ABSTRACT
of thesis

by John Anthony Copland, entitled, The Flow of Official Financial Resources from Canada to the Less-Developed Countries, presented for the degree of Master of Arts in Economics, to McGill University.

This empirical study downgrades the measurement of private flows, and concentrates on official flows from Canada to the L. D. C. 's, because the former are inaccurate, differently motivated and exclude backflows. It recommends acceptance of the Pearson target of 0.70% of G.N.P. for official flows. The study follows the development of D. A. C. 's performance measures, recommending acceptance of the grant element target, and expects Canada's performance against both targets to improve in 1969. Development of C.I.D.A.'s and E.C.I.C.'s programs is discussed, recommending unification of E.C.I.C.'s suppliers' credit activities with C.I.D.A.'s program, and requesting economic examination of the technical assistance program. Examples show that Canada's contributions to multilateral institutions do not generate the needed economic benefits to Canada, necessary to create support for aid, as do bilateral programs. Contributions should be related to performance of multilateral institutions. More examination of results of all aid projects and elimination of C.I.D.A.'s country concentration concept are recommended.

SHORT TITLE FOR BACK OF BOUND COPIES

Official Financial Resource Flows from Canada to LDC's

McGILL UNIVERSITY

THE FLOW OF OFFICIAL FINANCIAL RESOURCES FROM CANADA TO THE LESS-DEVELOPED COUNTRIES

THESIS FOR MASTER OF ARTS DEGREE
DEPARTMENT OF ECONOMICS

MARCH 30, 1970.

JOHN ANTHONY COPLAND

PREFACE

In the Fall of 1965, I began working in the Economics Department of the Export Credits Insurance Corporation. In the process of my day-to-day work in the ensuing months, which consisted of writing confidential reports on the economies of less-developed countries, I began to become interested in the practical problems of the developing countries and how they were affected by suppliers' credits. At the same time, I periodically represented ECIC as its observer at meetings of the government's inter-departmental sub-committee on External Aid. It was at this time that I became interested in the practical problems and policies of transferring <u>all</u> types of official resources from Canada to the less-developed countries. Following conversations with my thesis adviser, Professor E. F. Beach, I decided to scrap my original thesis topic concerning the problems of productivity measurement in the field of railway transportation. During 1966 and 1967, I began my research for this thesis on a part-time basis building up from the readings in the theory of development which I had undertaken during Professor Irving Brecher's seminar on economic development at McGill.

As my research progressed, I became more involved in the empirical problems of resource transfer and even the political problems of encouraging the flow of resources. In this period, I benefitted considerably from conversations with E. B. Carty, Director of the Balance of Payments and Financial Flows Division of the Dominion Bureau of Statistics at that time, and with J. Duncan Edmonds, the Executive Director of the Centennial International Development Program. The first six chapters of my thesis were completed in the summer of 1967. Shorthly thereafter I was promoted to be the Head of the Economics Department at ECIC and my thesis took a backseat in relation to my new responsibilities. The work on my thesis, however, had made one thing very clear. There would be a greater need for centralization and coordination between the various organizations involved in the transfer of resources from Canada to the less-developed countries. This realization was one of the factors contributing to my leaving ECIC in the summer of 1968 and joining the Planning and Economics Division of the Canadian International Development Agency. During the following year, I developed some knowledge about the practical problems involved in aid operations and participated in a minor way in the preliminary meetings out of which grew the re-evaluation of Canada's aid policies which will be released to the public in the form of a government white paper in the very near future. At the same time, I periodically represented CIDA in the drafting of legislation creating the Export Development Corporation which was to succeed ECIC in the Fall of 1969.

In the summer of 1969, the Canadian Government sent me to Manila to be the Alternate Executive Director of the Asian Development Bank. My thesis was thus further delayed though undoubtedly in a good cause because it enabled me to gain an understanding of the third and final aspect of the transfer of official resources from Canada to less-developed countries, i.e., transfer through multilateral institutions.

Since I was fully aware of many aspects of the development of Canada's recent policies regarding official resource transfer to the less-developed countries I have perhaps had to be overcautious in writing this thesis to avoid using inside information, though awareness of inside information undoubtedly influenced my selection of published information on which to base this thesis.

I would like to express my particular thanks to Professor E. F. Beach, my thesis adviser, who has been so patient throughout the rather long gestation period of this Masters' thesis. I

would also like to thank Professor Irving Brecher, who first developed my interest in the economic problems of the less-developed countries, E. B. Carty and J. Duncan Edmunds, whose contributions to my thesis are noted in the footnotes, and Dr. F. J. Chambers, for whom I worked both at ECIC and later at CIDA and who has been a constant source of advice not only on the economic problems of development but on the practical problems of administering the transfer of resources. None of these individuals, however, are in any way responsible for any errors and distortions that may have crept into the thesis. The Asian Development Bank in its short life has among its more noteworthy accomplishments the establishment and organization of an excellent library which has provided me with much of the background material I needed for this thesis. Finally, I would like to express my thanks to Mrs. Francis Labonte who typed the drafts of some of the original chapters back in 1967, to Miss Lynn Whittmire who was unduly overworked typing the remaining drafts and the final version of this thesis, and to my wife who has helped with the tables and put up with my ill humour in the final months.

