other recipients of these ECGD loans were located in what might have been described as the British 'sphere of influence' at the end of the war, and in many of them private British capital was at one time dominant. The loan to Chile was for the repair of earthquake damage: that to Bolivia was for rehabilitation of the railways in which British money was involved. In 1963 loans of about £2m in aid from 'surplus capacity' were promised to Algeria and Chile and offers of similar loans were made to several other countries.

2 Aid to Jordan and Libya

The foreign countries which have had aid on a regular basis from Britain are Jordan and Libya – and to a much lesser extent Muscat and Oman. Much of this has been assistance to current budgets.

Jordan (formerly Transjordan) was recognised by the UK as an independent sovereign state in March 1946 and in 1948 a Treaty of Alliance was signed for 20 years (it was actually terminated in 1957). In 1951 an agreement settled financial matters arising out of the termination of the Palestine mandate in 1948 under which the UK agreed to take over part of the cost of pensions of officials of the former Government of Palestine. Grants were made for this purpose and also in aid of the Jordanian budget – these amounted to £15m up to March 1963 and are currently running at some £2m p.a. The UK has also made available loans of £10m over the same period, mostly for development projects.

Libya was governed after the war under British and French military administration until December 1951 when it received independence. In July 1953 a Treaty of Friendship and Alliance was signed under which the UK obtained bases in Libya. By a financial agreement of the same date the UK agreed to pay Libya £1m p.a. for five years as development aid and £2·75m as aid to the budget. The treaty also provided that the UK would 'before the end of each succeeding period of five years . . . undertake to give such suitable financial assistance annually during the following period of five years as may be agreed'. In the event the amount for the budget was stepped up to £3m in 1956 and £3·25m in 1957 at which level it has remained ever since. The £1m p.a. for development was not continued after 1957 however – in this connection it should be remembered that the discovery and exploitation of oil in Libya transformed that country's finances. Although these payments to Libya are counted as 'aid' there is no doubt that they are in essence straightforward payments to the Libyan Government in return for the use of bases – the 1953 agreement itself specifically relates the aid to the agreement on bases.

3 Isolated Large Sums of Assistance

In this category are included the £10m loan to Greece for currency stabilisation after the war in 1945–46, the large sums made over to Burma between 1942 and 1947 and the Debt Consolidation Agreement with Argentina in 1957. Other smaller debt consolidation agreements, signed mostly when Britain's debtors were in imminent danger of defaulting, are also included here.

The UK loan to Greece was one of a number of post-war assistance measures to devastated Europe. Among 'developing' European countries the British Government includes only Greece, Yugoslavia and Turkey, so that similar help to other countries is excluded from the official figures of aid.

Aid to Burma should perhaps not be included here, in a section on aid to independent countries, since Burma received part of the assistance when she was still a British dependency, and the rest was made available under the independence agreements in 1947. The background to this assistance was that Burma emerged from World War II with a shattered economy having been right in the front line of the fighting and unable, as India and Ceylon were, to build up wartime sterling balances. Between 1942 and April 1947 Britain made available some £10m to the Government of Burma in grants and loans. Then by the Financial Agreement of 30 April 1947 the British Government provided a further £14·5m of budgetary support and £18·4m for use on 'projects' including development projects in the public utilities field. Of the total debt of some £42m, £15m debt arising out of budgetary support was cancelled by the Treaty of 17 October 1947 recognising Burmese independence; but the balance of these sums and the whole of British advances for projects were to be repaid, in 20 equal instalments starting not later than 1 April 1952, no interest being chargeable. In the event, however, Burma's economic and financial situation was such that there was never much prospect of this condition being fulfilled, and only £1·1m of repayments had been made in 1954. As a result of an exchange of notes in February of that year Burma agreed to make a single payment of £4 in final settlement of her indebtedness under the 1947 Treaty, which meant in effect that Britain waived a further £22m of claims. However, the Government of Burma also agreed to take over the obligations of the British Government to pay £3·3m to the Union Bank of Burma in respect of currency redemption.

The £19m assistance to Argentina in 1955 stemmed from the Trade and Payments Agreement of March 1955. Article 12(c) of the Agreement provided that whenever the sterling balance of the Central Bank of Argentina at the Bank of England was not sufficient to meet payments to the Scheduled Territories, the UK would make sterling available up to £20m on terms to be agreed. In other words this was an agreement to 'bail out' Argentina which was in danger of defaulting on her debts to Britain. By an agreement on the Consolidation of Debts of November 1957, Argentina's total indebtedness under the 1955 Treaty was put at £19m. It was agreed that Argentina should pay this in nine instalments up to June 1965 with interest at 3½%. In May 1961 the repayment period was extended for a year. In November 1962, however, Mr. Heath told the Commons that as part of a general move by the European creditors of Argentina the UK had agreed to provide a 'refinance loan' equal to 50% of the amount of the principal of certain medium term commercial debts falling due in 1963–64. The probable amount of UK assistance involved would be £8–10m, and the deferring of payments due on the debts from 1963 to 1966 would cost an additional £875,000. The agreement was signed in June 1963 (Cmnd. 2164). A loan to Brazil of £2,500,000, for a similar purpose, was made in 1961 and 1962.

Considerable amounts of grant aid are now being given to Laos, in co-operation with other donors, to assist in the stabilisation of the economy.

4 Technical Assistance

Apart from technical assistance to foreign independent countries in South-East Asia under the Colombo Plan (described more fully below), Yugoslavia was the first foreign country to receive technical assistance from the UK on any scale. The UK also helped certain North African and Middle Eastern countries with the recruitment of personnel, although this was somewhat different from other technical assistance schemes since the experts were paid for by the receiving country.

Technical assistance was extended to Central Treaty Organisation countries (Turkey, Iran and Pakistan) in 1956, and in 1958 to non-Commonwealth African countries under the Foundation for Mutual Assistance in Africa South of the Sahara (FAMA). A large new geographical extension of British technical assistance, albeit on a small scale at first, was made with the provision on the 1962–63 Vote of the Department of Technical Co-operation for assistance to Latin America, various Middle Eastern and Asian countries not already eligible under other schemes.

Aid to Independent Commonwealth Countries

Aid to independent Commonwealth countries is shown in Table 18. The total up to March 1963 was £230·7m. India is by far the largest recipient, with over half the total, £122·4m, of which all except £1m was disbursed in the five years 1958–59 to 1962–63. Pakistan received £30.1m, almost all of it since 1954–55. Of the aid to these two countries 96% has been in loans under Section 3 of the Export Guarantees Act (97·5% to India, 90% to Pakistan); the small remainder, in grants, has been almost entirely technical assistance.

£76m has gone to countries that became independent in or after 1957. This is the total of aid disbursed *after* independence, so it includes only part of the aid received by a country in the year in which it became independent. In Table 18 the figures of aid to newly independent countries include *all* the aid received during the year of independence (see Note to Table). The total of aid to those countries, as shown in the Table, was £251·5m; this includes £20·8m officially classified as aid before independence.

Of this adjusted total, £251·5m, Nigeria received £23·9m, (including £12m in ECGD loans), Tanganyika £19·5m, Uganda £8·4m and Malaya £21·8m, including £12·2m in grants for 'emergency' expenditure. The total of £76m is made up of 33% in loans and 67% in grants, including 20% 'emergency' grants. This high proportion of grants in the aid to newly independent countries reflects the exceptional aid agreements made at the time of independence.

Table 18

Aid to Independent Commonwealth Countries (Since Independence)

(gross disbursements)

	Date of Inde-pendence	*In year but before date of independence*	*Year of independence to 1962–63 Total aid £m*	*% of total*	*Grants £m*	*Loans £m*
India	Aug. 1947	—	122·4	48	3·0	119·4
Pakistan	Aug. 1947	—	30·1	12	3·1	27·0
Ceylon	Feb. 1948	—	2·2	0·5	1·3	0·9
Total to countries independent before 1957		—	154·7	60·5	7·3	147·3
Ghana	May 1957	—	2·0	0·5	1·3	0·7
Malaya	Aug. 1957	2·8	21·8	9	17·7	4·1
of which 'emergency' aid			12·2		12·2	—
Cyprus	Aug. 1960	2·1	12·5	5	12·6	*
of which 'emergency' aid			0·8		0·8	—
Nigeria	Oct. 1960	5·5	23·9	10	6·2	17·7
Sierra Leone	Apr. 1961	0·9	5·1	2	1·3	3·8
Tanganyika	Dec. 1961	6·7	19·5	8	13·0	6·5
Jamaica	Aug. 1962	1·0	3·4	1·5	1·7	1·7
Trinidad & Tobago	Aug. 1962	0·1	0·2	†	0·2	—
Uganda	Oct. 1962	1·7	8·4	3·5	4·7	3·7
Total of above (including aid in year but before date of independence)		**20·8**	**251·5**	**100**	**66·0**	**135·5**

* signifies less than £50,000.
† signifies less than 0·5%.

Sources: 1 Annual Abstract of Statistics, 1961, 1963 (Table 277, 278).
2 Aid to Developing Countries, Sept. 1963 (Cmnd. 2147, Appendix A).

Note: Published figures of aid to individual countries show only the amounts of aid received in the full year. The aid received by a country which becomes independent during a year is divided between 'aid to colonies' and 'aid to independent countries' (of which total figures are published) partly by the time of disbursement and partly by the class of aid – e.g. an Exchequer loan negotiated very shortly before the date of independence will be classed as 'aid to colonies' although it is not spent until later. So the division is somewhat arbitrary. In the Table the figures for newly independent countries include *all* the aid received during the year of independence, with, in the first column, an estimate of the aid officially classified as before independence.

The growth of aid to the independent countries of the Commonwealth will be described in more detail in two sections: (1) aid to the Colombo Plan area; (2) aid to the newly independent countries.

1 Aid to Colombo Plan Area

India and Pakistan became independent in 1947, Ceylon in 1948. As a result of the war the economies of these countries had been severely strained. In the case of (undivided) India, for instance, it was calculated that the value of goods and services provided by the economy for war purposes was £1,650m. At the same time, however, the reduced spending opportunities in the war led to the accumulation of sterling balances and the reduction of public debt. The public debt owed by India to the UK, which amounted to £99m in 1939 had been reduced to £10m by 1945, while the sterling balances rose in the same period from £48m to some £1,020m, and stood at £1,160m in 1947; those of Ceylon stood at nearly £100m.

The Financial Agreements of 1947–48 with India were largely concerned with the future of the sterling balances, the purchase of UK defence stores and India's future position as a member of the sterling area. India's sterling balances were reduced by some £100m for purchases of British defence stores and further by some £168m for the purchase of an annuity to be used for paying pensions. The agreements provided for India to have a freely usable 'No. 1 account' into which £65m was paid immediately and a blocked 'No. 2 account' from which transfers were to be made at an agreed rate to 'No. 1 account'. The Government of India also undertook under this agreement to limit its expenditure in hard currency areas. There was no mention of any direct financial aid.

At independence the previously undivided India was partitioned into India and Pakistan and by agreement Pakistan received a proportion of the sterling balances, so that in June 1949 she had £120m in her own right. Both countries had fairly heavy balance of payments deficits in the early years, India's totalling nearly £200m in 1948 and 1949, so that the sterling balances had to be drawn down fairly rapidly. By August 1949 the UK has released £81m to India from the blocked account and agreed to a further £150m being released if necessary in 1949–51. Pakistan had had £26m in 1947–49 and another £31m in the next year.

It was against this background that the Conference of Commonwealth Foreign Ministers, the first since the war, took place in Colombo in January 1950. Mr Spender, the Australian Minister for External Affairs, came to the conference convinced of the need to supply technical assistance to the countries of South and South-East Asia; and the Australians were chiefly responsible for the Technical Co-operation Scheme which was more fully worked out at the subsequent Commonwealth Consultative Committee Meeting in Sydney, May 1950, and became operational in 1951. The Ceylon delegation at Colombo drew attention to the need for financial aid. It was decided at Sydney that the Commonwealth Governments in the area should draw up comprehensive development plans for a period for six years ahead, and these plans were discussed in London at the Commonwealth Consultative Committee Meeting in September of that year and formed the basis of the Report issued in November 1950 entitled 'The Colombo Plan for Co-operative Economic Development in South and South-East Asia'. The London meetings were also attended by observers from other, non-Commonwealth South-East Asian countries, all of which became participants in the Colombo Plan during the 1950's.

The Report of November 1950 provides a comprehensive survey of the economies of South and South-East Asia, and more particularly of India, Pakistan, Ceylon and Malaya and of their needs assessed in the light of their development programmes. This and subsequent Colombo Plan reports are perhaps the most detailed analysis of the economies of any developing countries ever presented to Parliament.

The final two chapters of the Report of 1950 covered the need for trained men and the need for capital. To meet the first, the Technical Co-operation Scheme was put forward. In regard to the second need the Report was more non-committal. It recognised the need for external finance – India's programme would require external finance (including sterling balances) of £818m, Pakistan's £145m and Ceylon's £60m – but contained no promises. The possible sources of external finance were stated to be:

1 The use of the countries' own external assets.
2 Private investment.
3 Private borrowing by Governments, e.g. on the London market.
4 International bodies.
5 Bilateral government aid.

On the first point the Report recognised that sterling balances would be drawn on and that this would place some burden on the UK. This strain might be considerable, for the drawings envisaged from the blocked balances were £211m for India, £16m for Pakistan and £19m for Ceylon, or £246m in all. While the Report thought there was scope for an expansion of the flow of help through the second, third and fourth channels, it went on to say: 'it is very unlikely in view of the magnitudes involved, that the external finance available through the previous four channels will be enough to enable the development programmes to be carried out. It seems certain, therefore, that a substantial element of Government-to-Government finance will be required, particularly in the early stages of the development programmes'. As to the way capital assistance should be made available, the Report said (interestingly enough in view of the method by which the UK has chosen to make aid available to India and Pakistan recently) 'it is desirable that whatever means may be adopted for providing a flow of capital should permit the funds to be used in the most advantageous manner. It is likewise desirable that the flow of capital should not be arranged in a manner which involved such burdens of future repayment as would frustrate the purpose of stimulating an expansion of trade'.

The Report of 1950 did not contain any specific commitments by governments to help in the financial field. Nor in the event did this prove a disaster, for the higher prices of the Korean War period and its aftermath meant that the call on sterling balances, up to 1956 at least when India's First Plan ended, was small. Thus, although Britain in 1950 and 1951 drew up formal arrangements with Ceylon, India and Pakistan for release of sterling from their blocked accounts at an agreed rate until in 1957 their sterling holdings would all be freely disposable (subject to their need of reserves for currency backing), these turned out to be of less importance than seemed likely at the time. Indeed, India's sterling reserves, which averaged some £560m in 1951–52, stood at over £570 in 1955–56. In these circumstances a small quantity of technical assistance was all the aid India received from Britain for the First Plan, and from all sources she received only £148m (£101m from USA) as against the £607m external finance (excluding sterling balances) originally envisaged.

Pakistan was not so lucky. Not only were her resources more meagre in 1950 than India's, but she exhausted them very much more quickly and they fell from Rs.1513m in 1951 to Rs.530m, or £40m, in September 1954. Britain was one of the countries that came to the rescue. In retrospect her £10m tied loan in 1954 does not seem all that generous compared with total allocations (from all countries) up to 1956 of £241m, including £166m from USA, £19·6m from Canada and £10.8m from Australia.

In 1956 and 1957 India's position turned for the worse. She had embarked on an ambitious Second Plan and had the ill luck of a run of bad harvests. Her sterling holdings slumped to about £400m in 1956–57 and to only £200m in 1957–58 – and later to under £100m. At this point India received the first of the sixteen British loans she has had since then (up to the end of 1963).

India's trading position and ownership of large balances was always a cause of apprehension to the UK, which was why Britain secured undertakings from her, Pakistan and Ceylon in 1947–48 to restrict their imports from hard currency areas and arranged for their sterling balances to be drawn down gradually. In the 1950 Colombo Plan Report it was frankly admitted that 'by agreement with the UK these countries restricted their drawings below what would have been desirable for their economies, in order to limit the burden on the United Kingdom economy'. Britain always made great play of the fact that the sterling balances were being drawn down. Her attitude to these as aid was admittedly ambiguous and on reading between the lines of the 1950 Report it is clear that there was some difference of opinion between those who regarded the sterling balances as India's, Pakistan's and Ceylon's 'own resources' and those who chose to regard them as 'external finance'. Certainly the developing countries concerned would not have called the release of sterling balances 'aid' and they might well have claimed that their financial relations with Britain had brought them positive harm, especially in view of the trade restrictions and the devaluation of sterling in 1949. Even from Britain's own point of view the drawing down of the balances must be seen against the overall sterling balances situation which was that other countries increased their holdings of sterling over the period 1945 to 1958 by as much as India, Pakistan and Ceylon reduced theirs. It is thus not easy in retrospect to justify Britain taking credit for the run-down of their balances.

Be that as it may, once these resources were more or less exhausted, the United Kingdom made available aid in quantities which, while not perhaps altogether measuring up to her pre-eminent position as an investor in and trader with these countries, have nevertheless been considerable. India has had sixteen loans amounting to £193m (authorised up to the end of 1963; disbursements to the end of March 1963 were £119m). Pakistan, apart from the assistance in 1954, has had six more loans totalling £37m, and Ceylon has had a single loan of £2.5m. Britain's aid is a small part of total aid to India and Pakistan. Up to the end of 1961 (since independence) Britain had committed 8½% of total assistance promised to India (excluding American aid under PL 480*), and 4% of that for

* The usual name given to the US Food for Peace Programme, by which the US makes available surplus food against local currencies and re-lends them to cover local costs of development programmes, etc.

Pakistan (including PL 480). The British shares of consortium aid for the three years of India's Third Plan and Pakistan's Second Plan are 10·3% and 5·6· respectively. (The consortia are made up only of 'Western' countries and the IBRD and do not include any Soviet bloc countries.)

Financial aid to non-Commonwealth countries in the Colombo Plan area was insignificant until 1961. Since then Nepal and Laos have received considerable financial aid. Nepal was offered a loan of £0·8m and a grant of £1m, and Laos grants amounting to £2·2m. Of this £1·9m was disbursed up to the end of 1963, £0·5m to Nepal, and £1·4m to Laos.

The Colombo Plan provides a forum where members can exchange, on a regular basis, information and views concerning their development plans. This service, and the Technical Co-operation Scheme, are its most important direct contributions to the development of the area. The Technical Co-operation Scheme, apart from the Colombo Plan Bureau with its small staff in Colombo, is the only specifically Colombo Plan institution. It is probably legitimate to argue that only the Technical Co-operation money represents an addition to funds that would have been available without the Colombo Plan institutional framework – most of the bilateral financial aid called 'Colombo Plan aid' did not in fact until recently depend directly on any co-operative initiative, and it is significant that the international consortia established for helping India and Pakistan meet under World Bank rather than Colombo Plan sponsorship.

The Technical Co-operation Scheme was established largely on Australia's initiative. Australia's contributions at £10·1m up to June 1963 were only slightly less than those of Britain with £10·5m: if one excludes the massive United States contribution, they had each of them given about one-third of the total assistance of £31m (but the USA gave £113·5m in the five-year period 1958–63). The Commonwealth Governments originally agreed in 1950 to make available to the Technical Co-operation Scheme up to £8m over three years in the form of experts, training and equipment. In the event, however, only £5·6m had been given in five years up to 1956, of which Britain's share was just under £2m. In that year Britain undertook to provide up to £9m over the seven-year period 1956–63. Since the inauguration of the Colombo Plan, Britain has provided technical assistance for all the developing countries in the area – India, Pakistan, Ceylon, Malaya (after 1957), Burma, Cambodia, Indonesia, Laos, Nepal, Philippines, Thailand and Vietnam.

2 Aid for the Newly Independent Commonwealth Countries

Many of the forms of aid given to colonies, and described in Part I, were specifically for colonies rather than independent countries. There are in fact rather few forms of UK assistance which are available to both. Thus, eligibility for CD & W aid and for colonial Exchequer loans ceases on independence; territories in receipt of grant in aid can no longer rely on assistance from the British Treasury; and until recently the Colonial (now Commonwealth) Development Corporation was obliged to 'disinvest' in a colony achieving independence.

To help meet the challenge of the situation in which economically poor colonies have achieved political independence rather more quickly than anticipated, the British Government has enlarged its programme of aid to independent Commonwealth countries. First, as described in the previous section, it has made greater use of EGCD (Commonwealth assistance) loans; second, it has signed bilateral technical assistance agreements with independent countries; third, it has put forward the Overseas Service Aid Scheme to enable such colonies as are eligible for and avail themselves of it to retain their expatriate public servants after independence.

The first two of the newer countries to achieve independence were Ghana and Malaya. These two were both well off compared with the colonies achieving independence since then and they did not qualify for the same generous terms of financial settlement on independence as others obtained later. They did however receive grants equivalent to the balance of their unspent allocations of CD & W aid, and this practice has been continued ever since. It seems convenient for purposes of comparison to set out below for each of the eleven Commonwealth countries to have achieved independence since the beginning of 1957 the financial help they have had from Britain, excluding help under technical assistance agreements. British Somaliland and Southern Cameroons, which both passed direct from the status of British dependencies to being part of independent countries outside the Commonwealth, are omitted from this list.

1 Ghana (independent 6 March 1957)

At independence Ghana received the small balance of her CD & W allocations – £350,000 for Kumasi College of Technology, and that was all. Since independence Ghana has had one Commonwealth assistance loan of £5m for the Volta River project, and in 1963 a further loan of £2·2m in 'surplus capacity' aid for the purchase of two merchant ships to be built in NE England.

2 Malaya (independent 31 August 1957)

At independence Malaya received £4m unspent territorial allocation of CD & W – this being made available in four annual instalments of £1m. She also received £308,620 for the University of Malaya out of CD & W Central allocations.

Since then Malaya has received in addition *(a)* emergency aid amounting to approximately £13m; *(b)* defence aid for the expansion of the armed forces amounting to approximately £16m in cash and kind; *(c)* a Commonwealth assistance loan of £2·25m in February 1960 for telecommunication equipment.

In 1963 newly independent North Borneo, Sarawak and Singapore joined Malaya in the Malaysian Federation. As part of the Malaysia Settlement, the Federal Government is to receive an annual grant of £5m for five years to help finance development in North Borneo and Sarawak, and a £3m grant to cover the entire cost of the compensation scheme for expatriate officials in the two territories. Singapore is to receive a grant of £780,000, representing the amount of the unspent balance of CD & W allocation, and a loan of £5m, for development purposes, which was originally promised in 1960.

3 Cyprus (16 August 1960)

At independence Cyrpus received:

(a) a promise of £12m in grants over the five years up to 1965, to be made available in instalments of £4m, £3m, £2m, £1½m, £1½m;
(b) a grant of £½m, for a new civil air terminal at Nicosia airport;
(c) a grant of £340,000 for roads to bypass the British base at Dhekelia;
(d) up to £½m for moving Cypriots from base areas if required;
(e) a Commonwealth assistance loan of £2m for electricity supply development.

Apart from assistance to the Cyprus Government, the British Government is also giving £1½m to the Turkish community in Cyprus and assistance to three English schools in Nicosia.

4 Nigeria (1 October 1960)

At independence Nigeria received:

(a) the balance of her CD & W allocations as a grant, amounting to about £3½m;
(b) a £3m colonial Exchequer loan to be drawn in the months immediately preceding independence;
(c) a £12m Commonwealth assistance loan, to be drawn in the eighteen months following independence, for completion of five-year development programme.

Outside the independence settlement Nigeria has received *(a)* over £5m in loans for payment of pensions and compensation to civil servants; *(b)* a loan (converted to a grant later) of £5m for higher education; *(c)* a £10m Commonwealth assistance loan (January 1963) towards Nigeria's Development Plan for 1962–68; *(d)* a further Commonwealth assistance loan of £1m for purchase of steel rails from surplus capacity in the UK.

Nigeria turned down the offer of participation in the Overseas Service Aid Scheme.

5 Sierra Leone (27 April 1961)

At independence Sierra Leone received:

(a) a £3m grant over the period up to 31 March 1964. The grant included Sierra Leone's unspent CD & W allocation (about £1m) and was scheduled to coincide with the dates of Sierra Leone's Development Plan ending in 1964;
(b) a £3½m Commonwealth assistance loan towards the current Development Plan.

Sierra Leone refused participation in OSAS and has not so far had any other assistance from the UK for the payment of pensions or compensation to civil servants, although the £3m grant was intended to help cover her needs in this respect.

Recently a loan of £300,000 towards the cost of the Guma Hydro-Electric Scheme has been negotiated. Repayments of capital and interest will be made in twenty equal annual instalments, commencing after a grace period of five years, during which only interest will be paid.

6 Tanganyika (9 December 1961)

Under her independence settlement Tanganyika received:

(a) the balance of her unspent CD & W allocations amounting to about £5¼m;

(b) a special grant for the Development Plan of £4m. This was originally intended to be drawn over three years but in fact has been taken over two;

(c) the promise of a further £4m as a Commonwealth assistance loan if it was needed and Tanganyika could not obtain the funds she needed elsewhere. It has been agreed recently to make available over half of this.

(d) an interest-free loan of £6m, repayable over 25 years with a six-year grace period, towards the compensation of civil servants;

(e) loan of £3m, repayable over 25 years with a six-year period, for the commutation of pensions of retiring overseas officers. The rate of interest is to be the same as for Commonwealth assistance loans (government borrowing rate plus ¼%);

(f) transfer to Tanganyika of British rights in the Tanganyika Agricultural Corporation (£1m).

The help given to Tanganyika was allocated with the period of her Development Plan, ending in 1964, in mind. It should be noted that Tanganyika is receiving a considerable sum, perhaps as much as £2 to £3m per year as assistance under the Overseas Service Aid Scheme towards the cost of employing expatriate officers.

Recently a loan of £800,000 towards the cost of the Nyumba ya Mungu Dam has been agreed. Repayment to be in 38 equal half-yearly instalments of capital and interest, after a grace period of six years during which only interest will be paid.

University College, Dar-es-Salaam, is to receive some £250,000 in grants towards its capital expansion programme.

7 Jamaica (5 August 1962)

Under her independence settlement Jamaica received:

(a) the balance of her CD & W allocations – about £800,000;

(b) an Exchquer loan (this was rushed through in the days immediately before independence) of £1¼m;

(c) a present of War Office land valued by the British Government at £2½m.

Since Jamaica has so few overseas civil servants she has not required assistance for pensions, etc. She receives an insignificant amount of help under OSAS, since she has only a handful of expatriate civil servants.

8 Trinidad and Tobago (31 August 1962)

Trinidad was offered (but has not officially accepted):

(a) the balance of its CD & W allocations – some £¼m;

(b) a Commonwealth assistance loan of £1m (no agreement yet signed);

(c) the hire charges of four Viscount aircraft up to 1965 – £800,000. (In 1963 these were given as an outright gift – an estimated value of £630,000.)