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INTRODUCTION

This thesis will not attempt to break any new theoretical ground in development economics, but will instead take an empirical look at what Canada has done, is doing, and ought to do to try and help solve the problems of the less-developed countries (LDCs). This analysis will be based on the theoretical knowledge already available and within the constraints exercised by Canadian political realities. In attempting to do this, some rather arbitrary decisions will be made out of necessity; otherwise, any empirical analysis would be impossible.

The first two Chapters of this thesis will examine the flow of financial resources as defined by the Development Assistance Committee (DAC) and Canada's "performance" in relation to DAC standards. A few suggestions on improving the measurement of performance and the standards will be included in the discussion. The question of motivation is examined in the third Chapter and the major argument will indicate that Canada does not yet really know why aid is given or even whether it should be given. Chapters four and five cover the development of the program of the Canadian International Development Agency (CIDA), formerly known as the

External Aid Office. As well as describing the development of CIDA's program, some comments on the thrust and scope of its operations will be made including recommendations relating to local cost financing, payment for freight and insurance on Canadian goods and services, and financial terms and conditions. Since tied purchasing is such a prominent issue, a separate chapter will be devoted to it, pointing out that tied purchasing is not only politically desirable but also casting doubt on what is generally considered its economic undesirability. Chapter seven and eight will cover the Canadian Government's activities in the field of export financing indicating a need for closer cooperation between CIDA and the Export Development Corporation (EDC), formerly known as the Export Credits Insurance Corporation (ECIC). Chapter nine will cover flows to multilateral organizations and the main thrust of the argument will hinge on the desirability of weighing the performance of various multilateral organizations against the performance of Canada's bilateral program. The final Chapter will cover my conclusions and some recommendations.

In spite of the vast amount of work that has been done in recent years, the problems of the less-developed countries remain wrapped in a great deal of mystery. Such questions as "what are less-developed countries?"; "what are the obstacles to their development?"; and "are they developing rapidly enough?" are unanswered. Nevertheless these questions will be discussed further, in the Introduction, to help show why they will have to remain unanswered at least in the near future. Decisions have been made without the benefit of either complete information or precise answers. This is as it should be. We know enough to realize that the problems are vast, and attempts at solutions cannot always await the clear delineation of the problems.

A less-developed country is difficult to classify. A case could even be made for including Canada and Australia among the LDCs on the basis of the difference between their potential and actual levels of development. Generally speaking, however, LDCs are classified on the basis of their per capita gross national products rather than their potential. Benjamin Higgins defines an LDC as a country with average per capita income less than one-quarter that of the United States.[1] This definition raises the statistical problems of measuring per capita incomes in countries where only rudimentary information is available and large sectors of some of their economies are not monetized. It also raises the

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[1]Benjamin Higgins, Economic Development, W. W. Norton and Company Inc., New York, 1959, p. 6.

problem of comparability of national incomes[2] due to the artificiality of many exchange rates. A classification based on per capita GNP is essentially the one utilized by the International Development Association (IDA) in differentiating between developed countries (Part I Members) and LDCs (Part II Members). Since this thesis uses the DAC's figures extensively, its classification of less-developed countries rather than IDA's will be used. DAC classifies all countries except members of the Organization for Economic Cooperation and Development (excluding Greece, Spain and Turkey) plus Australia, Finland, New Zealand, South Africa and the Sino-Soviet countries as less-developed countries. There are some notable difficulties in accepting the DAC classification which will be overlooked later in the thesis but which should be pointed out now. Portugal is not considered an LDC by DAC because it contributes a substantial amount of development assistance to such places as Angola and Mozambique. In fact, DAC calculates the flow of financial resources from Portugal to the LDCs as 1.08 per cent of Portugal's National Income in 1965, considerably higher than the average of all DAC members. Portugal's GNP per capita, however, was only US $329 in 1963.[3]

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[2]See Beckerman, Wilfred, International Comparisons of Real Incomes, Development Centre Studies, O.E.C.D., Paris, 1966.

[3]Escott Reid, The Future of the World Bank, I.B.R.D., September, 1965, p. 68-70. Also Portugal is classified as neither a Part I nor a Part II country by IDA.