9 Uganda (9 October 1962)

Uganda's independence agreement included receipt of:

(a) unspent CD & W allocations – approximately £½m;
(b) special grant for Development Plan – £1½m;
(c) a Commonwealth assistance loan of £2·4m;
(d) a loan for compensation of civil servants (same terms as Tanganyika – see page 41), £1·75m.

Also an Exchequer loan of £2·75m just before independence.

These sums were provided having regard to the period of Uganda's Development Plan ending in 1964. It should also be noted that Uganda is currently receiving, on average, about £2m p.a. under the Overseas Service Aid Scheme.

Makerere College is to receive a grant of £45,000 towards its capital expansion plan.

10 Zanzibar (10 December 1963)

No independence settlement has yet been made, but Zanzibar is to receive the assistance promised before independence:

(a) a grant in aid of administration for 1963–64 – £450,000;
(b) a grant equivalent to the unspent balance of CD & W allocations – £80,000;
(c) a grant of £60,000 for the compensation of overseas officers, and towards commutation of pensions of overseas officers;
(d) a loan towards the cost of compensating overseas officers – £62,000 for 1963–64 to 1964–65 (terms as for Tanganyika);
(e) a loan towards the cost of commutation of pensions of retiring overseas officers – £52,000 for 1963–64 to 1964–65 (terms as for Tanganyika);

11 Kenya (12 December 1963)

The independence settlement has not yet been finalised,* but Kenya is to receive the assistance promised before independence:

(a) a grant equivalent to the unspent balance of CD & W allocations – £2·9m;
(b) a development grant – £1·3m;
(c) a grant towards the Land Settlement Scheme – £1·2m;
(d) a grant for the purchase of European Farms – £400,000;
(e) a grant to the Royal College of Nairobi in respect of CD & W schemes administered by the College – £154,000;
(f) a grant towards the capital expansion plan of the Royal College – £80,000;
(g) a loan of £1m for the Land Bank and Agricultural Finance Corporation (repayments with interest in 25 equal annual instalments);

* While this survey was in the Press the Kenya independence settlement was concluded. Kenya will receive about £50m (including the sums above). The £50m will include £11m for the Land Resettlement Scheme, £13.5m for pensions and compensation of expatriate officers, £7m for development and £6m in cancelled debt.

(h) loans of £2m towards the costs of the Land Settlement Scheme; (Repayment of loans for land purchase to be in 30 equal annual instalments of interest and capital; of loans for land development in 26 equal annual instalments of interest and capital, after a grace period of four years during which only interest will be paid.)

Technical Assistance for Newly Independent Commonwealth Countries

The UK has signed bilateral technical assistance agreements with Ghana, Nigeria, Sierra Leone, Tanganyika, Uganda, Jamaica and Trinidad, and these countries have been receiving technical assistance from the UK since independence. The African agreements are collectively considered to be part of SCAAP – the Special Commonwealth African Assistance Plan. Malaya receives technical assistance under the Colombo Plan: Cyprus will receive a small allocation under the 'other countries' allocation (in 1962–63, £100,000 for Latin America, Middle East, etc.) and is the only Commonwealth country to fall in this category. The forms of assistance being made available are the services of experts and advisers; training in Britian; and equipment for training institutions.

In addition to the technical assistance agreements, Kenya, Tanganyika and Uganda receive considerable help, and Jamaica and Trinidad moderate help, under the Overseas Service Aid Scheme. Newly independent developing countries have also received assistance in the educational field from Commonwealth Educational Co-operation funds.

7—Aid through the Votes of the Commonwealth Relations Office and the Foreign Office

The Commonwealth Relations Office and the Foreign Office are accountable for four Votes: the two Office Votes (Foreign Service and Commonwealth Relations Office) the Commonwealth Grants and Loans Vote and the Foreign Grants and Loans Vote. With rare exceptions all items that are officially classified as 'economic assistance to developing countries' are carried on the two grants and loans Votes. In 1962–63 the amounts of 'aid' through these Votes were £18·6m (Commonwealth) and £10·6m (Foreign).

The Grants and Loans Votes took the place of the Commonwealth Services and the Foreign Office Grants and Services Votes when the classification of the Estimates was revised in 1962–63. Until then the Office Votes had consisted almost entirely of the salaries and expenses of the departments, including overseas establishments. The Services Votes provided for various services including information and for other payments including military assistance and payments in respect of individuals as well as items within the official definition of 'economic assistance'. In the Estimates for 1962–63 most of these other items were transferred to the Commonwealth Relations Office and Foreign Service Votes.

When the Department of Technical Co-operation came into being on 24 July 1961, the grants for technical assistance which had up till then been carried on the Commonwealth Services and Foreign Office Grants and Service Votes, and on the Votes of other departments, were transferred to it. There are a few small exceptions – for example small elements of technical assistance remain in certain Foreign Office grants. Among the items carried on the DTC Vote is expenditure under the Overseas Service Aid Scheme, including grants for compensation and pensions of expatriate officers – these are officially included in technical assistance. But loans for a similar purpose to East African territories are carried on the Commonwealth Grants and Loans Vote and are not officially classified as technical assistance.

The amounts of aid through the Commonwealth and Foreign Grants and Loans Votes and the earlier Services Votes are shown in Table 19. As a number of colonies have reached independence in recent years, the amount of aid through the Commonwealth Grants and Loans Vote has been increased, both by the provision through this Vote of certain items previously carried on the Colonial Grants and Loans and CD & W Votes, and by the addition of special grants and loans at the time of independence.

Commonwealth Grants and Loans Vote

Almost the whole of the Commonwealth Grants and Loans Vote is officially classified as aid. The total estimate in 1963–64 was £20·4m. The subheads of the Vote are divided into three groups: £17·3m in financial aid to individual countries, etc. (bilateral aid), £2·9m in grants to the Indus Basin Development Fund (classified as multilateral aid), and £0·16m in subscriptions to Commonwealth organisations (not aid).

In 1963–64 the other Commonwealth Vote – the CRO Vote did not contain any items classified as 'economic assistance'; but in 1962–63 it included a small grant to Tanganyika for the relief of flood distress. Military assistance is carried on the CRO Vote and amounted to £17·3m out of a total Vote of £26·7m in 1963–64 (total estimates). The amounts and distribution of aid through the Commonwealth Grants and Loans Vote still reflect recent independence settlements. Most of the aid in

Table 19

Commonwealth Services and Grants and Loans Votes

(£m)

	'Services'			*'Grants and Loans'*	*Estimates*	
	1959–60	1960–61	1961–62	1962–63	1963–64	1964–65
1 **Aid**						
Multilateral	—	0·3	0·5	4·0	2·9	5·0
Bilateral—technical ...	1·9	3·9	0·7	0·5	0·9	1·4
other	3·8	8·9	11·7	14·0	16·4	12·0
Total Aid	5·7	13·1	12·9	18·5	20·2	18·4
2 Payments to Governments for military etc. purposes...	1·8	5·2	2·3	—	—	—
3 Payments to individuals ...	0·1	0·1	0·1	—	—	—
4 Other payments	1·3	1·7	2·1	0·2	0·2	1·7
Total Votes	**8·9**	**20·0**	**17·4**	**18·7**	**20·4**	**20·1**

Foreign Office Grants and Services and Foreign Grants and Loans Votes

(£m)

	'Grants and Services'			*'Grants and Loans'*	*Estimates*	
	1959–60	1960–61	1961–62	1962–63	1963–64	1964–65
1 **Aid**						
Multilateral	3·4	6·2	2·3	1·9	1·7	2·5
Bilateral—technical ...	0·9	0·4	0·3	—	—	—
other	8·1	8·5	10·2	8·7	13·7	11·9
Total Aid	12·4	15·1	12·8	10·6	15·4	14·4
2 Payments to Governments for military etc. purposes...	1·4	1·9	3·3	1·4	2·7	1·6
3 Payments to individuals ...	0·3	0·7	0·5	—	—	—
4 Subscriptions to International Organisations ...	4·3	5·6	6·9	10·4	6·9	5·6
5 Other payments	1·1	1·0	1·1	0·3	0·3	0·2
Total Vote	**19·5**	**24·3**	**24·6**	**22·7**	**25·3**	**21·8**

Source: Appropriation Accounts 1959/60–1962/63, and Estimates 1963–64 (Total including Supplementaries) and 1964–65 (Original Estimates only).

1963–64 has gone to countries which became independent since 1959, usually in accordance with agreements made at or before the date of independence. Of the £17m in aid to individual countries in 1963–64 (total estimates), two-thirds (£11.3m) was provided to the East African territories and a further £4·4m to Cyprus, Trinidad and Tobago, and Malaysia (the greater part to Sabah and Sarawak). As yet there is little 'new' aid, not linked with independence, and little aid through this Vote to the older independent Commonwealth: in 1963–64 India received nothing, and Pakistan and Ghana only small grants for the relief of distress.

Bilateral aid is provided through this Vote for purposes which cannot be served by aid through the other two channels of aid to independent countries – loans under Section 3 of the Export Guarantees Act, which must be wholly spent on imports from Britain, or by grants for technical assistance through the DTC. Through this Vote grants as well as loans can be provided for development expenditure and for other purposes, and part or all of the aid can be used to cover local costs. The terms of loans can be made more liberal than Section 3 loans – some (not for development purposes) have been interest free. From the information given in the Estimates, a rough (and unofficial) classification by purpose indicates that of the £17m in bilateral aid in 1963–64, about £6m in grants was to be spent directly on development; about £5m was for general purposes including some development expenditure, but also budgetary assistance and aid to Kenya in connection with the Land Settlement Scheme and Land Bank; about another £5m, mainly in loans, was for compensation and commutation of pensions of expatriate officers; the remainder included £100,000 in relief aid and a short term loan of £600,000.

The purposes and terms of the various aid components in this Vote are discussed and illustrated in more detail below (see Table 20). But first two items should be noted which have not been mentioned so far. The first of these is the provision for payment of interest waived on Section 3 loans to India and Pakistan (item 9 in Table 20). The two sub-heads 'interest on loans' to India and Pakistan appeared for the first time, under the heading 'financial aid to individual countries, etc.' in the Supplementary Estimates published in February 1964. They are exceptions under this heading, in that they are not classified as aid. In the summer of 1963 HM Government agreed to make loans to India and Pakistan, totalling £30m and £8m respectively, under Section 3 of the Export Guarantees Act, and to waive interest during the first seven years of the life of the loans. These loans are made by the purchase of the promissory notes of the recipient governments by the ECGD, the purchase being financed out of the Acquisition of Guaranteed Securities Fund.
These subheads in the Commonwealth Grants and Loans Estimate provide for payment to this fund of the interest that would have been received from India had it not been waived. This is a matter of internal accounting – it is not, of course, an extra payment to the Governments of India and Pakistan in addition to the loans on more liberal terms than usual.

The second is the item called 'extra receipts payable to HM Exchequer', (10 in Table 20). These are instalments of interest and repayment of principal due in the year on loans made earlier through the Common-

Table 20

Commonwealth Grants and Loans Vote

Financial aid to individual countries, etc.

£'000s

	Appropriations	*Estimates*			
		Original	*Supplementaries*	*Total*	*Original*
	1962–63		1963–64		1964–65
Grants					
1 Equivalent to balances of CD & W allocations	3,523	2,823	249	3,072	1,463
2 Broad purpose					
(*a*) development	3,238	1,125	1,455	2,580	3,164
(*b*) current	—	—	450	450	—
(*c*) general	3,000	2,000	—	2,000	1,500
3 Narrower purpose					
(*a*) relief	15	—	105	105	—
(*b*) education	276	900	−425	475	959
(*c*) to Kenya: Land Settlement and farm purchase	—	—	1,100	1,100	483
(*d*) other	485	356	821	1,177	582
Total Grants	**10,538**	**7,204**	**3,755**	**10,959**	**8,150**
Loans					
4 Towards compensation schemes for overseas officers	4,015 (items 4 and 5)	2,595	318	2,913	2,952
5 Towards commutation of pensions of retiring overseas officers		1,810	−94	1,717	1,256
6 To Kenya: Land Bank and Settlement Scheme	—	—	1,100	1,100	400
7 Development purposes	—	—	10	10	725
8 Other (2 year loan to Trinidad and Tobago)	—	—	581	581	—
Total Loans	**4,015**	**4,405**	**1,915**	**6,321**	**5,333**
Total Grants and Loans	**14,553**	**11,610**	**5,670**	**17,281**	**13,483**
9 For payment of interest waived on Section 3 loans to India and Pakistan (not aid)	(—)	(—)	(102)	(102)	(1,500)

10 Extra receipts payable to HM Exchequer: interest and repayments

	Original Estimates (£'000s)		
	1962–63	1963–64	1964–65
Malaya	568	551	827
Other	120	120	331
Totals	**688**	**671**	**1,158**

Sources: Civil Estimates Class II, 5, 1963–64 and 1964–65 (published in February 1963 and 1964) and Supplementary Estimates 1963–64 (in particular those published in February 1964). The groups consist of the following subheads in the Commonwealth Grants and Loans Vote, Estimates for 1963–64; subheads in the original estimates are given first; those in the supplementary estimates are listed after the semicolon.

1 C, E, F, I, L, N; DA, DB, E, F, RG, RM(2), C, N.
2 (*a*) L, Q; DA, RE(1), Q.
(*b*) —; RM(1).
(*c*) A, H; —.
3 (*a*) —; BA, RA, RC, RJ.
(*b*) G; RI(1), RP.
(*c*) RE(2) and (3).
(*d*) B, D, J, M, R; DA, RI(2), RK, B, J, M, RF, RN.
4 K, O, P; O, RO, K, P.
5 K, O; O, RO, K.
6 RH.
7 —; HA, K.
8 —; RL.
9 —; RB, RD.

wealth Grants and Loans Vote. They are not treated as Appropriations in Aid (i.e. revenue accruing directly to the department), so reducing the net amount of the Vote, but are paid directly to the Exchequer.* The figures of the Vote itself, as given in the Estimates and Appropriation Accounts, show the *gross* aid provided – interest payments and capital repayments are not deducted from the total. In 1964–65 these will amount to the considerable sum of £1,158,000, mainly from Malaya.

Purposes and Terms

In Table 20 the subheads of aid to individual countries on the Commonwealth Grants and Loans Vote in the Estimates for 1963–64 and 1964–65 have been arranged in eight classes by purpose of the grant or loan. This is an unofficial arrangement based on the information given in the Estimates.

When a colony becomes independent HM Government normally continues the aid which had already been promised to the territory when it was a colony, in addition to any special grants and loans that it may make at the time of independence. The grants in the first category are to recently independent countries and are equivalent to the balances of CD & W funds already allocated to them but not spent before their independence.

Most of the grants in the second and third categories are instalments of aid agreed at or before independence. 2 *(a)* grants which are specifically described as for development – includes an instalment of £860,000 of the Special Grant of £1,500,000 towards Uganda's Development Plan and the grant of £600,000 to Kenya 'towards the cost of development'. (These figures and later ones are from the 1963–64 Total Estimates.) 2 *(b)* is a grant made towards the end of 1963 of £450,000 to Zanzibar 'in aid of expenses of administration'. 2 *(c)* consists of further instalments of a £12m grant to Cyprus and a £3m grant to Sierra Leone.

The third category consists of grants whose purposes are specified more precisely – grants for relief of distress caused by cyclone, floods and hurricane. Such grants cannot, of course, be forecast; they are covered by supplementary estimates. Among the grants for education (2 *(b)*) are an instalment of the promised £5m over seven years in capital assistance for higher education in Nigeria and a token provision for grants to the University of East Africa. 2 *(c)* consists of grants to Kenya 'in respect of the Land Settlement Scheme', which are linked with loans for similar purposes (item 6). 2 *(b)* consists of grants in money or in kind for other specific purposes, for example a grant to Cyprus towards the construction of a new civil air terminal, grants to Kenya, Uganda, Zanzibar, Trinidad and Tobago equivalent to their contributions towards the completion of certain CD & W schemes, and a gift of aircraft to Trinidad and Tobago.

In categories 4 and 5 are instalments of loans to Tanganyika, Uganda, East Africa Common Services Organisation (and by a supplementary estimate) to Zanzibar, towards these Governments' shares of the costs of

* See the Fourth Report of the Select Committee on Estimates 1959–60: Minutes of Evidence, Questions 1368–1370.

compensation of overseas officers for premature retirement and towards the costs of commutation of pensions. The loans for compensation will amount in total to £6m for Tanganyika, £4,250,000 for Uganda and £6m for EACSO. These loans are interest free; after grace periods of six years they will be repayable in nineteen equal annual instalments. The full amounts of the loan towards the costs of commutation of pensions are £3m for Tanganyika, and £1,750,000 for Uganda. Interest is payable on these loans at a rate equal to the Exchequer lending rate plus ¼%. After a grace period of six years, repayment together with interest will be made by nineteen annual instalments. These loans are in addition to the grants and loans for compensation and pensions on the Vote of the Department of Technical Co-operation. Under the Overseas Service Aid Scheme, which was introduced in 1961 and in which Tanganyika, Uganda and EACSO participate, the British Governments bears half the cost of compensation. In 1963–64 (Total Estimates) the provision under OSAS for compensation and pensions on the DTC's Vote amounted to £6·9m. The loans on the Commonwealth Grants and Loans Vote to Tanganyika and Uganda were made because those governments were unable to meet their share of the cost of compensation payable under the OSAS Agreements.

These loans are not the only items in this Vote which are related to compensation. There is also provision for a grant of £261,000 (1963–64 Estimates) to Malaysia to meet the cost of the Sabah and Sarawak Governments' shares of the compensation scheme (in 3 *(c)*). The costs of compensation were also taken into account in deciding how much aid should be given in the period after independence to Sierra Leone, and possibly also to Cyprus.* Instalments of this aid are shown in 2 *(c)*. These two countries do not participate in OSAS. The total amount provided in the Commonwealth Grants and Loans Vote for compensation and pensions of overseas officers was therefore of the order of £5m in 1963–64, a quarter of the total Vote.

In the Estimates for 1962–63 and the Original Estimates for 1963–64, the loans in categories 4 and 5 for compensation and commutation of pensions were the only loans made on the Commonwealth Grants and Loans Vote. In the Supplementary Estimates for 1963–64, published in February 1964, two groups of new loans made their first appearance. First is a group of three loans to Kenya (6 in the Table); (1) a loan of £1m is being made to increase the working capital of the Land Bank and Agricultural Finance Corporation. £600,000 is provided for this in the 1963–64 Estimates and £400,000 in the 1964–65 Estimates. (2) the first instalment of £200,000 of loans totalling £2m is provided in the 1963–64 Estimates for the purchase and development of land under the Land Settlement Scheme. No further provision is made for this in the 1964–65 Estimates. (3) £300,000 is provided in 1963–64 for resettlement of farms. Loans (2) and (3) are linked with grants for the same purposes of £1,100,000 in 1963–64 and £483,000 in 1964–65 (in 3 *(c)* in the Table). These loans bear interest. The first will be repaid over a period of 25 years; no grace

* See Questions 555 and 1829 in the Minutes of Evidence, Fourth Report of the Select Committee on Estimates 1959–60.

period is mentioned. Repayment of the second group of loans will be over 30 years for loans for the purchase of land and over 26 years, after a grace period of four years, for loans for development.

The loans which are described as for 'development purposes' (7 in the Table) are more significant, since they are for purposes of expenditure for which, in other cases, loans under Section 3 of the Export Guarantees Act have been thought appropriate. These are loans to Sierra Leone and Tanganyika. The Loan to Sierra Leone is of £300,000 towards the cost of the Guma Hydro-Electric Scheme; £225,000 is provided in 1964–65. The Tanganyika loan is towards the cost of the Nyumba ya Mungu dam; £500,000 is provided in 1964–65. Both loans are for periods of 25 years, with grace periods of five and six years respectively. The advantage to the recipient of these loans over Section 3 loans is that they may be used in part to cover local costs, whereas Section 3 loans must be entirely spent on imports of British goods and services. The proportion that may be spent on local costs is limited, however. Imports of industrial goods for the project must be from Britain, and there are various other conditions to ensure as far as possible that suppliers and contractors of other industrialised countries do not benefit from the expenditure financed by the loans.

There is no hard and fast rule about tying aid through the Commonwealth Grants and Loans Vote to the purchase of British goods and services. Aid given in kind is obviously 'tied' – e.g. the gift of aircraft to Trinidad and Tobago. A number of grants and loans are restricted to a specific purpose at the time they are made – e.g. the UK contributions for compensation payments and commutation of pensions of expatriate officers, and the aid to Kenya for the purchase of European arms; in fact it is likely that a proportion of this aid will be repatriated to Britain by the ultimate beneficiaries. Budgetary assistance to Zanzibar, by definition, is not tied to British goods and services. In other cases specific conditions are laid down at the time of the aid agreement as to the proportions available to cover local costs, and the proportions to be spent on imports, as is the case now with aid provided through the Colonial Grants and Loans Vote, are required to be spent, wherever possible, in Britain (see Chapter 2). Thus, although these proportions are not the same in all cases, some aid on the Commonwealth Grants and Loans Vote can certainly be spent locally, in contrast to ECGD loans which are available only for expenditure on imports from Britain.

Foreign Grants and Loans Vote

The Foreign Grants and Loans Vote is divided into three groups as follows:

		1963–64 *Total Estimates* (£'000*s*)	
A	International Assistance		1,982
	of which, multilateral 'aid' ...	1,739	
B	Direct Assistance to Foreign Countries		16,424
	of which, bilateral 'aid'	13,690	
C	Subscriptions, etc., to International Organisations (not 'aid')		6,902
	Total (less appropriations in aid)		**25,306**

International assistance (Group A) includes grants to the United Nations Relief and Works Agency in Palestine, to the World Food Programme and Civil Assistance to the Congo, which are classified as economic aid. Group C, subscriptions to international organisations, are assessed subscriptions, not voluntary grants, and are not classified as aid (see Chapter 10).

In 'B', direct assistance to foreign countries, there is about £2·7m (in 1963–64) of military assistance. In the 1963–64 Total Estimates, over 90% of this bilateral aid goes to four countries—Libya (£3·3m), Jordan (£2·7m), Laos (£1·4m) and Argentina (£5·5m). In the original estimates of 1964–65 the same four countries account of 90% of the total of bilateral aid. Jordan and Libya have received aid on this Vote regularly for more than the past ten years. Laos is a new recipient of British aid on any scale. Argentina last received aid in 1955–56 (£19m) under a revolving credit agreement of March 1955.

The subheads of bilateral aid in the Foreign Grants and Loans have been arranged according to purpose in Table 21. A few large items make up most of the total of £13·7m (1963–64 Total Estimates). £6½m or nearly half of the total was provided for current assistance: £4·75m to Libya and Jordan in budgetary assistance and £460,000 payment towards the cost of pensions etc. of officials of the former government of Palestine – (1 *(b)* and 2 *(b)* of the Table). A further £1·4m was provided to Laos to assist the Government in supporting the Laotian economy. There are two main elements in this assistance. The first is an instalment of £700,000 to finance a programme of essential commodity imports, in accordance with an agreement by HM Government to make a grant of £1m a year for three years. The second is a subscription of £600,000 to a stabilisation fund, to which the United States, France and Australia will also contribute, to assist the Laotian Government to implement a programme of internal finance retrenchment in accordance with an IMF recommendation.

The other large item is the loan to Argentina of £5,490,000 (3 *(b)*). This is an instalment of a 're-finance loan' of up to £10m, made (in co-operation with other European creditors) to provide the exchange required to meet payments due to Argentina's medium term commercial debts to British firms. The interest charged on each instalment of the loan is linked to the British Government's current borrowing rate. Repayment is to be spread between the end of 1965 and 1970. (See Cmnd. 2164 November 1963.)

There remains £1·7m. £1m of this is for development purposes, made up of a loan of £700,000 to Jordan and grants of £250,000 to states in the Persian Gulf (3 *(a)* and 1 *(a)*). The loan to Jordan is interest free. The remaining £700,000 is made up of economic aid to Nepal (£185,000 rising to £348,000 next year, in 1 *(c)* in the Table), relief grants (£137,000, 2 *(a)* in the Table) and miscellaneous grants (£262,000, 2 *(c)* in the Table). The relief grants are almost all in the form of supplies or services. The main ones are to Yugoslavia and Libya for the relief of distress after earthquakes. Most of the miscellaneous grants are also in kind; the main component is a grant to the Republic of the Congo (Leopoldville) of £180,000, rising to £534,000 in 1964–65, for the purchase of certain equipment from Britain.

Table 21

Foreign Grants and Loans Vote

Direct Assistance to Foreign Countries

£'000s

	Appropriations	*Estimates*			
		Original	*Supple-mentaries*	*Total*	*Original*
	1962–63		1963–64		1964–65
Grants					
1 Broad purpose					
(a) development (Persian Gulf)	370	249	—	249	358
(b) current (Jordan, Libya)	4,750	4,750	—	4,750	4,750
(c) general and other (mainly to Laos)	1,104	2,575	−999	1,576	1,458
2 Narrower purpose					
(a) relief	39	—	136·5	136·5	—
(b) pensions, etc. (Jordan)	450	460	—	460	450
(c) other	19	40	242	282	604
Total Grants	**6,732**	**8,074**	**−621**	**7,453**	**7,620**
Loans					
3 *(a)* development (Jordan)	700	750	−50	700	700
(b) other (mainly to Argentina)	1,300 (Brazil)	6,090	−553	5,537	3,625
Total Loans	**2,000**	**6,840**	**−603**	**6,237**	**4,325**
Total Economic Assistance	**8,732**	**14,914**	**−1,224**	**13,690**	**11,945**
4 For payment of interest waived on Section 3 loan to Turkey (not aid)	—	—	—	—	107
5 Other items (not aid)	1,423	2,711	23	2,734	1,477
Total 'direct assistance to foreign countries'	10,155	17,625	−1,201	16,424	13,529

6 Extra receipts payable to HM Exchequer: interest and repayments by individual countries:

	Appropriations	*Original Estimates* (*£'000s*)		
	1962–63	1962–63	1963–64	1964–65
Argentina	1,753	1,753	2,629	3,834
Jordan	—	498	548	611
Turkey	206	206	531	—
Other (Brazil and Muscat)	105	113	153	150
Total	**2,064**	**2,569**	**3,861**	**4,595**

Sources: Civil Estimates Class II, 2, 1963–64 and 1964–65 (published in February 1963 and 1964) and Supplementary Estimates 1963–64 (in particular those published in February 1964).

Notes: The groups consist of the following subheads in the Foreign Grants and Loans Vote, Estimates for 1963–64; subheads in the Original Estimates are given first; those in the Supplementary Estimates are listed after the semicolon.

1 *(a)* B5, B7, B8; B5, B8.
(b) B1, B2; —;
(c) B4, B9, B10, B11, B12; B4, B12, B25.
2 *(a)* —; B18, B19, B21, B22, B23, B27.
(b) B2; —.
(c) B17; B26, B28, B29, B30.
3 *(a)* B3; B3.
(b) B14, B15; B15.

The aid through the Foreign Grants and Loans Vote that is not restricted to very specific purposes (e.g. for pensions, or aid in kind) is not formally tied to the purchase of British goods and services, though there is a general requirement that when used to finance imports from industrialised countries, these should come, whenever possible, from Britain.

Item 4 in the Table (not aid) shows a provision for payment to the Acquisition of Guaranteed Securities Fund of interest waived on a Section 3 loan to Turkey. Loans totalling nearly £4m were made in 1963–64; interest is waived during the first seven years on a capital sum of just over £2m.*

The instalments of interest and repayments on past loans through this Vote, which are recorded as 'extra receipts payable to HM Exchequer' (6 in the Table) amount to £3·9m – a reverse flow equal to more than a quarter of the bilateral aid through this Vote. Two-thirds of this is due from Argentina in interest and repayment of loans, according to the terms of the 1955 agreement. £0·5m is also due from Jordan in instalments on loans made during 1950–58.

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* See the similar provision on account of Section 3 loans to India and Pakistan.

8—Export Credits Guarantee Department Loans

Loans under Section 3 of the Export Guarantees Act 1949 have now become the main channel of aid to independent countries, through which £40m, nearly a third of all bilateral aid, was disbursed in 1962–63 (£50m in 1963–64). These loans are tied to the purchase of British goods and services.

These loans are provided through the Export Credits Guarantee Department (ECGD), which is responsible to the President of the Board of Trade. It derives its powers from various Export Guarantees Acts, the principal one being the Act of 1949, which brought together all previous legislation.* The ordinary business of ECGD is the provision of insurance to United Kingdom exporters and merchants against the major risks of financial loss incurred in overseas trading. Most of this is under Section 1 of the 1949 Act, concerned with export business that can be underwritten as a commercial proposition. Section 2 also authorised the ECGD to guarantee securities for the purposes of (i) 'encouraging trade with places outside the United Kingdom' (Special Guarantees Scheme), or (ii) 'rendering economic assistance to countries outside the United Kingdom' (Economic Assistance Scheme) . . . by 'giving such guarantees to, or for the benefit of, persons carrying on business in the United Kingdom as appear . . . to be expedient in the national interest'. (Export Guarantees Act, 1949.) These two sections of the 1949 Act deal with credit insurance only. Section 3 authorises the provision of finance.

To provide economic assistance by loans to overseas governments, the ECGD buys the promissory notes issued by those governments as a result of contracts between them and British suppliers of goods and services. Section 3 of the Export Guarantees Act 1949 authorised the Department, with the consent of the Treasury, to acquire any securities which it had guaranteed.

This technique of purchasing securities previously guaranteed in order to provide funds for the purchase of British goods was first introduced by the Overseas Trade Guarantee Act of 1939 for the specific purpose of making loans to assist countries threatened by Germany. The securities are purchased with funds from the 'Acquisition of Guaranteed Securities Fund' which was set up by the 1939 Act and is fed by Treasury advances out of the Consolidated Fund.

The 1957 Export Guarantees Act dispensed with the need to guarantee securities before purchasing them to provide economic assistance.

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* See the Memorandum of Evidence submitted by ECGD to the Committee on the working of the Monetary System, HMSO 1960.

The purpose and terms of repayment of an ECGD loan are negotiated between HM Government's external relations departments (Foreign Office and Commonwealth Relations Office) and the borrowing government, in response to a request from the borrowing government. The ECGD then negotiates the text of the agreement, which specifies the number, value and date of instalments due over the repayment period of the loan. The overseas government invites tenders (not only from British firms) for various projects or supplies of goods. The ECGD must approve contracts between the borrowing government and the British suppliers whose tenders are accepted, to ensure the goods purchased fall within the terms of the agreement. Actual payment is not made by the ECGD until the payments to the suppliers fall due. Thus the external relations departments have the principal voice in the allocation of these loans and in defining their broad purposes; but the Board of Trade, with its interest in the promotion of present and future British exports and in the encouragement of demand for British industries where there is surplus capacity, has some influence over the specific purchases for which the loans are used.

The loan machinery established by the 1949 Act was at first used only in exceptional cases, and only four loans (to Iraq, Yugoslavia, Pakistan and Iran) were negotiated in the period up to the end of 1957, with a total value of £40m (commitments, not disbursements). It was not until after the Montreal Conference of September 1958 that the powers given by the Act came to be used to any considerable extent. The critical state of India's balance of payments (which had already led to an ECGD loan of £15m in June 1958) and the obvious future needs of those colonies which were then approaching independence, led HM Government to reverse its previous policy of avoiding government to government loans as a means of assisting economic development in independent countries, and to introduce a new policy of making 'Commonwealth assistance loans' for development, using the ECGD machinery. Between June 1958 and March 1964 (inclusive) 56 loans were negotiated, involving a commitment of £332m, of which all but £32m was for independent countries of the Commonwealth. In the whole period from 1949 to March 1964, a total of £372m was committed and about £255m disbursed. Altogether 21 countries have received ECGD loans, but the lending has been concentrated on only four: India (£205m or 54% of the total for 1949 to 1963–64), Pakistan (£53m or 15%), Nigeria (£23m or 6%), and among foreign countries, Yugoslavia (£23m or 6%). Table 22, page 75, shows ECGD loan commitments from 1949 to 31 March 1964 and disbursements and repayments over the same period. A full list of ECGD loans is given in the Appendix (Table 8).

Much less regular information is available about how these loans are allocated and spent, than is the case with, for instance, CD & W assistance. The only figure that is published regularly (in the Annual Abstract of Statistics or in the Finance Accounts) shows the total of Exchequer advances to the ECGD, under Section 3 of the Act, and no breakdown is given by country. Loans are announced in the press as they are negotiated, and disbursements to countries that receive no other kinds of loans from HM Government can be deduced from the figures in the

Aid White Paper (Cmnd. 2147), but no annual list of the ECGD's loan commitments or disbursements by recipient country or purpose is published.

Table 22

ECGD Loans – Agreements, Disbursements and Repayments at 31 March, 1964

Recipient	*Loan Agreements* *Number*	*Value* (£'000*s*)	*Disbursements* (£'000*s*)	*Repayment of Principal* (£'000*s*)
Commonwealth				
Ceylon	1	2,500	1,475	85
Cyprus	1	2,000	196	—
EACSO*...	1	2,050	293	—
Ghana	2	7,165	1,480	—
India	19	205,500	145,481	—
Malayasia	1	2,250	2,015	450
Nigeria	3	23,500	13,084	1,550
Pakistan	8	53,280	35,221	12,860
Federation of Rhodesia and Nyasaland	1	5,000	2,976	—
Sierra Leone	1	3,500	2,950	—
Tanganyika	1	1,250	—	—
Uganda	1	2,400	1,008	—
Total above	**40**	**310,395**	**206,179**	**14,945**
Foreign Countries				
Algeria	1	500	—	—
Bolivia	1	265	265	—
Chile	2	3,500	2,000	—
Iran	2	10,000	9,600	9,600
Iraq	1	3,000	2,700	2,700
Nepal	1	525	278	—
Sudan	2	10,000	5,285	5,000
Turkey	3	6,857	3,505	—
United Arab Republic	1	3,575	2,640	—
Yugoslavia	6	23,135	23,080	10,775
Total above	**20**	**61,357**	**49,353**	**28,075**
Total all Countries ...	**60**	**371,752**	**255,532**	**43,020**

* East Africa Common Services Organisation.

Source: Treasury, unpublished.

Purposes

ECGD loans finance imports from Britain of capital goods required for development. They may be used for capital equipment needed for the construction or extension of specific projects (e.g. Durgapur Steelworks, Volta River project, Assam pipeline), or for the development programme as a whole (for imports of a wide range of machinery or industrial components), or for specific items under aid from surplus productive capacity (e.g. cargo ships for Ghana, steel rails for Nigeria). General assistance to development has been given to a number of countries. In the case of India, by far the largest recipient of ECGD loans, 'a substantial part of the assistance given by the UK has been in the form of balance of payments assistance for the import of a variety of machinery and components required for engineering, electrical, chemical and textile industries. The UK, in fact, has been among the earliest countries to appreciate the importance of this form of assistance to the Indian economy.' (External Assistance, Ministry of Finance, India 1962; p. 30.)

Because ECGD loans are tied to imports from Britain (especially if they are also tied to specific projects) accepting aid in this form brings with it a number of problems for the recipient. These are not too serious, perhaps, for a country which can call on its own fairly substantial resources to meet the local expenditure part of its development programme. However, in many more cases a recipient cannot match substantial offers of tied aid because local resources are simply not available. Even if local resources are available, the indirect imports generated by local expenditure will eventually aggravate an already strained foreign payments position. It is interesting to note in this context that Sierra Leone and Tanganyika have recently received loans through the Commonwealth Grants and Loans Vote for purposes usually reserved for ECGD assistance – see Chapter 7. (A fuller discussion of the problems touched on in this section can be found in Chapter 12.)

Terms

Most of the ECGD loans since 1958 have been for periods of 15 years or more, at rates of interest corresponding to and slightly above HM Government's borrowing rate, and normally with grace periods for repayment of principal. This simple description hides a number of complications and is somewhat misleading as regards the period of the loan.

The principal of an ECGD loan is normally repaid in equal half-yearly instalments spread between the end of the grace period and the date of final maturity. For example a 25 year loan with a grace period of five years will be repaid in 40 equal half-yearly instalments beginning at the end of the five year grace period; one-quarter of the loan will have been repaid after 10 years and one-half after 15 years. The promissory notes of the overseas government are dated to mature in equal instalments over the repayment period.*

The rates of interest payable on ECGD loans are not fixed at the time of the agreement. They are the rates charged on Exchequer advances to the ECGD at the time of issue plus a management charge of $\frac{1}{4}\%$. These rates vary with the period of the advance and reflect the government's current borrowing rates for various periods in the market. If an ECGD loan is all disbursed at one time and is financed by a single issue from the Exchequer, the rates on the series of instalments due for repayment over the period of the loan will reflect the spectrum of interest rates, from

* A different system is used for Exchequer loans to the colonies under Section 2 of the CD & W Act 1959. These are repaid by equal annual payments including both interest and principal. See Chapter 4.

short to long, on government borrowing at the time of the issue. If, as often happens, the loan is not all disbursed at once but in several parts at different dates, there is the further complication that the rates charged on the various parts will vary with the rates current at the different dates of issue. The annual amount of interest payable on an ECGD loan declines, of course, once repayment of principal begins after the end of the grace period.

Some but not all ECGD loans must be disbursed within a certain time after the agreement. The lag between agreement and disbursement may vary from a few weeks to several years. Some are not fully used (e.g. of the £3m loan to Iraq in 1949, only £2·7m was spent). Whatever the lag between agreement and disbursement, however, the grace period and final maturity date from the signing of the agreement.

On loans agreed up to about the middle of 1963, grace periods for repayment of principal ranged from one to seven years (eight in one exceptional case), and the longest loans were for 25 years. In September 1963 the Government announced its readiness to make loans on substantially easier terms in certain cases. 'Hitherto, we have given loans for a maximum of 25 years, with a grace period for the repayment of principal of up to seven years; for the future we shall be prepared in suitable cases to make loans for periods of up to 30 years, with grace periods of up to ten years. Further, where the economic circumstances of the recipient country make it necessary, we shall be prepared to grant a period of complete freedom from all service charges, by granting a waiver of interest, as well as the deferment of capital repayment, for seven years. This latter concession is a very substantial one. It would reduce from, say $5\frac{1}{2}\%$ to below 3% the effective rate of interest on a loan for 25 years.' (Aid to Developing Countries, Cmnd. 2147, para. 44.) In fact, three loans with such a waiver of interest had already been made during the year to India, Pakistan and Turkey, and India had also been granted three loans for 26 years (with grace periods of eight years).

Between 1949 and March 1964 the length of ECGD loans has varied considerably, from five years (e.g. Iran in 1955) to 26 years (e.g. India in 1963). Just over one-fifth of all loan agreements (by value, *not* number) were for ten years or less, while two-thirds were for over 15 years (one half for over 20 years).

Table 23

ECGD Loans by Maturity*

Loan agreements between 1949 and 31 March 1964

Length of loan (in years)	*Number of loans*	*(as % of all loans)*	*Value of loans £m*	*(as % of total value)*
Up to 10	16	27	82·3	22
Over 10 and up to 15	5	8	23·3	7
Over 15 and up to 20	12	20	90·0	24
Over 20 and up to 25	23	40	158·9	42
Over 25	3	5	17·5	5
Total	**60**	**100**	**372·0**	**100**

* Based on information supplied by the Treasury.

Future Repayments and Interest

In 1962–63 £8·2m was paid in interest on outstanding ECGD loans and £7m in repayment of principal.

Most of the outstanding ECGD loans were made after 1958 and their grace periods are not yet finished. Up to March 1964, £372m of loans were agreed and £255m disbursed. By the end of 1963, repayments were due to have been completed on £23m (£22·4m disbursed). They were due to have begun on roughly a further £50m, to run at the rate of about £9m p.a. Annual repayments on the loans already made will rise very steeply in the next few years.

Interest payments will also rise, though less steeply, with the growth in the amount of loans outstanding. Interest and capital repayments together on the loans already made (disbursed) up to the end of 1963 are likely to amount to roughly £30m in 1966–67, compared with the 1962–63 figure of £15·2m and a gross figure of new lending in 1962–63 of £68m. The figures for some individual countries are even more striking. For example, repayments have not yet begun of any of the £145m loans made to India since 1958. They will begin in 1964 and will rise to an annual rate of £10–12m by 1966–67 (repayments of principal only).*

* The calculations of future repayments are based on the information given in Appendix (Table 8), and Chapter 13. They are very rough estimates only (probably on the low side).

9—Department of Technical Co-operation*

In July 1961 the DTC took over from the Foreign Office, the Commonwealth Relations Office and the Colonial Office responsibility for providing technical assistance to developing countries. In 1962–63 £25·4m of aid was made available through the DTC's Vote, of which all but £0·3m was in grant form. For 1963–64 expenditure is estimated at £31·8m.

The DTC is the only HMG Department solely concerned with the disbursement and administration of aid; the whole of its Vote (excluding subheads A and B, headquarters expenses and salaries) is classified as 'technical assistance' in the official aid figures. In 1962–63 a few items classified as 'technical assistance' were provided through other Votes; these were for capital assistance to certain universities and colleges in the Commonwealth, amounting to a little less than £1m.

Table 24 shows the major DTC aided programmes in 1962–63. The largest of these, in terms of funds involved, was the Overseas Service Aid Scheme (OSAS). It took effect in 1961 and its purpose is to enable overseas governments and administrations to retain the services of expatriate experts until local officers can take over. OSAS provides about one-quarter of the total cost of the expatriate officers' pay, allowances, passages, pensions and compensation payments. Some 12,500 officers in 39 countries and territories were covered by the scheme in late 1963, of which over 8,000 were in East Africa and about 2,800 in Northern Rhodesia and Nyasaland.

Technical assistance under the Colombo Plan, SCAAP, SEATO, CENTO and other regional programmes embraces a wide variety of services, including the training in Britain of personnel and the supply of experts and equipment. Commonwealth Educational co-operation includes recruitment of teachers, and provision of study facilities and scholarships. Research carried on under the auspices of the DTC ranges over a wide field of subjects generally benefitting the developing countries. One-third of these research activities is based in Britain.

Technical assistance plays a special role in the development process and differs from general financial aid in one significant respect – one or other of a wide range of 'services' is provided concurrently with finance. This special characteristic of technical assistance is emphasised in the aid figures by separating it from other aid. In the UK official figures the common denominator that distinguishes technical assistance from other aid is that the former consists of items either tied to expenditure on

* For a fuller discussion of DTC and technical assistance in general, see another pamphlet in this series, **British Aid 4 – Technical Assistance.**

Table 24

Major DTC Aided Programmes 1962–63

Programme	Contribution £m	Before DTC*
1 Contributions to UN agencies: UNEPTA, Special Fund, UNICEF	3·2	FGS
2 Technical assistance under:		
Colombo Plan and SEATO	1·7	FGS & Com.S.
CENTO	0·9	FGS & Com.S.
3 Special Commonwealth African Assistance Plan	1·1	Com.S.
4 Educational Co-operation in the Commonwealth	0·9	Com.S. & Col.S.
5 Overseas Service Aid Scheme	12·5	Com.S. & Col.S.
6 Directorate of Overseas Surveys, Overseas Geological Surveys, Anti-locust Research Centre	0·8	CD & W (Col.)
7 CD & W Central Schemes	1·8	CD & W (Col. & Com.)
8 Research	1·6	CD & W (Col. & Com.)

Minor Programmes:
HM Overseas Civil Service (miscellaneous expenditure), Bureau of Hygiene and Tropical Diseases, Imperial College of Tropical Agriculture Trinidad, National Institute of Oceanography, International African Institute, Desert Locust Control Projects—all previously on Col. S.; HM Overseas Civil Service (Nigeria)—previously on Com.S.; miscellaneous small technical assistance grants—on FGS, Col.S. and Com.S.

* This column shows the Votes through which each programme was aided before the DTC was established in July 1961. FGS stands for Foreign Grants and Loans Vote; Col. S. for Colonial Services Vote; Com.S. for Commonwealth Services Vote; CD & W (Col. and Com.) for Colonial Development and Welfare (Colonial and Commonwealth) Votes.

services – of administrators, surveyors, experts, teachers, research workers, etc. – or tied to expenditure on equipment and buildings connected with the performance of these services. Closer scrutiny of aid through the DTC Vote, all of which is officially called 'technical assistance', reveals many items that might as well, or better, be classified as financial assistance (current or capital). If the distinction between 'technical' and other aid is made for reasons of administration alone, this loose classification may serve its purpose well enough. However, if the distinction is felt to be necessary because the two forms of aid are seen to play different roles in aid (and development) programmes, a more precise (and narrower) definition of technical assistance seems desirable. Such a definition (on which Table 25 is based and is unofficial) requires any item of aid to satisfy two conditions if it is to be classified as technical assistance. The two conditions are (i) that aid is tied to expenditure on a 'service', and (ii) that the donor provides, in whole or part, or helps to provide, the personnel or specialised facilities needed for the services to be effectively rendered. These conditions are not satisfied by two categories of aid officially classified as 'technical assistance'. The first is aid for expenditure on training equipment, university buildings, etc. The second is aid for expenditure on 'services', when a transfer of money alone takes place. For aid to be technical assistance, the donor himself has to provide 'services' which the recipient could not obtain, or on very much inferior terms, if given financial assistance equivalent in amount to the money cost (to the donor) of these 'services'. In short, there must be a 'transfer of skills' and not merely a transfer of financial resources or equipment.

Specific examples from the DTC Vote are given below to illustrate the concept. The most obvious candidate to be excluded from technical asssistance under the above definition is the aid for compensation and pensions of overseas officers who have *left* the service of the recipient governments. If there were no aid contributions, the whole of these compensation and pension payments would have to be made by those governments from their own financial resources. The aid relieves them of a current burden; it does not add current services. A similar but more arguable point can be made about the other payments under OSAS in inducement pay, etc. These payments help the recipient governments to retain (though also to some extent attract) overseas officers if they wish to do so. If instead of these payments, an equal amount were given in unrestricted budgetary assistance, it is probable that most of this would be used for payment of civil servants' salaries. Grants in aid to colonies, a part of which is used for this very purpose is officially classified as current financial assistance (and not technical assistance). Thus these other OSAS payments can also be considered as current assistance, but restricted in purpose to the payment of certain personnel. In Table 25 they have been included under 'current assistance'. (However, it is felt that about 20%, which goes in payments to *new* officers which the scheme has itself helped to recruit, should be included under technical assistance – see item 4 in the Table.)

Also included under 'other aid' are capital grants towards the building programmes of universities and colleges, grants for the purchase of equipment, and financial contributions to various overseas research and training establishments.

Under 'technical assistance' are included only items of expenditure resulting from the provision of a direct service. The definition of services embraces an amalgam of activities – recruitment and supply of teachers and experts, provision of training or study places, special missions, and research on behalf of developing countries.

The distinction between 'technical' and 'other' aid is, in many cases, easy to see. In many more, however, it is blurred. The definitions and classification set out in this chapter and in Table 25 are certainly open to argument. While maintaining that many items of aid officially included under 'technical assistance' should probably be classified as financial assistance, it is also recognised that some aid *not* now classified as technical assistance should be – part of 'other' aid is spent on providing services. The CDC is a good example. It not only makes loans and investments, but also recruits expatriate management and trains local personnel for service in its enterprises. The alternate classification given in this chapter is intended as an illustration only; elsewhere in the pamphlet the official classification is used, except in the discussion of purposes and terms of British aid, and the effects of aid on the British balance of payments. (In both these cases all OSAS payments are excluded from technical assistance and discussed separately; apart from this the official definition is once again retained.)

Table 25

Aid Through the DTC Vote

	Out-turn 1962–63	£m *Total Estimates* 1963–64	*Original Estimates* 1964–65
Technical Assistance			
1 Regional programmes	3·0	4·7	6·0
2 Research	0·5	0·7	0·7
3 Education	0·9	1·4	2·0
4 Inducement ('attracting') pay, etc., under OSAS	1·4	1·7	1·5
5 Miscellaneous home-based activities ...	0·9	0·8	0·9
Total (1–5)	**6·7**	**9·3**	**11·1**
Other Aid			
6 Current Assistance			
(a) compensation and pensions payments	5·8	7·4	7·5
(b) inducement ('retaining') pay, etc., under OSAS	5·8	6·8	5·9
(c) financial support of training and research establishments	1·3	1·5	1·5
7 Capital assistance	2·6	2·9	3·4
Total (6 and 7)	**15·5**	**18·6**	**18·4**
8 Multilateral assistance	3·2	3·9	3·9
Total aid through the DTC vote (net of Appropriations in Aid)	**25·4**	**31·8**	**33·3**

Notes: This is an unofficial classification of the aid through the DTC Vote, based on the information contained in the Estimates and the definition of 'technical assistance' as explained in the text.

The following is a list of items included under each heading of the Table. The letters refer to subheads in the Original Estimates, 1964–65.

(The Estimates for the DTC Vote are reproduced in full in the Appendix to 'Britsh Aid 4 – Technical Assistance'.)

1 F1; G; H1(1) a, c, d; H1(2); I; J; K; Z(3).
About 20% of aid on the above subheads was for equipment and has been included under heading (7).
2 O, (one third – the rest, financial support of overseas research projects is included under (6c).
3 M.
4 P1 (1, 2, 3, 6) – 20%; see also (6b) and text.
5 C1, 2, 3; Q; R4, 7, 8, 9; Z(2).
6 *(a)* P1(4, 5); P2, 3(loan), 5, 6, 7; Z(2).
(b) P1(1, 2, 3, 6); P4; Z(4) – 80%; see also (4) and text.
(c) O, (two thirds, see (2)); F2, 3; H2, 3, 4; R1, 2, 5, 6.
7 H1(1)b; L; N. (see also (1)).
8 D1, 2.

Sources: Civil Appropriation Accounts 1962–63, Class II, Vote 10;
Civil Estimates 1963–64, Class II, Vote 9 (and Supplementary Estimates);
Civil Estimates, 1964–65, Class II, Vote 9.

Part III

Multilateral Assistance

10—World Bank and the UN Aid Programme

Table 26 summarises UK contributions to international organisations which provide development finance, and technical and relief assistance. Since the war such contributions have totalled £161·5m, or 12% of UK aid disbursements.

Table 26

UK Multilateral Assistance, 1945–46 to 1962–63, by Channel

£m

IBRD (and its affiliates)	
(Funds disbursed in loan form)	
IBRD	90·2
IFC	5·1
IDA	3·6
Total	**98·9**
IBRD sponsored†	
(Indus Basin Development Fund)	4·9
Combined total	**161·5**

UN (and its agencies)*	
(Funds disbursed in grant form)	
UNETAP (and Special Fund)	15·5
UNRWA (Palestinian Refugees)	28·4
UNICEF	2·6
UNKRA (Korea)	10·1
Civil Assistance to Congo	1·1
UN World Food Programme	—
Total	**57·7**

* Other than IBRD and affiliates. (Excludes subscriptions to UN, etc. ordinary budgets (see text)).
† Part loan, part grant. The whole UK contribution is paid in grant form. See also text, 'Indus Basin Development Fund'.

Source: Annual Abstract of Statistics, 1961, 1963.

The IBRD and its Affiliates

1 Functioning and Resources

As a source of development funds, the International Bank for Reconstruction and Development (popularly known as the World Bank) is the most important of international organisations. Although designated a UN Special Agency, it is a separate and independent body. Its special relationship with the UN takes the form of close consultation and exchange of information (other than confidential). In fact, it antedates the UNO; its origins are to be found (as those of the IMF) in the Bretton Woods Conference (July 1944), at which the wartime allies were determined to set in motion machinery designed to ensure stable economic order after the war. The World Bank's function was to provide reconstruction capital to devastated Europe and long term development finance. After concentrating its resources on reconstruction for the first few years of its life, it soon became a major contributor of development capital to poorer nations all over the world.

The Bank's membership numbered, as of 31 December 1963, 98 countries. A prerequisite for membership is membership of IMF. (No Sino-Soviet bloc countries are members. The USSR did not join; Poland (1951), Czechoslovakia (1954), and Cuba (1960), have withdrawn. Formosa is a member, but not mainland China.)

Financial resources of the Bank are derived, in the first place, from members' subscriptions, which were set at $10,000m in 1945, apportioned according to members' economic strength. 2% of each member's subscription was to be paid in gold or dollars on joining, with a further 18% (in member's currency) to be drawn when needed, but with the member's consent. Subscriptions were raised in 1959 (most members doubling their original portions), and, with subscriptions from new members, now total $20,790m. $2,070m has been drawn altogether, leaving 90% of subscriptions as general backing.

On the security of this 90% the Bank borrows extensively on the world's capital markets. At 31 December 1963 bonds issued outstanding amounted to $2,510m. Furthermore the Bank 'sells' its loans to private financial concerns, having replenished its funds in this way by $1,727m; and repayments of loans made total, so far, $714m.

The Bank has lent, up to the end of 1963, $7,624m (of which $5,728m has been disbursed, and $1,896m committed). Some $4,900m (disbursements and new commitments) has gone to developing countries.

Most of the loans to developing countries have been for transportation, communications and power, with some to irrigation and land reclamation projects, and industry. With few exceptions it is the Bank's policy to lend the foreign exchange portion of the total cost of an approved project. These are generally of the kind that will contribute directly to a rise in the recipient country's productive capacity. Education, health, etc., projects have thus been omitted. Loans are made after an appraisal of the general economic potential and future earning capacity of the project in question, and the debt-servicing capability of the country. Loans have generally been for 15–20 years at an interest rate (reflecting the cost of the Bank's own borrowing) which has been in the range 4%–6¼%

(including a 1% commission that is allocated to a special reserve). Lately the interest rate charged has been $5\frac{1}{2}$%. The length of the loan is related to the assessed lengths of life of the project. Repayments are made in equal instalments of capital and interest (twice yearly) beginning after a 'grace period' of 2–5 years, depending on the time necessary to bring the project into operation. There have been, as yet, no defaults on repayments.

These terms are generally regarded as hard, and in view of the size of the reserve, and the funds available to the Bank, there has been lately considerable criticism on this point. It is feared that in the coming years mounting indebtedness (often the Bank's own earlier loans) will leave fewer and fewer countries able to meet the Bank's test of credit worthiness. It appears that the Bank is well aware of this, and there have been signs that it is now ready to seek new types of projects to finance, and to ease the terms on its loans. Two recent loans can be taken as evidence of this new thinking – the 1963 loan to Jordan for agricultural improvements, and the 1964 loan to Colombia, which is for 35 years and has the longest 'grace period' to date (eight years). Furthermore, the President of the Bank is on record with the following observations: '. . . In what sectors should the Bank broaden its activities? I think it is unquestionable that new efforts must be made to help agriculture . . . the Bank has given most of its support to agriculture through loans to large scale irrigation and reclamation projects . . . but we must now try to extend our support also to the strengthening of agricultural organisation and to broad scale programmes for increasing agricultural productivity . . .' (Address by G. D. Woods to the Economic and Social Council of the UN, 18 December 1963.)

In the late 1950s it was proposed in the US Senate that there should be an international agency willing to extend 'soft' loans (i.e. on terms easier than those of the Bank). In September 1960 such an agency, the International Development Association, was set up as an affiliate of the World Bank. Membership of IDA is open to all Bank members. The initial capital of \$969m (\$780m in freely convertible currency) was to be subscribed by IDA members, payable in five annual instalments, commencing with an initial one of 23% of the total, and followed by four more of 19% each. Members are divided into two groups, the industrialised, or Part I members, and the developing, or Part II; the latter qualify for IDA loans. Part I members make 100% of their subscription available in freely convertible currency, Part II members 10%, the rest remaining on call, with members' consent, in their currency. In 1963 the IDA proposed an increase in its total subscription of the order of \$750m, and this is likely to be approved very soon. The US Congress, after refusing ratification of the US contribution (\$320m) which was necessary for the proposal to take effect, has now reconsidered its decision and authorised the new subscription.

By the beginning of 1964 the IDA had lent \$591m to 20 low income countries. On the whole, projects covered have been of the type financed by the Bank, but \$72m has gone towards school construction and municipal water supplies, projects not covered so far by the Bank. The criteria for loan approval are less stringent than those of the Bank, and the terms are designed to ease future burden on the recipients' balance of payments.

All loans are for 50 years, with no interest charge except for a ¾ of 1% commission (on outstanding loans) to cover IDA's administrative expenses. A 'grace period' of ten years is granted before repayment commences; after that it is made at the rate of 1% p.a. over 10 years, and 3% p.a. over the final 30 years.

The IDA's funds, in relation to potential borrowers, are meagre. In contrast, the Bank's funds are ample, whereas the list of potential borrowers is getting shorter. Since IDA began operations, its extremely easy terms have attracted not only those borrowers who could not hope to qualify for Bank loans, but potential Bank customers as well. This has focused attention on both the shortage of IDA funds, and on the stringency of Bank loans, both as to terms and types of projects covered. Moves to increase IDA funds, and to ease Bank loan terms and to extend its area of operation have already been mentioned. The latest of proposals to deal with the 'crisis' is for the Bank to make a proportion of its large reserve (now $829m) available to IDA. (Statement by the President of the World Bank to UN Trade and Development Conference, Geneva, March 1964.)

In 1956 a second Bank affiliate, the International Finance Corporation, began operations, with an initial authorised capital of $100m subscribed by members (raised to $110m in 1963), of which $98m has been paid up. The IFC's major functions are to provide financing (mainly in developing countries) in association with private investors, without government guarantee, in cases where sufficient private capital is not available, and to stimulate the flow of private capital into productive investments in member states.

The paid up capital (plus proceeds from earnings) is used as a revolving fund for making loans, and equity investments (since 1961), which are, in turn, sold to private financial institutions whenever possible. All loans/investments are made in the private sector, the average amount being in the order of $1¼m (very small in relation to Bank and IDA loans). There is no fixed interest charge for the loans; it depends on the circumstances of each case, particularly the risk involved, the amount of equity, and the prospective overall return upon the entire investment. There is a 1% p.a. 'commitment fee' on all undisbursed committed funds.

2 UK Contributions

The UK is a member of the Bank and its two affiliates. The UK's subscription to the Bank is $2,600m (£930m). Originally it was $1,300m, but the UK agreed to a rise to $2,600m in 1959 when there was a general doubling of members' subscriptions. 2% of the original $1,300m, or $26m, was paid in gold in 1946. This payment was made under the old $/£ exchange rate of $4·03–£1, so the sterling value, as recorded in the UK aid figures, came to £6·5m. Between 1949 and 1961 the Bank drew, in sterling, an amount equal to 18% of the *original* UK subscriptions (valued in dollars). Since these payments were made after devaluation of the £, they resulted in a UK contribution of £33·7m. The UK, in common with other members, has thus contributed 10% of its *total* subscription (valued in dollars).

The slow rate of drawing on the UK subscription was largely due to the country's balance of payments position. By 1953 only £2·5m (above the initial payment of £6·5m) had been drawn. In that year the UK consented to make available over a six-year period £60m for lending by the Bank to Commonwealth countries in the sterling area, 'for development schemes which, among other things, are judged likely to improve the sterling area's balance of payments' (page 11, Cmnd. 237, July 1957). The bulk of these drawings took place in 1957–59 (£53·7m).

In 1960 the UK made available to the IDA the initial 23% of its agreed subscription of £47m. The rest is being made available at an annual rate of £9·0m over 1961–64. The IDA has, however, drawn only £3·6m as of 31 March 1963, and it is this figure that appears in the UK aid statistics. The IDA's lack of funds will no doubt call for a rapid drawing of the rest during 1964 and 1965.

In 1956 the UK paid its subscription of £5·1m to the IFC.

In addition, £20m of Bank bonds has been issued on the London market, and British private investors have participated in a number of the Bank's loans. These figures are *not* included in statistics of *official* UK aid. The UK has also acted as guarantor for Bank and IDA loans to dependent territories.

3 The Indus Basin Development Fund

The Fund was established after the World Bank's officials had contributed to mediation efforts between India and Pakistan over the division of the waters of the Indus River Basin. The settlement provided for a 10 year project to build dams and canals to enable Pakistan to replace waters lost to India. The IBRD (with a loan of $80m), Australia, New Zealand, Canada, W. Germany, the USA and UK pledged in 1960 to provide $457m towards the cost (all in grants, except the Bank loan, and a $70m US loan repayable in rupees). The UK will provide £20·9m ($58·5m) or 12·5%. Up to 31 March 1963, the UK has paid to the Fund £4·9m (£9·4 to the end of August 1963). In November 1963 an agreement was reached to supplement the foreign exchange resources of the Fund by a further $315m, $58m of which will come from IBRD/IDA, and $39m (£14m), or 12·5% from the UK.

In the official UK figures, these contributions are classified as multilateral aid. It can be argued, however, that these contributions are bilateral payments from donor to recipient, with the IBRD (who administers the Fund) in this case, simply the supervisory agency acting on behalf of the donors. This view is taken by OECD, which includes contributions to the Fund as bilateral aid in its aid publications.

The UN and its Agencies

The UN's aid programme by and large takes the form of technical and relief assistance. The various agencies administering the UN assistance programme are financed both from their regular budgets (made up of members' assessed annual subscription, payment being a formal condition of continued membership), and from voluntary contributions of both member and non-member countries. (In 1963 these voluntary contributions amounted to some £55–65m).

In the official UK statistics, only the voluntary contributions are included as multilateral aid, as the subscriptions to the regular budgets of the UN and agencies cannot be fairly apportioned (it is felt) between expenditure on aid to developing countries, and general operating expenditure.

The UK has made voluntary contributions to all seven major UN programmes of technical and relief assistance. These are:

UN Expanded Programme of Technical Assistance (since 1949)
It finances experts, advisory teams, fellowships, and provides equipment and supplies.

UN Special Fund (since 1959)
The fund provides technical assistance for such projects as surveys, feasibility studies, research, education and training.

Total voluntary contributions to these two programmes have amounted to some £220m (UK's share, £15·5m).

World Food Programme (inaugurated 1962)
The programme is designed to make available surplus food to needy countries, both to relieve hunger, and to finance development. The target figure is £35m in cash or kind. The UK is to provide (over three years) £1·79m, or 5%, in shipping services and foodstuffs.

UN Children's Fund (since 1946)
Originally intended to assist mothers and children of war devastated countries, it has concentrated since 1950 on the developing countries. It provides both relief assistance, and technical assistance in the fields of health, nutrition, education and family services. Total voluntary government contributions have been in the order of £7m p.a. over the last few years (UK £0·3m).

UN Relief and Works Agency for Palestine Refugees in the Near East (since 1948)
It provides food, shelter, education and training. Palestine was formerly under UK mandate, and the UK's special responsibility in the area is reflected in a large contribution to the agency – £2m each in 1962 and 1963 (or 16% of the total).

UN Korean Reconstruction Agency (1950–58)
It provided relief during and after the Korean War, and helped with post-war reconstruction. Thirty-nine nations contributed a total of £50m (of which UK £10·1m).

Civil Assistance to the Congo
UN economic assistance following the crisis of 1960–61. The UK contributed £1·1m towards the costs.

Besides contributing to these programmes, the UK subscribes to the budgets of the UN and its agencies, and contributes in other ways to the work of the UN. Such regular subscriptions are not counted as aid in the

UK statistics, but it is worth bearing in mind the order of magnitude of these 'non-aid' payments, some of which nevertheless contribute to the general development effort. They are shown in Table 27.

Table 27

UK "Non-aid" Payments to UN, etc., 1962 and 1963

	£'000s 1962	£'000s 1963	UK's Share (%) 1962	UK's Share (%) 1963
UN Regular Budget	1,702	2,121	7·6	7·6
FAO (Food and Agriculture)	520	520	10·2	10·2
WHO (World Health)	608	763	7·0	7·0
UNESCO (Education, Scientific and Cultural)	394	488	7·5	7·2
ILO (international Labour)	371	468	9·5	9·4
ICAO (Civil Aviation)	159	167	9·7	9·9
ITU (Telecommunications)	58	70	5·5	5·5
UPU (Postal)	7	7	2·6	2·6
WMO (Meteorological)	15	19	5·9	5·9
INCO (Maritime Consultative) ...	23	18	12·9	12·9
IAEA (Atomic Energy Authority—regular budget)	141	168	7·2	7·0
AEA (Atomic Energy Authority—operating budget)	52	51	10·7	13·2
UNEF (Middle East Operation)* ...	283	289	10·6	8·5
ONUC (Congo Operation)	1,780†	1,043‡	10·0	8·8
UN (High Commission for Refugees) ...	100	200	(?)	8·2
UN (Bond Issue)	4,284	—	10·0	—
Total (above)	**10,559**	**6,402**		

* ½ year only.
† 1 November 1961 – 30 June 1962.
‡ 1 July 1962 – 30 June 1963.

Part IV

Analysis and Comment

11—Geographical Distribution

The distribution of British aid since 1945 between the three groups of countries – foreign, independent Commonwealth and colonial territories – is summarised in Table 28. The eighteen years 1945-63 are divided into three periods of six years. In each of these the total amount of aid was roughly doubled. The Table shows the relative constancy of aid to foreign countries, the sudden appearance and rapid rise after 1958 of aid to the independent Commonwealth, and the continuous growth (until the last year) of aid to the territories that remained dependent.

The history of aid to independent countries has already been outlined in Chapter 6. Aid outside the Commonwealth was still concentrated, in 1962–63, on the few countries to which the greater part has gone since 1945 – especially Libya, Jordan and Yugoslavia. But in the past few years this concentration has been reduced and aid extended more widely by Britain, both in co-operation with other donors (e.g. to Laos and Turkey, and refinance loans to Argentina and Brazil), and alone (e.g. surplus capacity aid to Algeria and Chile). About twenty foreign countries have had aid from Britain since 1960.

As regards aid to the independent Commonwealth, the idea expressed in the 1957 White Paper that government to government loans would not be 'a normal means of assisting such countries' has long been abandoned. All the independent developing countries of the Commonwealth are now receiving aid. It is no longer a question – as it was before 1958 – of whether they should receive aid from Britain, but rather of how much, in what form, and on what terms.

Between 1957–58 and 1962–63 India and Pakistan received £153m, two-thirds of all aid to the independent Commonwealth. All but 4% of this was in ECGD loans. These two countries are in many ways in a special position. Britain contributes only a small part of their total external assistance – as a member of the World Bank consortia. Their political importance is obvious, their needs immense, and they are among the countries that would probably be able to use greater amounts of aid most effectively for development. The terms of aid were liberalised in 1963 and it is probable that liberalisation to at least the same extent will be repeated in the future. Even if there is no policy decision to increase the annual net amount of aid, a substantial increase in the gross amount will soon be necessary if the net amount is to be maintained at its present level (see Chapter 13).

Table 28

Distribution of British Aid since 1945

	1945–46 *to* 1950–51		1951–52 *to* 1956–57		1957–58 *to* 1962–63		*Total* 1945–46 *to* 1962–63	
	£m	% *grants*	*£m*	% *grants*	*£m*	% *grants*	*£m*	% *grants*
Foreign Countries	83·3	*62*	86·1	*53*	74·9	*63*	244·3	*59*
Independent Commonwealth	—	—	8·1	*28*	222·6	*25*	230·7	*25*
Colonial Territories	93·3	*82*	257·3	*73*	381·4	*67*	732·0	*71*
Total	**176·6**	*72*	**351·5**	*67*	**678·9**	*53*	**1,207·0**	*60*

The countries which became independent in or after 1957 received in aid £76·1m (68% in grants) up to the end of March 1963. This figure includes over £12m in grants for 'emergency' expenditure to Malaya (independent in 1957) and Cyprus (independent in 1960). Future aid policy towards the newly independent countries is still uncertain. Countries like Sierra Leone and Tanganyika (both independent in 1961) were much more heavily dependent on grant assistance from Britain than Ghana (independent in 1957), Malaya (apart from the emergency), India, Pakistan and Ceylon had been. At present (April 1964) they are still receiving aid, much of it in grants, under their independence settlements. These were worked out in the context of current development plans, running in most cases to 1963 or 1964. Their receipts of aid up to 1962–63 are therefore exceptional and give little indication of either the likely scale or the terms of future aid. Indeed it seems that decisions about future policy on aid to the newly independent countries – and in particular on the question whether the main channel is to be ECGD loans, as it is for India and Pakistan – have yet to be taken.

The amounts of aid before and after independence to the eight countries that became independent in the period from 1957 to 1961 are shown in Table 29. British Somaliland (now part of the Somali Republic) and Southern Cameroons (now part of Cameroun) left the Commonwealth after independence.

Table 29

Aid Before and After Independence

	Before, from 1945–46			*Year of Independence*		*After, to* 1962–63		
	No. of years	*Aid £m*	*% grants*	*Aid £m*	*% grants*	*No. of years*	*Aid £m*	*% grants*
Ghana	9	4·8	93	0·6	100	5	1·4	45
Malaya	9	29·1	66	4·3	81	5	17·5	81
Emergency ...	(7)	(14·8)	(100)	(3·0)	(100)	(4)	(9·2)	(100)
Other	(9)	(14·3)	(30)	(1·3)	(38)	(5)	(8·3)	(60)
British Somaliland*	15	9·2	100	2·5	100	2	2·6	100
Cyprus	15	29·5	100	6·6	99	2	5·9	100
Emergency ...	(4)	(24·1)	(100)	(0·8)	(100)	(—)	(—)	(—)
Other	(15)	(5·4)	(100)	(5·8)	(100)	(2)	(5·9)	(100)
Nigeria	15	40·2	90	11·5	31	2	12·4	21
Sierra Leone ...	16	9·7	68	2·9	94	1	2·2	50
South Cameroons*	16	2·0	75	1·5	54	1	0·3	—
Tanganyika ...	16	17·9	80	9·7	59	1	9·8	75

* Now outside the Commonwealth as parts of the Somali Republic and Cameroun respectively.

Aid to the Colonies

The principles of allocation of aid that have applied so far can be examined by considering past aid to the colonies. It must be remembered, of course, that the colonies were and are in a peculiar position as recipients of aid. Britain is the main or only donor, is in very close touch with their governments and has strong influence over their policies, and can be assured of relatively favourable political, administrative and other conditions, influencing them if need be in other ways (as it cannot in independent countries).

Until 1959, aid to the colonies consisted of CD & W assistance, grants in aid of administration and emergency assistance. In 1959 Exchequer loans were added.

Grants in aid of administration are given, with accompanying control, mostly to the poorer colonies with meagre local resources. In the territorial allocation of CD & W funds there is no explicit set of rules and no single criterion. In 1945 the Secretary of State wrote, on the principles governing the allocations, that 'all factors which are known to be relevant were taken into account, including the size and population of the territory, its known economic resources and possibilities, the present state of development, the development schemes known to exist or to be under contemplation, and the financial resources likely to be available locally.' Among the financial resources which might be available locally would be part of the 'surplus balances', local tax revenue, and the proceeds of loans raised in London, or locally. (CD & W Despatch of 12 November 1945, Cmd. 6713.)

Clearly these factors (apart from population) do not all work in the same direction. Need and poverty may attract assistance, but so also will economic potential and present wealth, which promises greater local participation in schemes and greater ability to use assistance (and to prepare acceptable requests for it). Even the proposition that the total amount of aid to a territory can be expected to vary with population must be qualified: 'the cost of administering a territory rises sharply when the population is less than about 50,000–100,000.' (Cmnd. 672, 1959).

Table 30 brings together, for eleven territories, figures of gross domestic product, Public Revenue (which includes aid received under Section 1 of the CD & W Acts, and grants in aid) and aid, all per head of population. Included are two Mediterranean territories (Malta, Cyprus), one Asian (Malaya), two Caribbean (British Guiana, British West Indies), and six African (Kenya, Tanganyika, Uganda, Nigeria, Sierra Leone and Ghana). Between them these territories made up 80% of the colonial population in 1956 (73% of Public Revenue), and received 67% of aid to the colonies. Eight of these, and part of the West Indies, have since become independent.

The Table illustrates the fact that a territory's 'special circumstances' are reflected in the aid it receives, and also the marked inter-regional differences in the amounts of aid per head received. The most striking example of 'special circumstances' is provided by Malta, which despite its population of only 300,000 received more aid than Nigeria, the largest of the territories.

An example of pronounced inter-regional differences is provided by the Caribbean on the one hand, and East Africa on the other. Between 1945 and 1960 the former received, on average, around £2 per head per year, while the latter only some four shillings. (In the last two years shown in the Table the gap has appreciably narrowed.) This inter-regional difference in aid coincides with differences in incomes. The larger aid per head has gone to territories with GDP per head of £100 and over, and Public Revenue per head of more than £10, in contrast to the East African territories' GDP and Public Revenue per head of around £20–£40 and £3 respectively.

It is hard to deduce much from differences within the African group. There is a hint of higher aid going with higher income in the figures of Kenya, which received twice as much aid per head (excluding emergency aid) as the poorer territories. But Ghana, the richest, received little and Sierra Leone, very poor (but small), received only just a little less than Kenya.

This is of course only a cursory analysis; but it seems unlikely that a large part of the explanation of the differences (in aid supplied) between regions or between territories within any one region can be found by reference to present resources or even future economic possibilities. Other factors, peculiar to each territory or region, and including very important political considerations, seem to have had a much stronger influence on the allocations of aid – and in particular on the original allocations of CD & W assistance. There is a strong tendency for these original allocations to persist (unless constitutional status is changing) – or at least to resist downward change (in money terms). This is examined further below.

Table 30

GDP, Public Revenue and Aid in Eleven Colonial Territories

Country (and GDP per head, 1959–60) (£)	*Population 1951 and 1960 (000s)*		*Public Revenue per head (£)*	*Aid as % of Public Revenue*	*Aid per head (annual average) (£) With % in grant form* 1945–46 *to* 1956–57	1957–58 *to* 1959–60	1960–61 *and* 1961–62
*Cyprus	490	1946	8·9	9·2	1·09 (0·74)	14·30 (1·37)	9·0
(150)	560	1951	14·6	5·6	100%	100%	99%
		1956	29·2 (24·7)	16·3 (0·1)			
		1961	na	na			
Malta	310	1946	14·1	20·9	7·37	15·73	15·9
(149)	330	1951	19·6	35·8	100%	88%	70%
		1956	43·7	50·2			
		1961	41·1	23·7			
*Malaya	5,230	1946	3·1	0	0·46 (0·24)	0·63 (0·23)	0·7 (0·7)
(73 National Income)	6,910	1951	16·2	2·8	65%	90%	76%
		1956	13·6 (13·5)	2·6 (1·7			
		1961	na	na			
British Guiana	434	1946	5·9	3·9	2·09	3·80	5·90
(100)	567	1951	12·7	10·9	53%	45%	39%
		1956	19·4	13·4			
		1961	22·2	31·8			
British West Indies	2,700	1946	7·4	8·5	1·28	2·30	2·7
(165)	3,150	1951	12·2	19·0	80%	70%	75%
		1956	18·3	10·9			
		1961	28·1	7·8			
*Kenya	5,790	1946	1·4	1·2	0·60 (0·28)	0·57 (0·32)	1·7 (1·7)
(37)	7,280	1951	3·0	5·7	75%	49%	50%
		1956	6·3 (5·7)	18·4 (9·1)			
		1961	4·5	46·5			

TABLE 30—*continued*

Country (and GDP per head, 1959–60) (£)	Population 1951 and 1960 (000s)		Public Revenue per head (£)	Aid as % of Public Revenue	Aid per head (annual average) (£) With % in grant form: 1945–46 to 1956–57	1957–58 to 1959–60	1960–61 and 1961–62
Tanganyika	7,870	1946	0·6	2·0	0·11	0·17	0·7
(21)	9,400	1951	1·5	6·7	77%	80%	56%
		1956	2·2	6·8			
		1961	na	na			
Uganda	5,330	1946	0·7	2·6	0·10	0·25	0·8
(24)	6,850	1951	3·0	4·4	75%	34%	43%
		1956	3·8	0·5			
		1961	2·6	39·4			
Nigeria	32,000	1946	0·5	6·6	0·10	0·08	0·2
(30)	48,000	1951	2·0	8·7	87%	80%	25%
		1956	2·9	1·7			
		1961	na	na			
Sierra Leone	2,000	1946	1·1	5·0	0·15	0·43	1·1
(25)	2,500	1951	1·9	7·8	100%	57%	69%
		1956	4·3	4·2			
		1961	na	na			
Ghana	4,342	1946	na	na	0·09	0·05	0·01
(60)	5,000	1951	7·0	na	93%	100%	100%
		1956	11·6	na			
		1961	na	na			

* Figures in brackets exclude 'emergency' aid.

Sources: Population and Public Revenue Figures: 'The Colonial Territories', Annual Blue Book.
Aid Figures: 'Aid to Developing Countries', 1963, Cmnd. 2147.
Emergency Aid: 'Annual Abstract of Statistics, 1961 (Table 278).
General: UN Statistical Yearbook 1962.
UN Yearbook of National Accounts Statistics 1962.
UN Demographic Yearbook 1962.

Table 31

CD & W Allocations and Expenditure 1946–63

£m

	Allocations 1946–55 Original	1946–55 Total	1955–59 Original	1955–59 Total	1959–63 Original	1959–63 Total	1963 Original	Expenditure 1946–55	1955–59	1959–63
I Mediterranean	1·9	4·6	1·3	2·7	19·6	19·0	0·4	3·4	2·9	12·6
West Africa	30·4	30·9	14·5	14·3	3·0	6·6	0·8	23·0	13·6	14·5
Total	**32·3**	**35·5**	**15·8**	**17·0**	**22·6**	**25·6**	**1·2**	**26·4**	**16·5**	**27·1**
II Caribbean	15·5	21·7	13·6	16·9	15·1	12·9	3·6	17·1	13·1	15·6
East Africa	16·3	18·0	11·0	14·1	16·4	16·2	—	14·5	12·8	17·7
Central Africa...	5·5	7·0	1·5	2·4	4·0	5·5	0·9	5·5	2·5	4·9
Far East	7·5	10·5	5·7	2·1	5·8	6·4	—	5·5	5·6	5·4
Total	**44·8**	**57·2**	**31·8**	**35·5**	**41·3**	**41·0**	**4·5**	**42·6**	**34·0**	**43·6**
III High Commission Terr. ...	2·5	3·3	3·0	3·6	3·8	5·0	5·1	2·7	2·9	4·6
Western Pacific	1·8	1·8	1·0	3·5	1·4	5·3	3·2	0·9	3·2	4·1
Atlantic and Indian Ocean ...	4·1	3·3	1·9	4·7	4·0	5·0	4·2	2·4	4·1	4·3
Total	**8·4**	**8·4**	**5·9**	**11·8**	**9·2**	**15·3**	**12·5**	**6·0**	**10·2**	**13·0**
Grand Total	**85·5**	**101·1**	**53·3**	**64·3**	**72·9**	**81·9**	**18·2**	**75·1**	**60·7**	**83·8**

Note: Total allocations during a period are equal to expenditure during the period plus the difference between the unspent balances at the end and beginning of the period.

Sources: Original Allocations: 1946–55, Despatch to Colonial Governments, 1945 (Cmd. 6713).
1955–59, Despatch to Colonial Governments, 1955 (Cmd. 9462).
1959–63, House of Commons, 1959, Vol. 609, Cols. 136–141.
1963, Despatch to Colonial Governments, Colonial 357.
Expenditure: 1946–55, 'CD & W, Report on the Use of Funds, etc. . . .' 1959 (Cmnd. 672).
1955–63, Appropriation Accounts.

CD & W Allocations

Table 31 shows CD & W territorial allocations and expenditures of CD & W funds between 1946 and 1963. During the period of a CD & W Act the original allocation, made at the beginning of the period, is normally increased by further allocations from the 'reserve'. The Table shows both the original and the total allocations.

The territories are divided into nine regions and these are shown in three groups. The first group (I) includes the Mediterranean, in which Malta received an exceptionally large increase in its allocation in 1959, and West Africa, to which the allocations declined with the approach and arrival of independence.

The allocations to the regions in group II remained roughly constant as proportions of the whole, up to 1963, with some rise in amounts allocated and spent each year. In 1963, with the larger territories already or soon to be independent, the allocations were sharply reduced. It may be noted that in the first period 1946–55 the expenditure of the Caribbean territories exceeded the original allocations, to which substantial later additions were made. In these territories expenditure under the 1940 Act and the preparation of further schemes were already under way before 1945, in contrast to the West African territories for example in which expenditure lagged behind allocation in the first ten years after 1945.

The allocations to the regions in group III and their expenditure increased gradually over the whole period 1946–63. They received two-thirds of the 1963 original allocations.

Apart from the special case of Malta and the changes due to independence these figures show the persistence of the ranking of the original allocations in 1945. This comes out even more clearly in Table 32 which shows total allocations per head of the regions' populations. Particularly striking in these figures is the persistent contrast in the allocations to Africa and the Caribbean. This contrast is found in the 1940 allocations also. It may have been based in part on differences in local potential and resources, with greater allocations going to territories that were most able to prepare schemes and make a local contribution to them. But it also has its origins in the recommendation of the Moyne Commission (which were precise and specific to the West Indies) and in the events leading up to the appointment of that Commission.

Table 32

Total Allocations Per Head* 1946–63

		1946–55	1955–59	1959–63	*Original* 1963
I	Mediterranean	6·6	3·1	47·5	1·0
	West Africa	1·0	0·4	1·9	2·7
II	Caribbean	7·8	4·8	3·5	2·6
	East Africa	1·0	0·7	0·7	—
	Central Africa	2·0	0·6	1·0	0·2
	Far East	1·2	0·2	1·5	—
III	High Commission Territories ...	3·3	3·0	4·0	4·0
	Western Pacific	3·6	6·8	8·8	4·5
	Atlantic and Indian Oceans ...	3·0	3·0	3·0	2·0
	Total	**1·5**	**0·8**	**1·9**	**1·2**

* Based on approximate population of the territories in the region at the beginning of the period.

12—Purposes and Conditions

British bilateral aid is made up of many heterogeneous elements – aid for a variety of purposes, on different terms and subject to conditions of various kinds. In general aid provides recipients with additional resources. It enables them to increase their capital and current expenditure, and ultimately to avail themselves of goods and services from abroad on a wider scale and at a quicker pace than would otherwise have been possible. But the value to the recipient (and the 'cost' to the donor) of a given amount of aid (measured in money terms) will be determined by the terms and conditions on which the aid is given.

First, and most obvious, are the financial terms – whether the aid is in grant or loan form, and the interest and repayment terms of the loans. A grant adds more to a recipient's resources over a given period than a loan equal in amount but which carries with it obligations to pay interest and to repay part or all the principal within the period. (It is possible, however, that the multiplicity of conditions attached to a grant may depress its real value below that of a loan, nominally for an equal amount, but free of such conditions.) And again, the real value of a loan will differ according to the interest rate charged and the period and conditions of repayment. These differences in financial terms have been rightly emphasised in attempts to arrive at comparable measures of aid contributions of different donors.

But there are many other kinds of restrictions or conditions, whose effect on the value of the aid to the recipients, though less easily measured, may none the less be real and important. Restrictions may be imposed for example on the nature of the purposes for which the aid may be used, on the types of goods on which it may be spent and on the sources of supply of those goods. The effect – the disadvantage to the recipient – of restrictions on individual items of aid will depend on the circumstances of the recipient as well as on the restrictions themselves. In general, the greater are the recipient's own resources and the more he can call on other sources for different types of aid, the less serious will be the restrictions attached to any one type or source of aid. Moreover, although conditions, like those tying aid to purchases of goods from the donor country, may reduce the value of the aid to the recipient, they may be seen by the donor as necessary conditions for the maintenance of aid at a particular level.

In examining the component parts of the British aid programme, a number of questions need to be asked about these restrictions or conditions. For example, is aid confined to the import content of expenditure? Must the imports come from the donor country? Are there limits on the choice of goods to be bought? Must the aid be used for certain purposes only – for new projects of capital formation, for instance, in preference to recurrent expenditure on, say, an agricultural programme or for the purchase of maintenance imports as general balance of payments support. If several kinds of restriction are combined – if, for example, a large proportion of aid to a recipient country is confined to the import content of large capital projects, with the imports required to be bought from the donor countries, several disadvantages follow. The one that normally receives most emphasis is that tying of imports from the donor country prevents the recipient from buying in the cheapest market and therefore reduces the value of the aid.

Apart from normal inter-country price differences, this is most likely to happen when particular goods can be supplied by only a small number of firms in the donor country. This is often the case with specialised equipment needed by the recipient – it can lead to higher prices or long delays in delivery through lack of competition or simply through pressure on capacity. In extreme cases the donor may not be able to supply the most suitable equipment, and this forces the recipient (if he wishes to take advantage of the aid offered) to take the 'inferior' goods which are available. Furthermore, the disadvantage may not be confined to an initial higher delivery price, but may commit the recipient to future higher costs connected with replacement, spare parts and general maintenance, or generally higher operating costs. (This last point does not follow from higher initial cost – higher initial cost may be balanced by lower operating costs, and vice versa.) The disadvantage of 'high' cost and/or 'inferior' quality is particularly significant when projects are financed by 'hard' loans (i.e. on commercial terms). Not only does the recipient not get the best value from aid, but he also incurs a heavier than necessary debt-service commitment in the future. It must be pointed out, on the other hand, that even if aid is not tied to a donor's goods and services, it may still be difficult for a recipient to obtain best value on the basis of competitive tenders from several countries. The technical knowledge and experience required for a thorough evaluation of alternative tenders is not always available in a developing country.

These effects of tying, however, are by no means the only or even the most important ones. Two others must be mentioned briefly.

Many aided countries can mobilise only limited local resources for development. Those relying heavily on external finance are hard pressed to find the resources to cover local costs when the aid they receive is tied to direct imports from the donor. In some cases this may prevent them from taking advantage of all the aid offered. In other cases temporary solutions are found by printing bank notes, thus converting the problem from one of lack of finance to one of inflation. Local expenditure arising from tied-aid financed projects, generates additional demand which cannot be fully met from local output. In the absence of general support to provide the foreign exchange for the 'indirect' imports, further pressure is put on the balance of payments. This, in turn, may lead to the introduction of total or partial import controls and, as a result, create bottlenecks and new shortages throughout the economy – *ad hoc* controls hit essential goods, often unintentionally, and lead to delays while import licences, etc., are sifted and approved.

When aid is furthermore tied to the direct import content of particular projects (especially large capital projects) this is likely to lead to a distortion of the development programme as a whole. Limited local resources may be diverted to projects which are not first in priority, but which are the only ones for which external aid is available. Major projects have been undertaken (with the encouragement of donors through promises of aid) well in advance of actual need, or on a scale out of proportion to likely requirements in the foreseeable future. Once completed, such projects will probably operate at sub-optimal levels for a long time (i.e. at high costs) and tie up scarce resources in schemes which will remain underutilised indefinitely (e.g. communications systems designed to handle current traffic density of industrialised countries). If such projects are loan financed, they may actually result in a loss to the economy since future debt-service may well be higher than their contribution to the economy. They are nevertheless undertaken because they may be the only 'suitable' schemes for which aid will be available.

Besides these potentially serious effects, aid which is tied to the direct import content of specific projects creates administrative complications and delays – projects have to be examined and tailored to specifications acceptable to the donor. Although this form of supervision of the uses of aid may in many instances guarantee that projects are soundly based, it will at the same time complicate the whole process of aid giving, especially when the interests of donor and recipient do not coincide. Moreover, when one project is financed by tied aid from several donors, using this aid becomes a complex operation – one that can tax the skill and patience of any administration, but especially a new and understaffed one.

Aid through the different administrative channels in 1961–62 and 1962–63 is shown in Table 33. The total in 1962–63 was £148m, of which £10m was multilateral, and £23m officially classified as bilateral 'technical assistance'. Of the remaining £115m, the colonial territories and independent Commonwealth each received about £50m and foreign countries £15m. The channels, purposes and terms in 1962–63 are summarised below.

Aid to the Colonies

Financial aid to the colonies went through three main channels in roughly equal amounts. Most of the £15m through the Colonial Grants and Loans Vote (and Central African Office) was for current local expenditure, in the form of budgetary assistance and contributions to expenditure on relief and reconstruction. £1m was for compensation and pensions of overseas officers. Only £1·5m of this aid was in loans, of which the greater part was interest free. Colonial Development and Welfare assistance was £17m. This was used for development 'schemes' of many kinds, covering local costs and quite frequently recurrent costs for limited periods. Less than £1m of this aid was in loans. Exchequer loans to the colonies amounted to £14m. These loans are made for the general purposes of development programmes, including capital expenditures on security services and on the maintenance of standards of government already achieved, which are in principle not eligible for CD & W assistance; but they are not normally made to assist current budgets. This aid also covers local costs. The loans are long term and bear interest at $\frac{1}{4}\%$ above the current Exchequer lending rate. About two-thirds of all aid to the colonies was in grant form; the remaining third was almost all in long term loans on 'hard' terms.

Aid to the colonies is for both current and 'development' purposes. It can be used for local expenditures and until recently there were no restrictions on the sources of consequential imports, even of those required directly for aided schemes. Since October 1962, however, direct imports from industrialised countries have to be bought from the United Kingdom, except where British industry cannot supply the goods or services 'on reasonably competitive terms'. There is no control over the imports resulting indirectly from local expenditure of aid; nor is there any condition that certain proportions of aid must be spent on direct imports.

In contrast to aid to independent countries, aid to the colonies is accompanied by considerable British influence on the economic and other policies of each territory. Budgetary assistance is linked with control by HM Treasury over all the territory's finances; it is a formal condition for Exchequer loans and (less strictly) for other aid that the territory's development programme should be 'approved'. Also a large part of the aid to individual territories is provided, under CD & W, for several years ahead, in order to encourage and facilitate long-term planning.

Aid to Independent Countries

The channels for the £65m in aid to independent countries (apart from aid through the DTC) were the Commonwealth and Foreign Grants and Loans Votes (£15m and £9m) and ECGD loans, under Section 3 of the Export Guarantees Act (£40·5m). In 1962–63 instalments of the independence settlements of newly independent countries made up a considerable proportion of the aid through the Commonwealth Grants and Loans Vote. Grants totalled £10·5m, much of which was specifically for development and the rest for general purposes. Less than £1m was tied narrowly to specific projects. Of the loans (£4m), half were for compensation (interest free) and half towards the commutation of pensions of overseas officers (at the normal interest rates). Aid through this Vote was freely disposable within the defined purposes; in 1962–63 there were no general conditions limiting the proportions to be used for local costs or restricting the sources of direct or indirect imports. Since then new aid agreements lay down the proportions available to cover local costs, and direct imports from industrialised countries are generally required to be bought from Britain. The greater part of the £7m in grants through the Foreign Grants and Loans Vote was for current purposes, the rest for general or development purposes. Of the £2m in loans, £0·7m was interest free, for development, and £1·3m in medium term 'refinance loans' on which normal interest is charged. There were again no general restrictions on the import content or source of imports financed directly or indirectly by this aid, but recently new aid agreements stipulate conditions similar to those applicable to the Commonwealth Grants and Loans Vote.

Table 33

Channels of Aid 1961–62 and 1962–63

£m

	1961–62				1962–63			
		Multi-	*Bilateral*			*Multi-*	*Bilateral*	
	Total	*lateral*	*Grants*	*Loans*	*Total*	*lateral*	*Grants*	*Loans*
I **Colonial Territories** (including Central Africa)								
1 Colonial Grants and Loans Vote ...	21·75	—	20·35	1·40	14·15	—	12·68	1·47
2 Central African Office Vote	—	—	—	—	0·86	—	0·80	0·06
3 CD & W (Colonial and Central African Offices)...	22·46	—	21·70	0·76	17·07	—	16·14	0·93
4 Exchequer loans to the Colonies ...	18·78	—	—	18·78	13·92	—	—	13·92
5 CDC (Exchequer advances to) ...	19·16	—	—	19·16	4·96	—	—	4·96
Total (apart from DTC etc. in III) ...	**82·15**	**—**	**42·05**	**40·10**	**51·05**	**—**	**29·61**	**21·34**
II **Independent Countries**								
6 Commonwealth Grants and Loans Vote	12·91	0·50	12·20	0·21	18·67	4·10	10·55	4·02
7 Foreign Grants and Loans Vote ...	12·45	1·90	8·85	1·70	10·66	1·90	6·76	2·00
8 ECGD loans	32·15	—	—	32·15	40·48	—	—	40·48
Total (apart from DTC etc. in III) ...	**57·51**	**2·40**	**21·05**	**34·06**	**69·81**	**6·00**	**17·31**	**46·50**
III **Other**								
9 Department of Technical Co-operation Vote	18·72	3·20	15·40	0·12	25·46	3·20	21·95	0·31
10 Ministry of Aviation	1·05	—	1·05	—	8·84	—	0·84	—
11 Drawings by IBRD and IDA... ...	0·60	0·60	—	—	0·70	0·70	—	—
Total	**160·03**	**6·20**	**79·55**	**74·28**	**147·77**	**9·90**	**69·72**	**68·15**

Note: Due to the independence of several territories during each of the two financial years shown, no attempt has been made to apportion aid through the DTC and Ministry of Aviation Votes between colonies and independent countries, and the totals for these do not correspond, therefore, to the figures given in the Annual Abstract of Statistics.

Source: Treasury, unpublished.

The rest, well over half the aid to independent countries, was in ECGD loans. All the aid to India and Pakistan (apart from technical assistance) has been in this form. These are 'hard' loans, though normally long term; they must be wholly spent on imports of British goods and services and are normally used to purchase capital equipment. Some ECGD loans are also tied to specific new projects (decided before or after the loan agreement) with Britain supplying all the imported capital equipment that is required or sharing the import content with other donors. (If the several donors tie their contributions for a specific project to their imports, the administrative problems of using the aid can be severe.) Other ECGD loans are offered for the purchase of goods not necessarily linked to specific projects. If the offer is restricted to a narrow range of goods which does not coincide with the considered needs of the recipient, the development programme may be 'distorted' to take advantage of the offer of aid – on this ground some of the 'surplus capacity' loans are open to criticism. In contrast, a quite substantial part of the ECGD loans to India have been made available for a wide range of goods, including 'maintenance imports' as well as for specific development projects. This general purpose aid, in support of the whole development programme and the balance of payments of the recipient, effectively reduces or removes the main disadvantages of tying aid to British imports.

In 1963 the terms of the loans to India, Pakistan and Turkey were eased, by granting a waiver of interest for the first seven years. After the 'waiver period', however, the rates of interest on these loans remain at the normal relatively high level.

Department of Technical Co-operation

Finally, aid to all countries, carried on the Vote of the DTC: the whole Vote, apart from the administrative expenses of the Department, is classified as technical assistance. With one small exception it is entirely in the form of grants. Much of this is tied to the services of people; other grants cover the purchase of equipment, the running costs of institutions and the costs of special development projects. Within this general emphasis on services there are (as with other aid) varying degrees of restriction on the use of the aid. Some of the funds at the disposal of the DTC can be used (within financial limits) to meet recipients' requests for any of a very wide range of services – those of advisers, administrators, surveyors, teachers and research workers. Other funds are tied to the maintenance of certain institutions or specific services and a large proportion, over half the total in 1962–63, is committed to payments under OSAS. It has already been argued, in Chapter 9, that the distinction between funds used for 'technical assistance' and other aid funds is not a precise one, that compensation and pension payments under OSAS have the same purpose as compensation and pension payments on other Votes, and that the other payments under OSAS can be regarded as a particular form of current or budgetary assistance. They are treated in this way in Table 34 where they are coupled with grants in aid which are used largely for similar purposes as OSAS payments (i.e. for salaries of civil servants).

Comments

These broad classifications of the purposes and terms of British bilateral aid in 1962–63 are summarised in Table 34. About one-third of the total consists of aid for current expenditure (mainly budgetary aid), compensation and pensions and technical assistance. The other two-thirds, aid for general and development purposes, is divided into two roughly equal parts, the first (5 and 7) being aid which can be used for local expenditures and the second being confined to purchases of imports from Britain.

Table 34

Bilateral Aid 1962–63: Purposes and Terms*

	All countries				% of Totals		
	Total	*Total*	*Grants*	*Loans*	*Colonies*	*Independent Commonwealth*	*Foreign Countries*
	£m	%	%	%	%	%	%
1 Aid for current expenditure†	26·1	100	98	2	67	15	18
2 Aid for compensation and pensions of overseas officers†	10·5	100	49	51	24	71	5
3 Technical assistance‡ ...	10·2	100	100	—	49	37	14
4 Refinance loans	1·3	100	—	100	—	—	100
General and development aid							
5 Including local costs ...	44·1	100	65	35	70	24	6
6 Import content only ...	40·5	100	—	100	—	90	10
7 CDC (Exchequer advances to)	5·0	100	—	(100)	(100)	—	—
Total	**137·9**	**100**	**51**	**49**	**44**	**45**	**11**

* For details see Appendix (Table 12).
† Including parts of the DTC's expenditure, under the Overseas Service Aid Scheme, inducement pay, etc., and compensation and pensions.
‡ excludes OSAS payments on DTC Vote (see above).

The main contrast lies between the colonies and the independent Commonwealth, particularly the older independent countries. Three-fifths of the aid to the colonies was for general and development purposes; half of this was in grants, half in loans at the normal rates of interest; all could be used for local expenditures. Three-quarters of the aid to the independent Commonwealth was for general or development purposes; nearly 80% was in loans confined to imports from Britain. India and Pakistan received about half of total aid to the independent Commonwealth; all but 4% was in ECGD loans tied to imports from Britain.

These 1962–63 figures reflect the temporary phenomenon of independence settlements to newly independent countries, which account for most of the grants and most of the aid that can be used to cover local expenditures. The two main questions that arise concern the future of aid, first to newly independent countries – will the normal form be Commonwealth

Assistance (ECGD) loans, confined to imports from Britain? And secondly, to India and Pakistan – can and will new forms of aid be introduced which add less to the burden of debt service, already severe and rising rapidly?

The financial terms of loans, and the debt service problem, foreseen in the Colombo Plan report of 1950*, are considered in the next chapter. The problem of finding a more suitable form of aid to newly independent countries than Commonwealth Assistance Loans was foreseen by the Select Committee on Estimates in 1959–60 (Fourth Report, pp. x–xi). The Committee discussed the future of aid to newly independent countries hitherto receiving CD & W assistance, noted that Commonwealth Assistance Loans were loans tied to British exports, and said 'because of these restrictions in their application, Commonwealth Assistance Loans cannot, in the opinion of (the) Committee, be regarded as successors to CD & W aid either in grant or loan form. There are thus no means equivalent to CD & W aid by which development in new states can continue to be encouraged by the United Kingdom. The principle of granting aid to new states is accepted by HM Government: (the) Committee are of opinion that it is important to continue to finance through some agency development and welfare schemes in new states, even after the funds originally allocated to them have been exhausted.'

The Report goes on: 'CD & W and CDC aid were originally envisaged as assistance for colonies progressing towards independence and economic viability simultaneously, on the realisation of which further aid of this type would be respectively inappropriate or unnecessary.' But circumstances have changed: 'it is possible that certain territories . . . may gain political independence before achieving full economic viability. . . . In the fresh circumstances, new states will require financial aid on a wider basis than can be provided by CDFC or Commonwealth Assistance Loans, but will not wish to appear at the same time to be dependent on the United Kingdom as in their old colonial days . . . the problem facing the CRO and the Treasury is that of finding a method of providing assistance for CD & W type projects which will be acceptable to these new states.'

The problem is to find an effective replacement for CD & W aid – that is to say: aid in grants or loans, than can be used to cover local costs, that is not confined to large projects but is available for small schemes of many different kinds, that can be used for projects that do not earn revenue directly, and in some cases for recurrent costs over limited periods. Moreover, CD & W aid is allocated (in total, before specific projects are approved) for several years ahead, in order to encourage long term planning and decisions on priorities, and 'schemes' are approved in the context of whole long term plans. How can these features of CD & W aid be reproduced in aid to independent countries over whose economic and other policies Britain can have far less influence or control and in which the necessary technical advice and the proper, informed surveillance of the allocation and use of aid funds cannot be taken for granted?

The problems of continuing aid after independence have been met, since 1960, by the arrangements under OSAS for retention of expatriate

* See Chapter 7, p. 12 (iii) para. 259 of the Report.

officers and by the aid given in independence settlements, which include grants equal to unspent balances of CD & W allocations and further grants or loans for development purposes. But these are, at best, only temporary solutions. There is a hint of innovation in the recently agreed loans on the Commonwealth Grants and Loans Vote to Sierra Leone and Tanganyika for construction projects, which can be used in part for local costs. But these appear to be *ad hoc* responses to particular situations, not acts within a new general policy.

Where recipients have well-considered development plans which will be effectively implemented, it is possible to consider the solution of general purpose aid in support of the whole plan (and the balance of payments) as in India, but on easier terms. But few, if any, of the newly independent countries have the strong administrations, specialists and information that are needed for such effective plans.

It is therefore necessary to consider concentrating on two types of aid: on aid to the recipient government in working out the priorities of its whole programme and in its implementation, and secondly on aid to particular projects or programmes for which the donor would be largely responsible. The first is largely a matter of technical assistance, provided, on a larger scale than at present and with more assurance of continuity, by an international agency or agencies, a combination of donors or by Britain alone. It need not be provided directly by government – it can be provided in part by universities and similar bodies. It is important that it should include powerful assistance to preparatory studies, so that decisions which are uncertain enough in any event can at least be based on the fullest information, much of which can be obtained relatively easily if sufficient resources are given to research.

The second course is to concentrate new aid to newly independent countries more on projects, using the word in the wide sense of CD & W 'schemes' to include continuing programmes. This means taking responsibility for certain projects or programmes through all stages – in construction of a harbour or industrial estate, for instance, from initiation, through construction, initial operation and training of personnel to the last stage when it is operating effectively under local control and a local staff. Or it might mean accepting a commitment for a number of years, to run a programme of, say, fertiliser distribution, or to build, support and to provide a nucleus of staff for educational or research institutions. Aid in these ways would differ in several respects from ECGD loans used to buy British goods. In the first place, finance would be provided for the whole or most of the projects, and not only the direct import content, with the foreign exchange counterpart of local expenditures being available to the recipient government for imports not directly connected with the project. Secondly, technical assistance, including training, would be much more closely associated with financial aid than it usually is with present ECGD loans. Thirdly, in many cases it would require a continuing and possibly indefinite commitment to go on supporting a project or programme for a number of years.

Clearly there are difficulties which are not encountered when aid can be given, with confidence that it will contribute effectively to development, in the form of general balance of payments support for the purchase of

British goods, the choice being largely left to the recipient. It implies more active participation by Britain in the recipient's affairs which could be construed as unwarranted and politically motivated interference; on the other hand it might get things done more quickly and effectively than they would otherwise be, at the same cost to British public funds. From the donor's point of view the idea that aid to independent countries should cover local costs and not be tied wholly to the donor's exports has implications for the donor's balance of payments. But these are not as serious as one might think – as regards aid to the newly independent countries of the Commonwealth, the adoption of this policy *now* would require little change in the proportion of aid that is now tied to British exports. Until recently these countries have been receiving aid as colonies in freely disposable form, and the greater part of their independence settlements, now being disbursed, is also in this form. If future aid to these countries is all in the form of tied ECGD loans, there will be a marked increase in the tied proportion of British aid. Broadly, all that is needed is that this increase should not take place. Moreover, it would be reasonable to apply the condition now attached to colonial aid – that direct imports should be purchased from Britain if available on reasonably competitive terms. Even this limited condition has not applied to aid to the newly independent countries before independence (up to October 1962) nor to the greater part of their aid since independence.

Finally, the idea of a forward commitment to give aid over a number of years must be mentioned. There seem to be two main objections, apart from uncertainty about the balance of payments position. The first stems from the wish to retain freedom of manoeuvre in using aid as an instrument for short term political purposes – to be able to withdraw aid or to threaten to do so, in response to political changes. But this objection should only rarely be important, if on the whole the primary aim of aid is economic development of the recipient countries for the benefit of their peoples. The second objection seems to rest on unwillingness to depart from Parliament's annual control over expenditure. But already grants or loans are made which will, by agreement or because of lags in expenditure, be disbursed over several years (and ECGD loans, where the largest sums are involved, are not even reported in detail regularly to Parliament). Moreover, there are moral and political commitments, if no more, to continue aid to many countries. Forward commitments have been made under CD & W since 1940 to encourage long term planning. There would be advantage on the same grounds to both the recipient countries and to Britain in making a similar minimum commitment of aid to independent countries.

13—Financial Terms

Repayment Periods and Interest Rates

Loans now represent over half the total of bilateral aid. The figures given below show that the majority of these loans are long term.*

Table 35

UK Government Lending to Developing Countries, by Maturity

	Over 5 *up to* 10 *years* £*m*	*Over* 10 *up to* 20 *years* £*m*	20 *years or more* £*m*	*Amortisation received* £*m*
1960	16	1	46	9
1961	9	1	69	7
1962	11	1	55	9
1963	10	1	54	14

* The OECD is the most convenient source of information on aid maturities – see 'Development Assistance Efforts and Policies', OECD, 1961 and 1963.

It is not possible to get an exact breakdown of loan figures as they are provided in Parliamentary Papers, but a few generalisations can be made. Colonial Exchequer loans have so far almost all been made for 25 years; They carry no grace period for amortisation. It can be seen from Table 8 in the Appendix that while ECGD loans have been made of varying maturities, from five to 26 years, all those made since November 1961 have been for at least 10 years, and that the average size of the loans made for less than 10 years is considerably less than the average size of the longer term loans. All ECGD loans made so far have had some grace period, ranging from 1 to 8 years, and varying more or less with the maturity of the loan. HM Government has stated (in the White Paper on Aid, September 1963) that it 'will be prepared in suitable cases to make loans for periods up to 30 years, with grace periods of up to 10 years'. Up to March 1964 no loan had been made on these terms. CDC borrowings from the Exchequer may be short term (up to one year), medium term (for 10 years), long term (40 years), or special term (for varying periods up to 30 years). At the end of 1963 the bulk of its outstanding advances were long term and special term. CD & W loans are reported annually in the Appropriation Accounts; but no details of terms are given. Many are made without repayment terms having been negotiated and maturities and grace periods of the others vary so widely that no generalisation is possible. The same applies to loans made through departmental Votes. Where loans are repaid in the financial year in which they are made, they are not recorded in the annual aid figures.

The different methods of repayment of Exchequer loans to the colonies and ECGD loans have been explained in Chapters 4 and 8. Exchequer loans to the colonies are repaid in equal annual instalments, with no grace period. ECGD loans are repaid on the maturity dates of the promissory notes, which are spread over the life of the loan after a grace period.

The rates of interest on these two main kinds of economic assistance loan are equal to the current Exchequer lending rate for comparable periods plus a management charge of $\frac{1}{4}$%. The rates of interest on different *tranches* of a loan will vary both with the period of the loan (or maturity of the relevant promissory note) and with the Exchequer lending rate at the time of issue of a particular tranche. In recent years rates have ranged from about $5\frac{1}{2}$% to 7%. The limits for different periods between which they have varied from October 1958 to May 1964 are shown in Table 36.

These are relatively high interest rates – for instance they are equal to or above the rates charged by the IBRD on its 'hard' loans to developing countries. They are fixed on the same principle as rates on other Exchequer loans, made for many different purposes, under the authority of individual Acts of Parliament and provided 'below the line' – for instance, to

Table 36

Ranges of Interest Rates on ECGD Loans and Colonial Exchequer Loans (October 1958 to May 1964)

	1–5 *years*	5–10 *years*	10–15 *years*	15–30 *years*	*Over* 30 *years*
ECGD Loans:					
Upper limit	$6\frac{7}{8}$%	7%	$6\frac{7}{8}$%	$6\frac{7}{8}$%	$6\frac{3}{4}$%
Lower limit	$4\frac{3}{8}$%	$5\frac{1}{2}$%	$5\frac{3}{8}$%	$5\frac{1}{2}$%	$5\frac{1}{4}$%
Exchequer loans to the Colonies:					
Upper limit	*	*	*	7%	$6\frac{3}{4}$%
Lower limit	*	*	*	$5\frac{3}{8}$%	$5\frac{1}{2}$%

* There have been no Exchequer loans for less than 15 years.

Source: Treasury.

nationalised industries and local authorities. These loans are made on varying terms, but the general principle is that the Government does not lend at a rate lower than that at which it can borrow. The rates are therefore fixed to reflect the Government's cost of borrowing, as measured by the current yield on Government stocks, which varies, of course, over time. Some of these Exchequer loans are made at the straight Government credit rate. In other cases an addition is made to reflect the cost of management, to bring the cost of Exchequer loans up to the rate which the borrower would have to pay if he borrowed on the market, or to ensure that he had the incentive to raise funds on the market. Exchequer loans to the colonies and ECGD loans are both made at $\frac{1}{4}$% above the ruling Government credit rate.

These rates of interest conform therefore with the conventions of Government practice towards other (mainly domestic) borrowers. How far do they meet the needs of developing countries and of British policy towards those countries? In the case of Exchequer loans to the colonies, which were introduced to supplement or replace colonial borrowing on the London market, and which are accompanied by substantial amounts (twice as much in 1962–63) of grant aid through other channels for non-revenue earning projects, the decision to charge conventional interest rates is hardly open to criticism (except on the possible grounds that the total amount of grant aid was inadequate, which raises larger questions). Indeed the rates of interest charged to the colonies are lower than the rates they would have had to pay if they had been able to borrow on the market, although the method of repayment of Exchequer loans makes the annual service cost of these loans higher (see Chapter 4).

The application of the conventional rates to ECGD loans is less easily justified. In 1958, at the time of the decision to make Commonwealth Assistance loans on a substantial scale to independent countries, there were two principal recipients – India and Pakistan. Neither was in receipt of grant aid from Britain; both were, and foreseeably would be facing serious balance of payments and debt service problems for a long time. It seems plain that the decision announced at Montreal in 1958 to make Commonwealth Assistance loans to independent countries was implemented *ad hoc*, making use of existing machinery in a conventional way. The machinery was the ECGD, empowered to purchase securities as a means of giving economic assistance; this power had rarely been used since 1951. The conventions were that ECGD must be financed for this purpose by Exchequer loans at normal interest rates and that ECGD must cover its costs. In short, the terms of lending to independent developing countries were determined by domestic Government conventions. This having been said, it must be added that the Montreal decision to lend to independent countries for their economic assistance was a big enough decision for Britain without adding a further provision to make these loans on 'soft' terms. But the need for easier terms, in certain cases at least, has now been recognised. In the 1963 consortia for India and Pakistan, Britain agreed to make loans available with a waiver of interest charges for the first seven years. As the White Paper on Aid (Cmnd. 2147, September 1963) says, this 'concession is a very substantial one. It would reduce from, say, 5½% to below 3% the effective rate of interest on a loan for 25 years.'

It is significant that, in spite of this quotation, the loans have been arranged and are described, not as loans *at* 3% (i.e. on relatively 'soft' terms) but as loans at (about) 5½% (i.e. 'hard' terms) with the complication of a waiver of interest. This reflects some myths about interest rates but it also reflects a strong preference for providing aid either in loans or more or less conventional terms or as straightforward grants, and not as something indefinite between the two – an objection to disguising what is in effect some additional grant aid behind a loan of unconventionally easy terms. There is a good deal to be said for this objection to adding to the complications of measuring the 'subsidy' or 'real aid' element in aid figures. Nevertheless the adoption of some in-between form of aid

– loans for much longer periods at low interest rates – will be necessary if the debt service burden on major recipients is not to go on rising intolerably. The main alternative to softer loans would be to give all aid in grants; but this would probably entail a large reduction in the current total of aid disbursements, on the grounds of the efforts on both the budget and the balance of payments.

Receipts of Interest and Repayment

The official aid figures normally quoted are of gross disbursements. Figures of repayments and receipts of interest on the main forms of loan aid (ECGD loans, Exchequer loans to the colonies and advances to the CDC) are published in the Finance Accounts, and figures of repayments only are given in the Annual Abstract of Statistics. The totals for these types of loan in 1962–63 were £9·6m in repayments, £13·8m in interest. For completeness, repayments and interest on loans through departmental Votes (including CD & W) should also be included, but these figures are not easily obtained – figures in the Appropriation Accounts do not distinguish between interest and capital repayments and they include payments on loans made some time ago which were not classified as aid. However a rough estimate for 1962–63 suggests that repayments of loans on departmental Votes classified as aid were between £3m and £3½m and interest receipts were slightly more than £1m. Details for the last three years are shown in Table 37*

Table 37

Loans—Issues, Repayments and Interest Receipts

	1960–61			1961–62			1962–63		
	Issues	*Repayments*	*Interest*	*Issues*	*Repayments*	*Interest*	*Issues*	*Repayments*	*Interest*
Exchequer loans to Colonies	22·7	0·1	0·5	18·8	0·4	1·8	13·9	0·8	3·1
ECGD loans ...	37·3	5·1	4·1	32·2	5·1	6·1	40·5	7·0	8·2
CDC (Exchequer advances) ...	7·6	1·3	1·2	19·2	2·2	1·9	4·9	1·8	2·5
Total	**67·6**	**6·5**	**5·8**	**70·2**	**7·7**	**9·8**	**59·3**	**9·6**	**13·8**
Other (Votes) ...	(4·5)	n.a.	n.a.	(4·7)	n.a.	n.a.	Estimate (8·8)	(3·2)	(1·2)

Source: Finance Accounts of the United Kingdom (Section on Budget below the line).

* OECD publishes figures of net lending (gross disbursements less repayments) on a calendar year basis, from information supplied by HM Government. The recent figures include only loans made for more than five years (most of UK loans in recent years). The OECD figures for UK net lending 1960–62 are 1960: £53m; 1961: £72m; 1962: £58m.

Lending net of capital repayments therefore amounted to about £55m in 1962–63 compared with £68m gross. The total flow *from* the developing countries in interest and repayments was nearly £28m, 20% of the £138m total of bilateral aid flowing to them. More than half of this reverse flow, £15·2m, was on account of ECGD loans (gross new loans in 1962–63 were £40·5m).

The amounts now flowing back to this country are already substantial and they will rise in the near future.

The current total of repayments includes substantial repayments by Yugoslavia of ECGD loans made for shorter periods than are now normal. These are due to be completed by 1967. Nevertheless the total of repayments is bound to increase; in particular, repayments of ECGD loans by the independent Commonwealth will begin to rise sharply very soon. Exchequer loans to the colonies and ECGD loans on a substantial scale only began in 1958–59. Since that year half of bilateral aid has consisted of loans, compared with less than one-third up to that year. Repayments of Exchequer loans have begun (in addition, of course, to repayment of loans raised earlier in the London market). But repayment of many of the ECGD loans made since 1958 has not yet begun, since the grace periods are not yet completed.

Repayments by India, for instance, have only just begun. A rough calculation (based on the information about ECGD loans given in Appendix Table 8), suggests that India's capital repayments will rise from zero in 1962–63 to something like £12m p.a. by 1966–67, and that interest payments over the same period will rise from about £5m p.a. to £10m p.a., if the 1963 waiver of interest is repeated in future loans. (In the same period, India's total debt service to all donors seems likely to double, to something like £120–£130m p.a.)

Gross loans to India averaged £24m p.a. (disbursements) from 1958–59 to 1962–63. If the above estimates are roughly correct, to maintain the net outward flow from Britain at the recent rate of about £19m–£20m p.a., gross aid to India would have to be nearly doubled by 1966–67.

As well as repayments of capital, interest receipts will also rise with the total of loans outstanding, though not necessarily by the same proportion, if waivers of interest are made or lower interest rates charged on new loans. Outstanding loans at the end of March 1963 amounted to about £490m, made up of £62m in Exchequer loans to the colonies, £168m in ECGD loans, £92 in Exchequer advances to the CDC and loans on departmental Votes approximately £70m. Taking the first two kinds only – colonial Exchequer and ECGD loans – and assuming gross lending is maintained at recent levels, by 1966–67 capital repayments and interest (assuming recent rates but allowing for repetition of the 1963 waivers) will more than double and will equal about three-quarters of gross new lending. By then, the bulk of these payments of capital and interest will be from the same countries as will be receiving the new loans, which is not the case at present.

Grant-equivalent Measure of Aid

Most of the previous section was an elaboration of the simple point that loans are different from grants. A new loan transfers the same amount of current resources as an equal grant, but at some time in the future resources begin to flow back on account of the loan and in the end much more (on present UK terms) flows back than was originally lent. It is regrettable that the habit has become established of adding together all kinds of 'aid' to arrive at a single total, which is then compared with past totals or the totals of other donors with little account taken of differences in terms. For example, OECD, the main source of comparative figures for various donors, distinguishes in its detailed figures of bilateral aid between grants, loans repayable in lenders' currencies, loans repayable in borrowers' currencies, consolidation credits and transfers of resources through sales for recipients' currency (almost entirely US PL480 contributions). But it then adds them all together, and it is the totals that are most frequently quoted.

The problem of arriving at a more satisfactory measure of total aid, which takes account ot least of the differences between loans and grants and the different terms of loans, has been tackled by J. A. Pincus in an article published in the *Review of Economics and Statistics* November 1963.

The present value of the future payments which a borrower will have to make to a lender on account of a loan can be calculated by discounting those payments at some rate of interest. To measure the grant equivalent of loan aid, Pincus subtracts the present value of these future payments from the amount of the loan. The longer the loan, the lower the rate of interest charged on it or the higher the rate of discount applied to future repayments, the smaller will be that present value and the larger will be the grant equivalent or the subsidy element of a loan.

Various rates of discount could be used in calculating the present value of future payments. Pincus uses three alternatives: (i) the donor's own domestic long term interest rate, representing the domestic opportunity cost of capital; (ii) the current IBRD lending rate of $5\frac{3}{4}$%; (iii) a rate of 10%, to represent approximately the rate that long term private investors would have to earn in developing countries. Donor's sacrifices and recipient's benefits may be different: the first rate is taken as an approximation of the former, the 10% rate of the latter.

The greater part of Pincus's article is devoted to measuring the resources cost of US aid in 1961, and in particular to presenting alternative values of PL480 aid, which is officially valued at or above world market prices. But he also presents estimates of the real cost of 1962 aid *commitments* of nine members of the OECD's Development Assistance Committee, including the United Kingdom. His figures are based on preliminary and unofficial information about aid commitments and loan terms, but give an impression of the extent of the difference made to the official aid totals by taking account of future repayments of loans.

Some of his estimates are reproduced in Table 38. It will be seen that for most countries there are wide differences between the aid totals officially reported to DAC and the 'real cost' of aid. 'Only Canada and France – countries whose aid is preponderantly in the form of grants – show essentially the same aid value whether their aid is valued as reported to DAC or as discounted by their domestic long term interest rates.' The United Kingdom's total is reduced by half or more, when discounted by either 10% or its domestic long term rate. When discounted by the 5·75% (not shown in the Table) which was lower than the UK's own long term rate, the value of loans becomes very small indeed and the aid total is reduced almost to the value of grants alone. Other donors' totals are also reduced severely. The total of aid commitments of these nine countries is reduced from a reported $7·7 billion to totals which vary, depending on the discount rate, from $5·3 to $6·0 billion including the values of US aid shown in the Table, or $4·7 to $5·4 billion including lower US values (not shown).

As a proportion of GNP, the reported total for all these countries was 0·82%; the discounted totals varied between 0·52% and 0·60%. The total aid commitment of the UK, as reported, was 0·72%; discounted, it varied between 0·21% (discounting by 5·75%, not shown) and 0·37% (discounting by 10%).

Among the major donors, only France and, to a lesser degree, the United States, emerge with 'real' aid totals relatively close to the officially reported levels. (In 1962, US introduced loans for 30–40 years at ¾% interest.) Pincus concludes: 'to the extent that some countries provide their aid predominantly in the form of loans at high rates of interest, their actual contributions will not only be less as a proportion of GNP than they appear to be, but there will also be systematic differences in the degree of overstatement among countries. In the 1962 computations, this overstatement is particularly evident in the cases of the United Kingdom, Germany, Italy and Portugal . . .'. He suggests that 'DAC reviews would benefit from considering aid contributions on some such basis as set forth here. It also reinforces the case for providing aid in the form of grants and long term low interest loans'.*

Table 38

Aid Commitments 1962, Nominal and Discounted Values

$m

	Revised figures[1] *Total*	*of which grants*	*Nominal total*	*Pincus' figures*[2] *Discounted value; loans discounted at Own interest rate*	10%	*Column 4 as % of GNP*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Canada... ...	58	44	73	59	61	0·16
France	(900)[3]	(772)[3]	1,035	908	937	1·32
Germany ...	428	151	497	231	301	0·27
Italy	60	19	137	28	32	0·07
Japan	265	104	296	129	140	0·24
Netherlands ...	42	11	64	35	44	0·27
Portugal ...	60	3	60	6	19	0·22
United Kingdom	556	159	570	211	291	0·27
United States[4]...	4,556	1,629	4,975	3,661	4,139	0·66
Total ...	**7,025**	**2,892**	**7,707**	**5,268**	**5,964**	**0·55**

Notes:
1 Source: Development Assistance Efforts and Policies, OECD 1963 (Table 4); (Figures are for *bilateral* commitments only, whereas Pincus' total includes bilateral and multilateral commitments. Multilateral commitments are not published by OECD).
2 J. A. Pincus, "The Cost of Foreign Aid", *Review of Economics and Statistics*, Vol. XLV No. 4 (November 1963), Table 5, p. 364.
3 1962 grant disbursements and estimate of loan commitments.
4 Including PL 480 contributions at values reported to DAC. Pincus also presents alternative lower values of these contributions on different assumptions.

* *Op. cit.* pp. 365–366.

The importance of taking into account the interest and repayment terms of loan aid has now been emphasised in two ways, by looking ahead at the growing flow back from the developing countries of payments of interest and capital and by outlining more refined measures of current aid. It will also be relevant, of course, in the discussion of aid and the balance of payments, to which we turn in the next chapter.

14—Aid and the Balance of Payments

Even without the adjustments made at the end of the previous chapter, aid represents a very small proportion of Britain's resources. In 1963 the amount disbursed was 0·6% of gross national product and a little less than 2% of total government expenditure.

'The amount that we can afford to spend on aid to the developing countries', says a recent White Paper* 'depends primarily on the state of our balance of payments, because of the substantial charge that overseas expenditure imposes on this balance'.

Aid did account for as much as one-third of government overseas expenditure in 1963; however it was less than 2½% of Britain's *total* overseas expenditure on imports and other items.

The first pamphlet in this series† pointed out that the balance of payments problem to which aid may give rise is a rich country's problem – it is the possible worsening of Britain's balance of payments with other rich countries, not with the developing countries, that is a cause for concern. It suggested that the rich donor countries should press ahead with much greater urgency in co-operative measures to reduce this obstacle to aid, particularly by schemes to improve international liquidity.‡ The amount of aid ought to be determined by need and by willingness to give, and not by artificial, man-made difficulties – man-made in the sense that man has not tackled them with the knowledge he already possesses and readily applies within national boundaries. Beyond noting its importance, this subject will not be discussed further here.

The suggestion was also made that the justification for the view expressed in the White Paper about the balance of payments limit to British aid ought to be critically re-examined. It is beyond the scope of this pamphlet to go into this at all thoroughly; but it is worth expanding on those earlier comments in the hope of stimulating a more serious investigation.

The next part of the chapter contains some calculations of the effects of aid on the balance of payments in 1961 and 1962–63. This involves some tedious arithmetic leading to the conclusion that the apparent outflow of £140m in bilateral aid in 1962–63 could well have disguised a net *gain* of £30m. The calculations are followed by more general observations on the balance of payments as a limiting factor to aid; these as well as the assumptions behind the calculations are, or ought to be, controversial.

* Aid to Developing Countries, Cmnd. 2147, 1963, para. 31.
† British Aid 1 – Survey & Comment, pps. 33–34.
‡ E.g. Maxwell Stamp's proposals in 'The Stamp Plan – 1962 Version', *Moorgate and Wall Street Review*, Autumn 1962.

Aid, Exports, and the Balance of Payments in 1961 and 1962–63

British bilaterial aid amounted to £155m in calendar year 1961, and £138m in the financial year 1962–63. The UK balance of payments position in the corresponding years is shown in Appendix (Table 11). Exports by Western developed countries to developing countries, and the British share within the total are shown in Tables 39 and 40. In the exports of all Western developed countries to the colonies, the British share was 38%. To all other developing countries it was only 13%; but the share in exports to the nine largest-non-colonial recipients of British aid was 32%. These nine countries received almost all (98%) of British bilateral aid to non-colonial countries in 1961.

Untied Aid – Proportion spent on British Goods

Except in special cases and country by country it is impossible to trace changes in a recipient's imports from one year to another which are directly attributable to a rise or fall in the amount of untied aid received. The annual changes in aid are normally small in comparison with total aid and overall changes in imports. Nevertheless, estimates can be made of the proportion of untied aid that might reasonably be expected to show itself in additional demand for British exports.

Table 39

Exports of UK and Western Developed Countries to Developing Countries in 1961

£m

Exports from: *To:*	*United Kingdom*	*All Western Developed Countries*[2]	*Share of United Kingdom* (%)
1 All developing countries[1]	**1,214**	**7,735**	**16%**[3]
2 British Colonies:			
(a) All excluding *(b)* and High Commission Territories[4]	283	803	36%
(b) Federation of Rhodesia and Nyasaland ...	51	87	60%
All above (excluding HCT)	341	890	38%
3 Independent Commonwealth and foreign[5]			
(a) All	873	6,845	13%
(b) Nine largest recipients of British aid (accounting for 98% of non-colonial aid)	383	1,205	32%
(c) Other countries	490	5,640	9%

Notes: 1 UN Classification (examples: China, North Korea, USSR, Eastern Europe, North Vietnam);
2 UN Classification (UK, USA, Canada, Western Europe including Yugoslavia and Finland, Japan, Australia) with the exception of New Zealand and South Africa;
3 cf. USA 30%, EEC 31%, Japan 10%, Canada 2%;
4 Separate figures are not available for the High Commission Territories;
5 Obtained by subtracting figures in 2 from those in 1.

Source: UN Yearbook of International Trade Statistics, 1962; Quarterly Digest of Statistics, Colonial Office, July 1962.

Table 40

Nine Largest Independent Recipients of British Aid 1961

£m

Country	Trade (Imports)			Aid		
	from United Kingdom	*All Western Developed*	*United Kingdom's Share*	*By United Kingdom*	*Total DAC*	*% by United Kingdom*
India	145·9	564·5	25%	20·9	222·4	9%
Nigeria	85·2	187·8	45%	9·6	10·8	88%
Cyprus	14·4	33·9	42%	5·1	7·2	70%
Pakistan	45·6	179·7	24%	4·9	89·3	6%
Sierra Leone ...	14·6	25·3	56%	4·9	5·2	93%
Malaya	58·4	134·1	43%	4·0	4·1	96%
Libya	10·3	46·6	22%	3·3	13·0	25%
Jordan	6·6	26·7	24%	2·9	25·6	11%
Somali Republic...	1·9	6·8	29%	1·5	7·4	20%
Total	**382·9**	**1,205·3**	**32%**	**57·0**	**384·9**	**15%**

Sources: Trade: UN Yearbook of International Trade Statistics 1962;
Aid: 'The Flow of Financial Resources to Countries in the Course of Development', (Paris, OECD 1962);
UK figures from the Treasury.

It is not usual for recipients to hoard aid – that is hold it as idle exchange reserves. Aid is spent on necessary imports, either from the developed countries directly or from other developing countries which in turn buy from the developed countries. Aid received by one country, in the end, tends to find its way to the developed countries as a group through direct or indirect imports, or debt service payments.

In the simplest case in which all (untied) aid is used directly by the recipient to pay for imports from the developed countries, it would be reasonable to start by supposing that the proportion spent on imports from any one donor would be roughly the same as that donor's share in all the recipient's imports from developed countries. Using the figures in Table 39, this would suggest 38% of aid to the colonies and 32% of the untied aid to other countries would be spent on imports from Britain.

Whether these figures reflect the actual situation, and if so, whether they will remain constant over the next few years, depends on a number of factors. One such factor is how far the goods demanded by developing countries are available from Britain, and whether they are offered on competitive terms. For the moment it is assumed that British goods are available and competitive – this point is discussed in the final section of the chapter. Secondly, the figures represent the proportions (spent on British goods) of a given level of imports from developed countries. Recently, as imports have risen, the proportion spent on British goods has declined, and it may well be, therefore, that of the additional imports made possible by untied aid, smaller proportions than 38% (colonies) and 32% (other countries) come from Britain.* Given the assumption of British competitiveness, it is unlikely that the proportions are very much smaller. In the future, however, if the trend of Britain's falling share in exports continues, the situation may 'worsen' markedly.

Thirdly, the 32% represents Britain's share of exports to the nine major non-colonial recipients of its aid. Britain's share to all developing countries was only 16% in 1961. If the distribution pattern of untied aid alters so as to include more countries which have not been traditionally important importers from Britain, the figure of 16% will become more relevant for calculations (see Table 39).

Fourthly, several recipients are more or less assured of continued aid from Britain: they may enter into commitments, for instance to pay interest on loans (to Britain or others), which they would not have entered without this assurance. Some British aid may be used effectively to meet such commitments, and not to pay for imports. All these points suggest it would be wiser to assume lower proportions than 38% or 32% of British untied aid returning immediately to Britain, although the last point is as likely to work in favour of Britain's balance of payments, in certain countries, as it is to work against it in others.

One further point should be mentioned. Presumably, most of the untied aid not spent on British goods is spent directly or indirectly on the goods of other donors. But this works in two directions, as a part of the untied aid of other donors will be spent on British goods. The maintenance or increase of untied aid by Britain may influence the amount of untied aid of other donors, through emulation or competition. This and other points, for example the ineffectiveness of formal tying, which affects other donors as well as Britain and can work in Britain's favour as well as against, will be discussed briefly later. At this stage it is enough to say that two alternative proportions of untied aid spent on British goods are assumed in the calculations below: (1) 30%, corresponding to the 38% and 32% actual proportions of trade in 1961, and (2) 16%, or Britain's share in exports to all developing countries in the same year.

Aid and the Balance of Payments 1961

£34m of aid in 1961 was formally tied to the purchase of British goods and services. It is assumed that this aid leads to additional exports (i.e. British exports were £34m higher than they would have been in the absence of this aid – this assumption is discussed later). £17m was disbursed for technical assistance. Part of this paid for research based in Britain, part for training in Britain, and another part was paid in pensions and compensation to retired overseas officers, many of whom are resident in Britain. Therefore a certain proportion of the £17m did not actually 'leave' Britain – a conservative 30% not 'leaving' is assumed for the calculations below. The remainder of bilateral aid, £105m, was in the form of untied grants and loans. Using the two alternative assumptions

* The marginal propensity (to import from Britain) is less than the average propensity.

about untied aid given at the end of the last section, the proportions of aid returning as payments for exports can be calculated as follows:

		Amount spent on British exports (£m)	
	Aid	*Assumption (1)*	*Assumption (2)*
Untied aid	105	32	17
Tied aid	34	34	34
Total (*excl.* Technical Assistance)	139	66	51
Not returning to Britain		73	88
Technical assistance expenditure not returning		12	12
Total Bilateral Aid not returning ...		**85**	**100**

The figures of £85m and £100m not returning (on the two assumptions about untied aid) do not represent the net loss. Interest and repayments received as a result of aid in loan form in the past was some £20m; this reduces the net outflow to £65m or £80m. Also, overseas assets were acquired (by lending) to the extent of £84m. Most of these bear interest at or above the Government's borrowing rate and all are repayable in sterling. If these are credited against the outflow the net result in 1961 of current and past aid is a *gain* of some £20m on assumption (1), and some £5m on assumption (2).

Aid and the Balance of payments 1962–63

A similar calculation can be made for 1962–63. This time, however, account must be taken of the new tying provisions affecting aid to the colonies. The calculations are based on the information in Table 34 of Chapter 12 and Appendix (Table 12).

The first group of items is aid to the colonies for current expenditure and general and development purposes. This came under the control, introduced in October 1962, requiring direct aid financed imports to be bought from the United Kingdom if they are available on reasonably competitive terms. This control will not in fact have begun to have much effect in 1962–63, but for purposes of illustration it will be assumed that it was already effective. The proportion spent on direct imports is not known: the cautious assumption will be made that it was confined to general and development aid and was as low as 25%.

To the remainder of colonial aid for this group of purposes and to the untied portion of aid to other countries, the same assumptions about proportions spent on British goods will be applied as in the previous section. It is again assumed that aid was spent on *additional* British exports.

Technical assistance (Class 3 in Table 41) is partly home based. Also part of the salaries of technical assistance personnel will have been remitted to Britain. It will be assumed that 30% of this aid returned in 1962–63. A much greater proportion of aid for compensation and pensions of retiring expatriate officers (Class 2 in Table 41) must have returned to this country – 60% is assumed.

Refinance loans have been provided in order that debts to British creditors should be paid which would not otherwise have been paid. In the current (1964–65) loan to Argentina it is a condition of the loan that twice as much in past debts should be repaid; so that more than the amount of the loan will return as a result, in addition to the repayment in the near future, of the loan itself. Therefore, *at least* 100% of these refinance loans can be assumed to return to Britain.

The calculations are given in Table 41, and show that, of total bilateral aid (£138m) the amounts returning to Britain would be £80m or £71m (on assumptions (1) and (2) respectively about the use of general untied aid). The loss to the balance of payments (£58m or £67m) is once again offset by receipts of interest and repayments of past aid amounting to nearly £28m and by acquisition of overseas assets of £68m, of which only £3·5m were non-interest bearing. The net result is a *gain* of around £25m–£35m.

Table 41

Calculation of the Effect of Bilateral Aid on the Balance of Payments 1962–63

The classes are the same as those in Appendix Table 12

	Returned to Britain			
	Proportions assumed		*Amount*	
	(1)	*(2)*	*(1)*	*(2)*
Classes 1 and 5 (a) and (c)				
Colonies: total £53·4m				
General and development aid:				
tied proportion (25%)	100%	100%	9·0	9·0
untied proportion	30%	16%	8·1	4·3
Current assistance*	30%	16%	5·3	2·8
Other countries: total £21·8m	30%	16%	6·5	3·5
Class 5 (b)				
ECGD loans: total £40·5m	100%	100%	40·5	40·5
Class 2				
Compensation and pensions: total £10·5m	60%	60%	6·3	6·3
Class 3				
Technical Assistance†: total £10·3m ...	30%	30%	3·1	3·1
Class 4				
Refinance loans	100%	100%	1·3	1·3
Total Aid £138m			**80·1**	**70·8**
of which, grants £69·6m				
loans £68·4m				

Assumptions – Demand for Exports

The results obtained above depend on the treatment of loans as assets (which will not be further discussed), and on the two assumptions, that formally tied aid is in fact all spent on British exports, and that all the exports bought with British aid are 'additional' exports.

The first assumption about the effectiveness of tying aid is not essential to the nature of the results, If it were assumed that tying is quite ineffective (it is not) and that the same proportions of ECGD loans and tied aid to the colonies were spent on British goods as of untied aid, the effect would be to reduce the gain in 1962–63 from £25m–£35m to between +£5m and −£15m (assuming 30%, and 16% spent on exports respectively). Thus even on the worst assumption, the loss in terms of reserves, and the balance of overseas assets and liabilities, would still only be about 10% of total aid.

The assumption that the exports are 'additional' – raising the export total beyond what it would have been with less aid – needs to be discussed from the demand and supply sides. On the demand side, objections to this assumption are often illustrated by references to general purpose ECGD loans to India, some of which have been used to pay for goods already bought from Britain. These goods, it is said, would have been (indeed were) bought anyway with other resources; if the aid merely frees those other resources for imports from elsewhere the tying is ineffective. The same objection applies, but less strongly, to aid given towards the import content of specific projects, some of which would have been undertaken even without the specific aid.

The effectiveness of the link between specific amounts of aid from one donor and specific purchases of that donor's goods can only be seen clearly when all the recipient's purchases are aid financed – if he has no other resources – or when it is known that, but for aid, the donor would have sold nothing to the recipient. The first situation is rare; the second does not apply to Britain – its exports to all countries exceed its aid.

To return to the Indian example: the first point is that, even if tying is ineffective and formally tied aid merely frees the recipient's own resources for spending anywhere, nevertheless additional aid adds to the recipient's total resources and, eventually, to his total imports. It is reasonable to assume that part of these extra imports will come from Britain, especially as part of the recipient's own resources was voluntarily spent on British goods. Secondly Britain cannot be alone among donors in suffering from this ineffectiveness of tying. It is reasonable to assume that part of the recipient's own resources freed by *other* tied aid (as well as untied aid) will also be spent on British goods.

This would not be important if aid from other donors were small in relation to British aid; but even the countries listed in Table 40, which received 98% of all British aid to independent countries in 1961, received six times as much from other donors. It is relevant to note that four of these countries received amounts of aid from all sources that were equivalent to large proportions of their imports from developed countries. The same applies to independent developing countries which are not listed in the Table – to these Britain exported but gave virtually no aid. The other countries in the Table imported far more than they received in aid, from Britain and from all donors.

This argument about Britain's gain from the aid of other donors can be used to show that an increase in British aid would not have disastrous consequences for the balance of payments if it were accompanied by an increase in other aid. But can it be so used with regard to an increase in British aid alone? Not to the same extent, clearly, and not at all, if the aid of other donors is quite independent of British aid. But the effect of the 'burden-sharing' exercises in OECD's Development Assistance

Committee is to make the aid of one donor dependent, in part, on the aid of others. Sometimes the dependence is explicit, e.g. US offers to 'match' the contributions if other donors in the India consortium. In general, over a period if not immediately, an addition to Britain's contribution, or equally important, failure to make an addition, will have an influence on the size of the contributions of other donors, just as their contributions have an influence on Britain's. Britain contributed only 7% of the official DAC total of net disbursements in 1962. The influence does not have to be very strong for an increase by Britain to cause a rise in the aid total (or to prevent a reduction) by at least as much again. And if some of this is untied or as ineffectively tied as Britain's aid, Britain should gain from part of the extra demand for exports.

Assumptions – The Supply of Exports

It was argued in the previous section that additional aid can be expected to lead eventually to an increase in the demand for British exports, though perhaps not by an equal amount. But actual exports will not rise unless this extra demand can be met by an increased supply of the goods required. If supplies cannot be expanded, the effect of aid may be merely to divert goods from one export market to another. If this happens, then aid will indeed be a 'substantial charge on the balance of payments'.

The introduction of limits to British production, and of excess demand for the goods which aid recipients want to purchase, brings in considerations of a different kind from those discussed in the previous section. They can be summed up in two points.

First, there is no inherent reason why exporters should prefer aid-financed sales and immediately fill aid-financed orders before others. Recipients of tied aid will have to wait their turn in the order books or divert their demands (if allowed) to goods not in short supply. So that to some probably quite large extent, the tied aid either is *not* spent or not spent so quickly, or it *is* spent on additional exports. Recipients of untied aid can divert their orders to other countries; but this will merely add to a movement which will already be taking place – a diversion of the much larger demands, that are *not* financed by aid, to other exporting countries which can offer more competitive delivery and other terms. This raises the second, wider and really crucial point.

The demand for exportable goods is made up of domestic demand, export demand not financed by aid, and aid-financed export demand. In general the aid-financed demand is by far the smallest of these –insignificant in comparison with the other two. The home demand for specific capital goods competes with exports not financed by aid just as effectively as, and on a much greater scale than, aid-financed export demand.

If additional exports cannot be supplied to meet additional demand – if the required goods are not available from Britain on reasonably competitive terms – the cause, or combination of causes, is the failure to expand production competitively in step with total demand from all sources. No special responsibility attaches to aid merely because it happens to be a payment overseas – indeed it is easier to minimise adverse effects on the balance of a large part of aid (through tying, or persuading others not to tie their aid, etc.) than it is to control the effects of very much larger domestic expenditures on direct imports and diverting potential exports. Because aid is government expenditure overseas, it is temptingly easy to cut, or to postpone an increase, in response to a deterioration in the overseas payments position. But to do this in response to a temporary deterioration would be very short-sighted indeed – because of its effect on other donors as well as on developing countries – and might even in the short run (which is the relevant period) be as ineffective as short term cuts in public investment. In response to a chronic deterioration, much weightier and wider measures are required; among them may be reductions in private and public expenditure, including aid. To balance the gains from aid against the benefits from other expenditures would be reasonable enough. But to single out aid for special attention would be in these circumstances to tinker with symptoms.

The simple point seems commonplace, that expenditure on, say, construction equipment, for use in domestic building, competes just as effectively with exports of similar equipment, not financed by aid, as does aid to buy the same kind of exports. Discussions of future domestic expenditure often refer to the balance of payments, but the response is all too frequently a vague polite nod; discussions of aid however, almost invariably trigger off serious concern for the effects of aid on the balance of payments. But this emphasis is misplaced – aid is not a peculiarly important source of trouble for the balance of payments.

In weighing priorities for national expenditure aid should be contrasted, on its merits, with other expenditures. Plans for future expenditures, for expansion of the economy and for containment of inflation should be adjusted to accommodate whatever amount of aid seems desirable. Aid should not be merely a residual, depending passively on external pressures and past habits and limited to what is left over after domestic demands have been met. Let it be noted that this is not a plea for more aid, necessarily, but a plea for aid to be considered in the same way as other uses, and for rational allocation of resources among them. Nor does it depend on the arithmetic in earlier sections, which was merely intended to show that the magnitudes of the balance of payments effects of aid are very small indeed – much smaller than the apparent outflow of £150m, which is itself small in comparison with total exports or imports.

This point about similar treatment of aid and other expenditures may be finally illustrated by mentioning a point deliberately neglected earlier – the import content of aid expenditures. In 'measuring' the effects of aid on the balance of payments, it can be argued that cost of the imports contained in the goods bought with aid ought to be added to the net outflow due to aid – the gain from additional aid-financed exports should be reduced by their import content. But if this is taken into account in considering aid, it should also be in considering alternative expenditures. The import content of aid would only affect the choice if the alternatives were either a lower level of production (and employment) or production of goods with a significantly lower (or higher) import content.

Future Effects of Current Aid

Much of the thinking about aid and the balance of payments appears to concentrate far too exclusively on the immediate effects – of aid *this* year on the balance of payments *this* year. This means, for instance, that too little attention is paid to the future interest and repayment of current loans and to the current receipts on account of past loans. It is encouraged (and illustrated) by the way the aid figures are normally presented, in totals of loans on different terms, added to grants, and gross, without deducting repayments or noting interest receipts.

This concentration on the current year, combined with the inevitable uncertainty of predictions, means also that effects of current aid on the future demands for exports (not necessarily aid-financed) receive less attention than perhaps they deserve. Consider the consequences of a smaller amount of British aid than at present. Let us leave aside the larger consequences, including effects on the contributions of other donors, of a reduction in total aid and the possibility that it might be insufficient to maintain rates of development that were tolerable. Whatever may be the total, a reduction in Britain's contribution reduces the British share in relation to those of other donors. It is hazardous to suggest a definite association between exports this year and in the future; but there seems to be some link. More exports to developing countries this year mean maintaining or establishing greater familiarity with British goods and channels of trade. Insofar as aid is spent on capital equipment instead of goods for immediate consumption (and much is), this is bound to give rise to some future demands for spares, ancillary equipment and eventually for replacements. At least one can say that if Britain supplies *no* equipment, but industrial competitors do, it is unlikely Britain will supply the spares. Also familiarity with British goods should lead to some replacement demand. The net effect on future exports (not aid-financed) of supplying goods now is likely to be favourable. Provided that British goods are really competitive, similar links are bound to exist between future exports and aid-financed employment of British contractors and British trained consultants through various technical assistance schemes (without assuming any bias in the choice between two equal goods other than that which arises from greater familiarity).

Relationships such as these ought to be investigated carefully, if indeed the effects of aid on the balance of payments are still thought to be crucial, or even important, in decisions about how much aid should be given to what countries on what terms. And the results of investigation should influence the design of the aid programme.

Lest the quick conclusion should be drawn that the answer to possible adverse effects of aid on the balance of payments is simply to tie more aid strictly to British goods, we shall look, in the last section, at the effects of untied multilateral aid through the IBRD. IBRD loans have financed twice as much expenditure on British exports as Britain has contributed to the IBRD.

IBRD Loans and British Exports

IBRD loans are not tied to particular sources of supply. The goods required for loan-financed projects may be bought from any member country (and Switzerland) on the basis of international competitive tenders.

Between 1945 and June 1963, the IBRD made loans of £1,937m, of which £1,476m has been spent by the recipients on direct imports.

Table 42

(A) Imports Financed by IBRD Loans

From	*Total to 30 June 1963 (£m)*	*As a % of total IBRD loans*
Belgium ...	45	2·3
Canada ...	53	2·7
France ...	75	3·9
Germany ...	163	8·4
Italy ...	59	3·0
Japan ...	44	2·3
Netherlands ...	18	1·0
Sweden ...	24	1·2
Switzerland ...	38	2·0
United Kingdom...	217	11·1
USA* ...	673	34·7
All other ...	67	3·5
Total Imports ...	**1,476**	**76·1**
Local costs or unknown ...	461	23·9
Total Loans ...	**1,937**	**100·0**

* The large US share reflects its immediate post-war position as major exporter of capital goods. Much of the £180m in loans to Europe for post-war reconsutruction was spent on US goods. In the last four years the US share has been much smaller (see also (B)).

(B) Five Largest Suppliers of IBRD Loan Financed Imports

Supplying country	1945–46 *to* 1958–59	1959–60 *to* 1962–63
	Exports as % of total value of IBRD loans	
USA ...	44	20
United Kingdom ...	11	11
W. Germany ...	8	9
France ...	3	6
Italy ...	2½	4½

Note: The percentages refer to the total of exports where the supplying country is known. (see (A) above)

Imports from Britain financed by IBRD loans have amounted to £217m, or 11% of the total value of IBRD loans (see Table 42).[1]

The British contributions to the IBRD have consisted of £93m subscribed by the Government and £20m from IBRD bond issues on the London market. Some loans have also been sold to British financial institutions; their importance is unknown but is probably very small – USA, Japan, Italy, W. Germany and Switzerland have been the important sources of finance through issue of bonds and loan participations. The total British contribution has therefore been a little more than £113m or about 6% of the total (disbursed) contributions.

The present sources of finance for new lending by the IBRD are bond issues, sales of loans, repayments of past loans and increased capital subscriptions (already paid). In the next few years Britain will have to contribute little, if anything, unless there is an unprecedented series of bond issues in London (there have only been three small ones so far) or a new call for increased capital[2]. Since 1959 IBRD generated imports from the UK have been running fairly steadily[3] at an annual rate of £20m. While this continues (which depends on the competitiveness of British goods and services) multilateral aid through the IBRD will continue to benefit, rather than harm, Britain's balance of payments.

Final Comment

A considerable proportion of aid returns directly to Britain, and in no way represents a loss to the balance of payments (not even in the short run). Furthermore, on any reasonable assumption about how other donors' aid is spent – particularly paying regard to the sources of imports bought with IBRD loans – Britain, as a major exporting nation, stands to gain from other donors' increased aid. The level of other donors' aid is partly influenced by British aid policy, so that increased British aid can be expected to bring additional export earnings financed not only by British aid, but also by that of other donors.

If loans are counted as overseas assets, Britain's long-term external position is actually strengthened by aid.

In considering the effects of aid on the balance of payments, one should remember that in the total context of domestic policy and overseas expenditure aid is an insignificant item; it should not be singled out as the villain of the piece.

It is recognised that the treatment of the balance of payments as a limiting factor to aid, as presented in this chapter, is not exhaustive or as penetrating as might be desirable. However, it is hoped that enough evidence has been presented to show that it is not enough simply to look at the aid figures and conclude that aid is a clear and substantial burden on the British balance of payments. On the contrary, the onus of proof lies on the side of those who claim that it is a burden at all.

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[1] Loans initially used for local costs were eventually spent on indirect imports generated by local expenditure. Some of these indirect imports were supplied by Britain, (the amount is not known), in addition to the £217m of direct imports.

[2] Contributions to IDA are excluded as the discussion is confined to IBRD loan financed imports.

[3] IBRD generated imports from UK (in £m) in 1959–60: 27·1; 1960–61: 15·7; 1961–62: 16·9; 1962–63: 19·5.
(Source: IBRD Annual Reports).

Appendix I

Note on Sources

The British Government now publishes annual and quarterly aid figures It is difficult, however (at times even impossible), to obtain many important details from the official publications in their present form. As a by-product of the stricter form of Parliamentary control over aid provided through Departmental Votes, more details are generally available on this part, although even here the presentation and arrangement are at times difficult to follow. With this in mind a short guide to annual official publications containing information on aid is provided below.

Figures of total aid are published in the *Annual Abstract of Statistics* (Table 277 in the 1963 issue which came out in October) and in the monthly *Financial Statistics*. The former contains totals for the financial year only (1 April to 31 March), the latter gives both quarterly and annual (calendar year) figures. Both publications distinguish three main forms of aid – grants, loans, technical assistance – and four groups of recipients – colonies, independent Commonwealth countries, foreign countries, multilateral agencies. The Annual Abstract provides a further breakdown by recipients, showing separately contributions to each multilateral agency, and to some thirty major recipients (countries or areas) for the current and several previous financial years.

Ideally, tables purporting to show total aid should be accompanied by definitions and references to published sources in enough detail to satisfy a variety of needs. A reader interested in Kenya, for example, might wish to know what forms British aid to Kenya took in a given year – how much was CD & W, how much grant in aid, how much the CDC invested, how much was committed in Exchequer loans and so on.* Alternatively, a reader interested in the ECGD might wish for a breakdown of Section 3 loans by country, or for information on the terms and purposes of loans to individual countries. To assemble such information at present would involve much tedious research – with no guarantee of success. To supplement the summary tables of aid now published, all sources of information on each aid channel, with their contents, are listed below.

Aid through Departmental Votes (excluding CD & W)

Details of expenditure can be found in the *Civil Appropriation Accounts*, Class II, published each December. The corresponding *Civil Estimates*, published at the beginning of the financial year (including Supplementary

* Tables on the lines of Appendix Tables 9 and 10 could perhaps be included in the Annual Abstract.

Estimates published at intervals during the financial year) give details of the nature of the expenditure on each subhead, the terms of some loans (or reference to the loan agreement) and interest on, and repayments of, total loans outstanding on each Vote. Under 'Exchequer Assets' in the *Finance Accounts* (each June) there is a complete list of all loans outstanding, showing the amounts at the beginning and end of the financial year. However, interest payments on each loan are not published.

The information contained in the Appropriation Accounts and Estimates, taken together, is not sufficient to make possible the formation of a completely accurate picture of aid provided through departmental Votes. Despite the recent reorganisation of the Votes, under which aid items were grouped together in separate Votes, all these 'aid-Votes' still contain some non-aid items. Such non-aid items still provided on the 'aid-Votes' include certain grants for military assistance, subscriptions to international organisations, payments to the Acquisition of Guaranteed Securities Fund arising from partial waiver of interest on a number of ECGD loans, headquarters expenses and salaries of the DTC, and other minor items. The short description of the purpose of expenditure on each subhead provided in the *Civil Estimates* is usually sufficient for these non-aid items to be spotted – but not in all cases. Certain subheads remain doubtful, especially on the Foreign Grants and Loans Vote (e.g. subheads under the heading of 'International Assistance', and the subhead entitled 'Muscat and Oman (Grant in Aid)' which includes economic as well as military aid). A breakdown of aid by recipient country is possible (subject to the above qualification) for all Votes except that of the DTC.* On this particular Vote aid on certain subheads is intended for whole regions (e.g. Colombo Plan countries), or for particular schemes (e.g. Overseas Service Aid Scheme).

Colonial Development and Welfare Funds

Aid by recipient country is listed in the *Civil Appropriation Accounts* (Class II; tables appended to the CD & W Votes). A list of countries receiving loans, with issues and repayments during the year, and totals outstanding are also given. 'Repayments' include both capital and interest, separate figures are not published, neither are the terms on the loans. An annual House of Commons Paper (*CD & W Return of Schemes* . . ., published in June) gives a complete list of projects for which funds were committed during the latest financial year. In addition, the Return contains summary tables of commitments by recipient country and by type of scheme for the whole period since 1945–46 and the latest financial year, and total annual issues (disbursements) under CD & W since 1945–46.

ECGD Loans

Disbursements and capital repayments are given in the *Annual Abstract of Statistics* (Table 297 in the 1963 issue) and in the *Financial Statement* (each April). The same information, together with additional figures for total annual interest payments and total loans outstanding is given in

* A small amount of aid for civil aviation installations is given through the Ministry of Aviation Vote, but no details as to recipients, etc. are published.

the *Finance Accounts* (in the section on the Budget below the line). There is no annual breakdown by recipient country and no detailed information about the terms on loans or the purposes for which each loan is made. However, a recent White Paper (*Government Expenditure Below the Line*, Cmnd. 2295, 1964) shows the number and value of all loan agreements to date with each recipient country – this information is likely to be published again in future years.

Exchequer Loans to the Colonies

The same kind of information as for ECGD loans is given in the *Annual Abstract of Statistics*, the *Financial Statement*, and the *Finance Accounts* (where these loans are called 'advances to Colonial Governments'). A list of new *commitments* during the year, together with a short description of purpose, appears at the end of the *CD & W Return of Schemes* (the table is headed: 'Loans approved under Section 2 of the CD & W Act'). A list of issues during 1961–62, 1962–63 and 1963–64 is available in the White Paper mentioned above in the section on ECGD loans (Cmnd. 2295). No details are given about terms, but these were fully described in a White Paper when the loans were first introduced (see Chapter 4).

CDC

Annual Treasury advances to the Corporation, and repayments to the Treasury are given in the *Financial Statement* and *Finance Accounts*. The Corporation also publishes an Annual Report, which gives details of all its transactions, including a list of all projects which it operates or is associated with, and details of advances received from the Treasury (and finance from all other sources). The list of projects gives details of all Corporation advances and investments made and payments received, as well as a brief account of each project – but no details as to the interest rates charged on CDC loans.

Advances to IBRD, IFC and IDA

Treasury issues are published in the *Annual Abstract of Statistics* (Table 297 in the 1963 issue), and in the *Finance Accounts*, in the section on 'Other Issues and Repayments'. The actual drawings by the agencies are given in the Annual Abstract only (Table 277 in the 1963 issue). The two sets of figures should not be confused – only the actual *drawings* are entered in the official aid figures. Details of IBRD, IDA and IFC operations are listed in their own Annual Reports.

* * *

Valuable descriptive and statistical material on the whole aid programme since the war can be found in a recent White Paper, *Aid to Developing Countries*, Cmnd. 2147, 1963. Appendix A to the paper contains figures of aid disbursements to each recipient for the whole period 1945–46 to 1962–62, and for each financial year since 1957–58. Information on the aid available under the CD & W Acts (up to March 1966) for each of the remaining colonial territories is given in the *Despatch to Colonial Governments*, Colonial No. 357, 1963.

The Development Assistance Committee (DAC) of OECD publishes information on the aid programmes of major Western donors (including Japan) in its annual review, *Development Assistance Efforts and Policies*. This publication includes, besides figures of aid commitments, disbursements and loan repayments, a general review of aid during the past year, comments on terms, conditions and general problems relating to aid.

Although DAC bases its figures of UK aid on information supplied to it by HMG, its published figures differ somewhat from those given in HMG publications (e.g. *Financial Statistics*). This discrepancy is due, in part, to revisions made by HMG after the preliminary aid figures have been submitted to DAC. (This periodic revision also explains the discrepancies to be found between different issues of the same HMG publications.) But there are also differences between HMG's and DAC's treatment of two categories of aid – loans and multilateral assistance. DAC excludes from its figures loans made for less than five years. HMG includes these loans as aid – only loans made and repaid in the same financial year are excluded. DAC loan figures are net of repayment of principal, whereas HMG figures are of gross disbursements (i.e. total value of loans made without subtracting repayment of principal). Contributions to the Indus Basin Development Fund are treated as bilateral grants by DAC and as multilateral contributions by HMG. Subscriptions to the IDA are also treated differently. HMG includes drawings by IDA (i.e. it counts contributions at the point at which the funds actually leave the UK), whereas DAC includes instead Treasury *issues* for IDA.

The UN *Statistical Yearbook* contained annual aid figures until 1961; but the tables on aid have not appeared in the more recent issues (they are expected to be included once again at a future date). The UN figures were of special value as they broke down figures of total aid to each recipient by major donors. All current publications referred to in the text are listed below – they are available from HMSO.

Annual Publications

1 Annual Abstract of Statistics – Central Statistical Office
2 Financial Statistics (monthly) – Central Statistical Office
3 Civil Appropriation Accounts (Classes I–V) – HCP*
4 Civil Estimates (and Supplementary Estimates) – HCP
5 The Financial Statement – HCP
6 The Finance Account of the UK – HCP
7 CD & W Return of Schemes . . . – HCP
8 Government Expenditure Below the Line (first in series) – Cmnd. 2295, 1964
9 Development Assistance Efforts and Policies – OECD
10 Statistical Yearbook – UN

Occasional Publications

11 Aid to Developing Countries – Cmnd. 2147, 1963
12 Despatch to Colonial Governments – Colonial No. 357
13 Reports of the Public Accounts Committee – HCP
14 Reports of the Select Committee on Estimates (e.g. 4th Report of 1959–60 Session) – HCP 260, 1960

* House of Commons Paper.

Appendix II—Statistical Tables

Table 1

Summary of UK Aid 1945–46 to 1963–64

£m

			Bilateral Aid										
				Grants					Loans				
						Commonwealth				Commonwealth			
Year	*Total Aid*	*Multi-lateral*	*Total*	*Total*	*As % of bil. aid*	*Colonies*	*Indep.*	*Foreign*	*Total*	*Colonies*	*Indep.*	*Foreign*
1945–46	**30·4**	—	30·4	13·0	43%	7·4	—	5·6	17·4	1·4	—	16·0
46–47	**47·7**	6·5	41·2	38·1	92%	6·9	—	31·2	3·1	1·4	—	1·7
47–48	**13·9**	—	13·9	12·1	82%	7·6	—	4·5	1·8	0·5	—	1·3
48–49	**16·9**	1·1	15·8	13·3	84%	9·1	—	4·2	2·5	1·0	—	1·5
49–50	**32·4**	0·4	32·0	26·6	83%	24·1	—	2·5	5·4	4·0	—	1·4
1950–51	**46·3**	3·0	43·3	24·6	58%	21·2	—	3·4	18·7	8·7	—	10·0
51–52	**62·6**	3·3	59·3	36·7	62%	27·4	—	9·3	22·6	12·4	—	10·2
52–53	**52·2**	6·3	45·9	37·2	81%	27·3	0·2	9·7	8·7	7·2	—	1·5
53–54	**52·5**	8·5	44·0	32·3	75%	25·6	0·3	6·4	11·7	10·7	—	1·0
54–55	**76·7**	10·5	66·2	41·9	63%	35·6	0·6	5·7	24·3	19·7	2·8	1·8
55–56	**82·3**	5·9	76·4	41·4	54%	33·0	0·6	7·8	35·0	12·3	1·7	21·0
56–57	**75·4**	15·7	59·7	45·1	75%	37·7	0·6	6·8	14·6	8·4	1·3	4·9
57–58	**81·2**	19·0	62·2	49·8	80%	41·0	2·7	6·1	12·4	6·2	2·0	4·2
58–59	**109·5**	24·0	85·5	48·0	56%	37·0	5·0	5·7	37·5	11·7	20·8	5·0
59–60	**129·7**	20·1	109·6	52·6	48%	40·2	5·0	7·4	57·0	17·3	34·7	5·0
1960–61	**151·1**	21·1	130·0	57·9	45%	38·9	10·2	8·8	72·1	32·9	35·4	3·8
61–62	**160·1**	6·2	153·9	79·6	52%	56·7	12·5	10·4	74·3	38·9	32·0	3·4
62–63	**147·8**	9·8	138·0	69·8	51%	40·4	20·6	8·8	68·2	20·2	41·7	6·3
63–64	**175·0**	17·2	157·8	71·5	45%	41·7	21·6	8·2	86·3	24·0	48·9	13·4
Total	**1,543·7**	**178·6**	**1,365·1**	**791·5**	**58%**	**559·1**	**79·9**	**152·5**	**573·6**	**238·9**	**221·3**	**113·4**

Sources: 1 Annual Abstract of Statistics, 1961, 1963 (Table 277);
2 HM Treasury.

Table 2

'Emergency' Aid to Commonwealth Countries

£m

Year		*Kenya*		*Nyasaland*		*Cyprus*	*Malaya*	*Total 'Emergency' Aid*
		Grants	*Loans*	*Grants*	*Loans*	*Grants*	*Grants*	
1949–50	...	—	—	—	—	—	5·0	5·0
1950–51	...	—	—	—	—	—	3·0	3·0
1954–55	...	8·3	3·0	—	—	—	6·0	17·3
1955–56	...	10·2	—	—	—	—	—	10·2
1956–57	...	4·0	—	—	—	2·4	0·8	7·2
1957–58	...	1·5	1·5	—	—	7·3	3·0	13·3
1958–59	...	0·8	0·7	—	—	7·2	3·0	11·7
1959–60	...	0·8	0·8	—	—	7·2	2·9	11·7
1960–61	...	—	—	0·7	0·3	0·8	2·2	4·0
1961–62	...	—	—	0·9	0·2	—	1·1	2·3
1962–63	...	—	—	0·1	—	—	—	0·1
Total		**25·6**	**6·0**	**1·7**	**0·5**			
		31·6		**2·2**		**24·9**	**27·0**	**85·8**

Sources: 1 Annual Abstract of Statistics 1961, Table 278 (for 1949–50 to 1959–60);
2 Civil Appropriation Accounts 1960–61 to 1962–63.

Table 3

New Territorial Allocations under CD & W Acts of 1945, 1955, 1959, 1963(a)

£'000s

Territory			1945	1955	1959	1963*(b)*
Caribbean Area						
West Indies – general	...	...	850	770		—
Barbados	...	...	800	500		500
Jamaica	...	...	6,500	3,000		—
Cayman Islands ...	...	...		150		75
Turks and Caicos Islands	...	...				75
Trinidad and Tobago	...	...	1,200	250		—
Leeward Islands—general	...	...	1,200	30		—
Antigua	...	...		680		250
St. Kitts-Nevis ...	...	...		400		125
Montserrat ...	...	...		180		75
Windward Islands—general		...	1,800	220		—
Dominica	...	...		820		350
Grenada	...	...		540		150
St. Lucia	...	...		1,130		260
St. Vincent ...	...	...		540		400
West Indies Federation	...	...	—	—	9,000	—
British Guiana ...	...	...	2,500	3,000	4,000	*(c)*
British Honduras ...	...	...	600	1,250	2,000	1,200
Virgin Islands ...	...	...	*(d)*	100	100	150
Total (Caribbean area)	...	...	**15,500**	**13,560**	**15,100**	**3,610**

Table 3 (continued)

Territory	1945	1955	1959	1963
Africa				
Gambia	1,300	200	1,000*(e)*	785*(f)*
Sierra Leone...	2,600	1,200	2,000*(e)*	—
Gold Coast (Ghana)	3,500	—	—	—
Nigeria	23,000	11,750	—	—
Southern Cameroons		1,330	—	—
East Africa – general	3,500	360	400	—
Somaliland	750	1,000	1,500*(e)*	—
Kenya	3,500	5,000	5,000	—
Uganda	2,500	500	3,000	—
Tanganyika	5,250	4,000	6,000	—
Zanzibar	750	100	450	—
Central Africa – general	1,000	—	—	—
Nyasaland...	2,000	1,000	3,000	500*(g)*
Northern Rhodesia	2,500	500	1,000	400*(f)*
High Commission Territories... ...	2,500	3,000	3,750	5,100
Total (Africa)	**54,600**	**29,940**	**27,100**	**6,785**
Mediterranean				
Cyprus	1,750	500	—	—
Malta	50	250	19,000	—
Gibraltar	100	500	550	400
Total (Mediterranean)	**1,900**	**1,250**	**19,550**	**400**
Far East				
Hong Kong	1,000	*(h)*	—	—
Singapore	5,000	*(h)*	—	—
Malaya		4,000	—	—
North Borneo	1,500	1,400	3,000	—
Sarawak		250	2,750	—
Total (Far East)	**7,500**	**5,650**	**5,750**	—
Western Pacific				
General	800	—	—	—
Fiji	1,000	700	500*(e)*	1,500
British Solomon Islands	—	230	650	1,000
New Hebrides	*(i)*	*(i)*	*(i)*	450
Gilbert and Ellis Islands	—	100	250	250
Total (Western Pacific)	**1,800**	**1,030**	**1,400**	**3,200**
Atlantic and Indian Oceans *(i)*				
St. Helena and Ascension Island ...	200	140*(i)*	200	150
Aden Colony	800	100	1,000	2,250
Aden Protectorate		770	1,000*(e)*	
Seychelles	250	170	1,000	500
Mauritius	1,750	700	750	1,250
Falkland Islands	150	*(i)*	*(i)*	50
Palestine and Transjordan ...	1,000	—	—	—
Total (Atlantic and Indian Oceans)	**4,150**	**1,880**	**3,950**	**4,200**

Notes: *(a)* Supplementary allocations are made when required from the general reserve;
(b) Up to 31 March 1966, unless shown otherwise;
(c) Allocation to be decided in the light of constitutional and financial developments;
(d) Benefited from the Leeward Islands allocation;
(e) For three years only;
(f) Up to 31 March 1965;
(g) Up to 31 March 1964;
(h) These territories, and also Pitcairn Island and Tristan da Cunha received aid from the general reserve.
(i) These territories benefited from central allocations.

Sources: 1 'Despatch(es) . . . to Colonial Governments': Cmd. 6713, 1945; Cnd. 9467, 1955; Colonial No. 357, 1963;
2 *Hansard* (House of Commons), Vol. 609, Cols. 136–41.

Table 4

Current Colonial Development Plans

Territory	Planning Period	Total Plan £'000s	Known Sources of Finance (as a % of total Plan) CD & W Funds	Loan Funds	Local Resources
1 Territories with Population less than 100,000					
*Dominica	1959–64	1,000	100	—	—
*St. Lucia	1960–64	900	100	—	—
*St. Vincent	1960–64	540	100	—	—
*Montserrat	1960–64	327	100	—	—
*St. Helena	1960–64	220	100	—	—
*Antigua	1960–64	1,039	91	9	—
*Virgin Islands	1960–64	255	86	14	—
Falkland Islands	1955–64	201	80	20	—
Gilbert and Ellis Islands ...	1959–64	422	74	26	—
*St. Kitts-Nevis	1960–64	1,214	72	28	—
New Hebrides	1960–64	648	71	25*(a)*	†
Gibraltar	1959–64	817	67	29	†
*Seychelles	1959–64	900*(b)*	67	†	†
*Grenada	1959–64	900	65	35	—
2 Territories with Population more than 100,000					
*Aden Protectorate	1960–64	1,563	100	—	—
*Basutoland	1960–63	1,618	70	30	—
*Bechuanaland Protectorate	1960–63	1,779	62	38	—
*Solomon Islands Protectorate	1960–64	1,746	70	6	16 *(c) (e)*
Malta	1959–64	35,650	53	14	33*(d)*
Fiji	1961–64	8,117	47	45	8
*Gambia	1962–64	2,740	38	†	†
*Swaziland	1960–63	5,358	36	64	—
British Guiana	1960–64	23,000	21	53	14*(e)*
*Aden Colony	1960–64	6,107	16	44	37*(e)*
Mauritius	1960–64	26,500	5	45	42*(e)*
Barbados	1960–65	11,115	3	56	41

Notes: † stands for 'unknown';
*grant aided throughout planning period.
(a) Includes aid from the French Government (£149,000);
(b) Approximate figure;
(c) Includes grant from the UN Special Fund;
(d) Includes: £3·6m through the Colonial Services Vote;
£1·4m War Damages payments by UK;
£2·3m IBRD loan and £0·1m UNESCO grant.
(e) Balance unknown.

Table 5

Exchequer Loan Agreements 1961–62 and 1962–63

Loans under Section 2, CD & W Act 1959

Territory	*Amount* (£'000s)	*Purpose*
1961–62		
1 Basutoland	285	General purposes of development contained in the colony's development plan
2 Bechuanaland	175	As 1
3 British Guiana	1,237	As 1
4 Fiji	1,500	As 1
5 Kenya	4,500	As 1
6 Malta	2,500	As 1
7 Mauritius	560	For the purposes of a programme of development consisting of expenditure contained in the Mauritius Capital Budget Estimates for 1961–62, covering Phase I and Phase II of the Atkinson plan for cyclone housing reconstruction
8 Northern Rhodesia	1,000	As 1
9 Nyasaland	1,500	As 1
10 Southern Cameroons	126	As 1
11 Swaziland	100	For road development contained in Swaziland Loan Programme 1961–62
12 Uganda	2,400	As 1
Total (1961–62)	**15,883**	

Territory	*Amount* (£'000s)	*Purpose*
1962–63		
1 Basutoland	85	As 1 in 1961–62
2 Bechuanaland	206	As 1
3 British Guiana	2,896	As 1
4 Jamaica	1,250	As 1
5 Kenya	4,745	2,945 as 1; 1,800 for the purpose of a programme of land settlement schemes
6 Mauritius	900	As 7 in 1961–62
7 Nyasaland	400	As 1
8 Southern Rhodesia	3,855	3,500 as 1; 355 for the purpose of a programme of development of African education contained in the Southern Rhodesia Estimates of Expenditure, 1962–63
9 Swaziland	607	As 1
10 Uganda	350	As 1
Total (1962–63)	**15,294**	

Table 6

Territorial Distribution of CDC Projects at 31 December 1963

Territory	*No. of Projects*	*Commitments (£'000s)*	*Investments (£'000s)*
Caribbean	**18**	**17,641**	**12,097**
(Caribeach Ltd.)	1	963	783
British Guiana	2	2,341	1,978
British Honduras	1	286	283
Cayman Islands	1	28	28
Dominica	2	676	415
Grenada	1	444	286
Jamaica...	6	8,408	6,082
St. Vincent	1	485	447
Trinidad	3	4,010	1,795
East Asia and Pacific Islands ...	**21**	**20,685**	**15,556**
Sabah and Sarawak	6	7,901	4,033
Malaya	8	11,400	10,954
Singapore	1	660	58
Hong Kong	1	250	240
Solomon Islands	1	18	2
Fiji	4	456	269
East Africa	**36**	**22,980**	**17,229**
(First Permanent (E.A.) Ltd.) ...	1	955	730
Kenya	19	11,242	7,893
Mauritius	1	500	—
Tanganyika	13	8,153	6,976
Uganda	2	2,130	1,630
Central Africa	**12**	**24,327**	**22,237**
(Central African Airways)	1	788	788
(C.A. Power Corporation)	1	15,000	1,500
(Industrial Promotions Corporation)	1	50	50
Northern Rhodesia	3	1,604	1,407
Nyasaland	5	5,885	3,992
Southern Rhodesia	1	1,000	1,000
High Commission Territories ...	**10**	**20,509**	**17,203**
Basutoland	1	200	—
Bechuanaland	3	821	768
Swaziland	6	19,488	16,435
West Africa	**18**	**13,129**	**7,485**
Ghana	1	124	124
Nigeria	13	9,530	5,531
Sierra Leone	3	2,475	830
Republic of Cameroun	1	1,000	1,000

Source: CDC.

Table 7

Post-war Dates of Independence

Territory	*Date of Independence*
India Pakistan	15 August 1947
Ceylon	4 February 1948
Ghana	6 March 1957
Federation of Malaya	31 August 1957
British Somaliland	26 June 1960
(became part of Somalia)	1 July 1960)
Cyprus	16 August 1960
Nigeria	1 October 1960
Sierra Leone	27 April 1961
South Cameroons (became part of Cameroun)	1 October 1961
Tanganyika	9 December 1961
Jamaica	5 August 1962
Trinidad and Tobago	31 August 1962
Uganda	9 October 1962
North Borneo, Sarawak, Singapore — on independence joined Malaya to form the Malaysian Federation	16 September 1963
Zanzibar	10 December 1963
Kenya	12 December 1963
Nyasaland (to be called Malawi)	(6 July 1964)
Northern Rhodesia (to be called Zambia)	(24 October 1964)

Table 8

ECGD Loan Agreements, 1949 to 31 March 1964

Country	*Date of Agreement*	*Amount (£'000s)*	*Maturity (grace periods in brackets)*	*Purpose*
Algeria	27. 9.63	500	15 (5)	Capital and semi-capital goods
Bolivia	24. 8.62	265	10 (3)	Railway equipment
Ceylon	17. 3.61	2,500	5	Telecommunications
Chile	9. 8.61	2,000	10 (4)	Railways
	3.12.63	1,500	16 (4)	Equipment for port development, electricity generation-etc.
Cyprus	22. 3.63	2,000	20 (5)	Electricity development
EACSO	10. 6.63	2,050	12	Railway locomotive and wagon ferries
Ghana	8. 6.62	5,000	25 (5)	Volta river project
	11. 3.63	2,165	11 (2)	Two cargo ships

Table 8 (continued)

Country	*Date of*	*Amount (£'000s)*	*Maturity (grace periods in brackets)*	*Purpose*
India (19 loans)	30. 6.58	15,000	11 (8)	Durgapur steel works
	20.12.58	28,000 ⅓ ⅔	10 (6) 20 (6)	General imports
	23. 6.59	3,000	7 (5)	Assam oil pipeline
	25.11.59	19,000 ⅓ ⅔	10 (6) 20 (6)	General imports
	16. 8.60	10,000 ⅓ ⅔	10 (6) 20 (6)	General imports
	23.12 60	5,000	20 (6)	General imports
	1. 5.61	10,000	24 (5)	For 3rd Five-Year Plan
	1. 5.61	30,000	25 (7)	For 3rd Five-Year Plan (5,000 for general imports)
	10.11.61	5,000	25 (7)	For 3rd Five-Year Plan
	23. 5.62	22,000	25 (7)	Durgapur extension
	23. 5.62	10,000	25 (7)	Half for general imports, half for 3rd Five-Year Plan
	4. 9.62	13,000	25 (7)	For 3rd Five-Year Plan
	4. 9.62	5,000	25 (7)	General imports
	9. 4.63	3,500	26 (8)	Steel plates
	26. 8.63	10,000	26 (8)	General imports
	16.10.63	4,000	26 (8)	Engineering products and specialised raw materials
	17. 3.64	5,000	25 (7)	General imports
	17. 3.64	5,000	25 (7)	For 3rd Five-Year Plan
	17. 3.64	2,500	25 (7)	Bhopal electrical works
Iran (2 loans)	May 1955	10,000	5 (3)	General imports
Iraq	Dec. 1949	3,000	6 (3)	Iraq State Railways
Malaya	17. 2.60	2,250	10 (3)	Telecommunication equipment
Nepal	1.11.62	525	25 (5)	Generating equipment
Nigeria	17. 5.60	12,000	20 (1)	General imports
	23.1.63	10,000	25 (4)	Capital goods for electricity project and development plan
	20. 9.63	1,500	20 (1)	Railway equipment (steel rails)
Pakistan (8 loans)	Mar. 1954	10,000	9 (3)	Agricultural machinery
	27. 2.59	10,000	8 (3)	Capital and semi-capital goods
	28.12.60	5,000	19 (5)	Capital and semi-capital goods
	16. 3.61	3,000	19 (5)	Rail goods wagons
	8. 1.62	7,000	25 (7)	Capital and semi-capital goods
	5.11.62	10,000	25 (7)	Capital and semi-capital goods
	18. 6.63	2,000	25 (7)	Sugar machinery and diesel engines
	25. 2.64	6,280	25 (7)	Capital and semi-capital goods
Rhodesia and Nyasaland	1. 3.62	5,000	10 (3)	Railway and general transport equipment
Sierra Leone	27. 6.62	3,500	15 (3)	General imports
Sudan	2. 2.59	5,000	5 (3)	General imports
	27. 5.63	5,000	20 (5)	General imports
Tanganyika	11. 1.64	1,250	25 (5)	Bridging equipment and other capital and semi-capital goods
Turkey	1. 5.63	2,857	25 (7)	Capital and semi-capital goods
	21. 8.63	1,000	25 (7)	Capital and semi-capital goods
	31. 3.64	3,000	25 (8)	Capital and semi-capital goods
Uganda	26. 3.63	2,400	25 (6)	For development plan
Egypt	8. 8.62	3,575	10 (3)	Capital and semi-capital goods
Yugoslavia (6 loans)	1949–51	16,565	16–18 (6–8)	Capital and semi-capital goods
	3. 2.59	3,000	9 (5)	Capital and semi-capital goods
	24. 7.61	3,575	7 (3)	Imports (other than consumer goods)

Table 9

Eleven Largest Non-Colonial Recipients of UK Aid in 1962–63 (by Administrative Channel)

(£000's)

	Totals				Colonial Grants and Loans[1]		Commonwealth Grants and Loans		Foreign Grants and Loans[1]				
	Total	*Grants*	*Loans*	*DTC*[1]		*CD & W*[1]	*Grants*	*Loans*		*ECGD Loans*	*Ex-chequer Loans*	*CDC Loans*	*Min. of Aviation Grants*
I India	**22,740**	425	22,315	425	—	—	—	—	—	22,315	—	—	—
*Tanganyika ...	**9,873**	7,310	2,563	2,582	—	68	4,660	1,613	—	—	—	950	—
*Uganda ...	**8,377**	4,682	3,695	3,129	965*a*	432	1,121	1,030	—	—	1,700	—	—
Pakistan ...	**8,068**	649	7,419	634	—	—	15	—	—	7,419	—	—	—
Nigeria... ...	**4,558**	1,299	3,259	948*b*	—	−357	1,002	—	—	2,705	—	250	10
Yugoslavia ...	**3,432**	22	3,410	—	—	—	—	—	22	3,410	—	—	—
*Jamaica ...	**3,398**	1,683	1,715	743	—	773	172	—	—	—	1,250	460	—
Libya	**3,250**	3,250	—	—	—	—	—	—	3,250	—	—	—	—
Jordan	**2,668**	1,968	700	18	—	—	—	—	2,650*c*	—	—	—	—
Cyprus	**2,451**	2,451	—	7	—	—	2,444	—	—	—	—	—	—
Sierra Leone ...	**2,229**	1,089	1,140	89	—	—	1,000	—	—	890	—	250	—
Total I (eleven largest) ...	**71,044**	24,828	46,216	8,575	965*a*	916	10,414	2,643	5,922	36,739	2,950	1,910	10
II Kenya[2]... ...	**12,377**	7,882	4,495	2,460	1,430*d*	4,242	—	—	—	—	4,245	—	—
Malaysia[3] ...	**2,978**	2,203	775	937	24	1,064	1	—	—	695	—	80	177
Nyasaland[4] ...	**2,456**	2,072	384	530	866*e*	735	—	—	—	—	100	225	—
Total I and II	**88,855**	**36,985**	**51,870**	**12,502**	**3,285**	**6,957**	**10,415**	**2,643**	**5,922**	**37,434**	**7,295**	**2,215**	**187**
(Total bilateral aid	138,000	69,800	68,200)										

Notes: *Became independent during 1962–63;
[1] Grants, unless otherwise indicated;
[2] Became independent December 1963;
[3] See Note 4 to Table 10;
[4] Independence imminent.

a Loan;
b Includes a loan of £304,000;
c Includes a loan of £700,000;
d Includes a loan of £250,000;
e Includes a loan of £59,000.

Source: Treasury, unpublished.

Table 10

Fourteen Largest Non-Colonial Recipients of UK Aid, 1958–59 to 1962–63 (by Administrative Channel)[1]

(£'000s)

	Totals				Colonial Grants and Loans			Commonwealth Grants and Loans		Foreign				Min.
	Total	*Grants*	*Loans*	*DTC*[2]	*Grants*	*Loans*	*CD & W*[2]	*Grants*	*Loans*	*Grants and Loans*[2]	*ECGD Loans*	*Ex-chequer Loans*	*CDC Loans*	*of Aviation Grants*
India	**121,271**	1,829	119,442	702	—	—	—	1,127	—	—	119,442	—	—	—
Kenya[3]	**44,641**	24,042	20,599	3,636	10,772	1,800	9,934	—	—	—	—	16,575	2,224	—
Nigeria	**31,339**	12,259	19,080	1,758*a*	206	1,664	8,211	2,325	1,562	—	12,000	3,000	550	63
Cyprus	**29,049**	27,755	1,294	7	16,525	—	732*e*	10,537	—	—	—	1,100	—	148
Tanganyika ...	**27,117**	17,704	9,413	4,432	1,368	1,000	5,861*b*	6,393	1,613	—	—	3,500	2,950	—
Malaysia[4] ...	**26,000**	21,348	4,652	1,739	29	—	6,523	12,754	—	—	1,740	—	2,912	303
Uganda	**24,059**	10,514	13,545	3,802	900	965	4,691	1,121	1,030	—	—	11,250	300	—
Pakistan	**21,220**	2,086	19,134	845	—	—	—	1,241	—	—	19,134	—	—	—
Libya	**16,250**	16,250	—	—	—	—	—	—	—	16,250	—	—	—	—
Jordan	**13,738**	9,833	3,905	—	—	—	—	—	—	12,033*c*	1,705	—	—	—
Jamaica	**12,734**	7,223	5,511	1,649	15	—	5,421*d*	172	—	—	—	1,250	4,227	—
Sierra Leone ...	**10,632**	6,217	4,415	136	—	—	3,568	2,513	—	—	890	3,000	525	—
Somali Republic[5]	**7,401**	7,401	—	—	2,216	—	1,462	—	—	3,723	—	—	—	—
Yugoslavia ...	**6,691**	311	6,380	—	—	—	—	—	—	311	6,380	—	—	—
Total (largest fourteen) ...	**392,142**	**164,792**	**227,370**	**18,706**	**31,731**	**5,429**	**46,403**	**38,183**	**4,205**	**32,317**	**161,291**	**39,675**	**13,688**	**514**
(Total bilateral aid	617,100	308,000	309,100)											

Notes: 1 Includes all countries independent at 31 December 1963;
2 Grants, unless otherwise indicated;
3 Kenya became independent in December 1963. The figures above refer, therefore, to aid received while a colonial territory;
4 Malaya (independent in 1957), Singapore, Sarawak and Sabah (independent in September 1963), see note (3);
5 British Somaliland before independence;

a Includes a loan of £304,000;
b Includes a loan of £350,000;
c Includes a loan of £2.2m;
d Includes a loan of £34,000;
e Includes a loan of £194,000.

Source: Treasury, unpublished.

Table 11

Balance of Payments 1961 and 1962–63[1]

(£m)

	1961		1962–63	
	Debits	*Credits*	*Debits*	*Credits*
1 Current Account				
Imports (f.o.b.)	4,013		4,082	
Exports (f.o.b.)		3,883		4,060
Government payments abroad	380		405	
Government receipts from abroad		44		42
Invisibles (debits)[2]	1,750		1,805	
Invisibles (credits)[2]		2,206		2,314
Current balance		−10		124
2 Long-term Capital Account				
Official payment abroad	172		120	
Official receipts from abroad...		127		15
Net private investment abroad	327		277	
Net private foreign investment in UK ...		416		197
Balance of long-term capital		44		−185
3 All Transactions (shown above)				
Debits	6,642		6,689	
Credits		6,676		6,628
Balance...		34		−61
4 Transactions not separately recorded (net)[3]		−14		46
5 Overall Balance[4]		**20**		**15**

Notes: 1 This is a modified form of the accounts based on information contained in *Financial Statistics* and *Preliminary Estimates of National Income and Balance of Payments, 1963* (Cmnd. 2328);
2 Includes: payments for services, personal transfers, expenditure by tourists; interest, profit and dividends;
3 This is the same as 'balancing item' in *Financial Statistics;*
4 This is the same as 'Balance of monetary movements' in *Financial Statistics.*

Table 12

Bilateral Aid 1962–63: Purposes and Terms

(£m)

		All Countries		*Colonies*		*Independent Commonwealth*		*Foreign Countries*	
	Total	*Grants*	*Loans*	*Grants*	*Loans*	*Grants*	*Loans*	*Grants*	*Loans*
1 Aid for current expenditure									
(a) on Grants and Loans Votes	18·3	17·7	0·6	12·9	0·6	—	—	4·8	—
(b) on DTC's Vote (part of OSAS) ...	7·8	7·8	—	4·0	—	3·8	—	—	—
2 Aid for compensation and pensions									
(a) on Grants and Loans Votes	5·5	0·5	5·0	—	—	—	5·0	0·5	—
(b) on DTC's Vote (mainly OSAS) ...	5·0	4·7	0·3	2·5	—	2·2	0·3	—	—
3 Technical assistance and research	10·2	10·2	—	5·0	—	3·8	—	1·5	—
4 Refinance Loans	1·3	—	1·3	—	—	—	—	—	1·3
5 General and Development aid									
(a) including local costs	44·1	28·6	15·5	16·1	14·8	10·6	—	1·9	0·7
(b) import content only	40·5	—	40·5	—	—	—	36·5	—	4·0
(c) CDC (Exchequer advances)	5·0	—	5·0	—	5·0	—	—	—	—
Total	**137·9**	**69·7**	**63·2**	**40·4**	**20·3**	**20·5**	**41·7**	**8·8**	**6·1**

Notes: Item 5 includes CD & W Exchequer loans to the colonies, ECGD loans and some subheads in the Grants and Loans Votes of the CO, CRO, and FO. The other items in the table are made up of subheads in those departmental Votes and the DTC's Vote (see Chapters 2, 7, 9). The expenditure under OSAS in the DTC's Vote has been divided into inducement pay, etc. (in 1 *(b)*) and compensation and pensions (in 2 *(b)*); the division of the OSAS expenditure between colonies and independent Commonwealth cannot be made precise because some colonies became independent during the year. These and other figures in the table are approximate.

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The study is part of the ODI's factual survey of British aid financed by the Nuffield Foundation. The author is Ralph Clark, a member of the ODI's staff.

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