Such countries as Iceland, Israel, Ireland, Venezuela, Argentina and Trinidad and Tobago, which had per capita GNPs of US $1,550, $800, $780, $650, and $590 respectively, are probably too well off to be considered LDCs and have higher per capita GNPs than some DAC donors such as Italy, Japan and Portugal with per capita GNPs in 1964 of US $850, $660, and $340 respectively. Nonetheless, these countries are classified as LDCs by DAC and as Part II countries by IDA. Kuwait, the country with the highest per capita GNP in the world, is also classified as an LDC by DAC but as a Part I country by IDA. Finally, many LDCs such as Yugoslavia, Israel, Taiwan, the United Arab Republic, and India have their own aid programs to other LDCs.

The nature of the problems of the LDCs and the obstacles to their development has been the subject of much discussion by economists. Ragnar Nurkse points out that the crucial problem in the LDCs is the low incremental savings ratio.[4] Everett Hagen feels that the problem is sociological and psychological. He postulates that technological creativity

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[4]Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries. Oxford University Press, New York 1961.

is responsible for development through an involved psychological and sociological process involving the emergence of a Schumpeterian innovator arising out of the creation of "need achievement" through "status withdrawal".[5] Gunnar Myrdal hypothesizes that the play of forces in the market normally tend to increase rather than decrease the inequalities between regions due to the principle of "interlocking, circular interdependence within a process of cumulative causation."[6] The key reason for the existence of underdeveloped regions both nationally and internationally is the pre-eminence of "backwash effects" which are negative over "spread effects" which are positive. The result tends to focus economic development in a few areas.[7] John Kenneth Galbraith has four models of underdevelopment: a Sub-Sahara African model characterized by "a minimum cultural base", a Latin American model where the barrier to advance is the social structure, a South Asian model

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[5] Everett H. Hagen, On the Theory of Social Change, The Dorsey Press, Homewood, Illinois, 1962, Chapters 3, 6, and 9.

[6] Gunnar Mydral, Economic Theory and Underdeveloped Regions, University Paperbacks, Methuen, London (first published 1959), p. 23.

[7] Ibid. Chapter 3. Albert Hirschman in The Strategy of Economic Development refers to "trickling-down" and "polarization" effects but feels the former rather than the latter are predominent.

where the barrier is "drastically bad proportioning of the factors of production", and finally, a model with "no strongly operative obstacle to development and where, accordingly, it proceeds at a more or less rapid pace."[8] The assistance requirements of each model are different. The Sub-Sahara African model for instance requires a great deal of technical assistance.

Albert O. Hirschman points out that "economic backwardness cannot be explained in terms of any outright absence or scarcity of this or that human type or factor of production," but it is a failure to call forth and "enlist for development purposes resources and abilities that are hidden, scattered, or badly utilized."[9]

This brief summary could, but will not, be extended to include obstacles such as population pressure, climatic conditions, declining terms of trade, tariff barriers, etc. Whatever the obstacles to development may really be, this thesis

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[8]John Kenneth Galbraith, The Underdeveloped Country, CBC Publications, Hunter Rose Company, Toronto, 1965.

[9]Albert O. Hirschman, The Strategy of Economic Development, Yale University Press, New Haven, 1958.

will accept the premise that the transfer of resources, both human and physical, from the developed countries to the LDCs is beneficial to the LDCs and, as this thesis will attempt to show, to the developed country as well. Whether Canada's aid has in fact been as beneficial to the LDCs as hoped for is not clear, due to insufficient analysis of the aid program. The need for such analysis will be one of the principle conclusions of this thesis.

The third question raised in this Introduction is whether the LDCs are developing rapidly enough. Statistics of the DAC would indicate that the LDCs have been growing, in terms of real GNP, at a fairly constant rate over the last fifteen years[10] (see Table 1). George Woods, former President of the International Bank for Reconstruction and Development (IBRD) and the IDA quotes statistics, presumably produced by his organizations, which indicate that the real rate of growth has declined significantly in the past fifteen years.[11]

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[10] Development Assistance Efforts and Policies, 1966 Review, OECD Paris, 1966, p. 20-21.

[11] George D. Woods, "The Development Decade in the Balance", Foreign Affairs, January, 1966, Vol. 44, No. 2, p. 207.

TABLE 1

AVERAGE REAL GROWTH RATE
OF GNP IN LDC'S

	I. B. R. D.	D. A. C.
Period 1950-1954	5.0%	4.9%
Period 1955-1960	4.5%	4.8%
Period 1961-1964	4.0%	5.0%

The IBRD and DAC figures raise the question of what is really happening to the growth rate of the LDCs. Clearly, if the IBRD figures are accepted, increased efforts by both developed countries and LDCs are required to reverse the downward trend. However, even if the DAC figures are accepted, it is easily argued that increased efforts are in order because a real growth rate of 5% is not adequate particularly in view of a population growth rate in the LDCs of 2.27% per year.[12]

Finally, it is probably apparent that the term "aid" and the term "official flow of financial resources" have been used interchangeably so far in this thesis. Peter C. Briant has written:

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[12]Calculated from IBRD figures used by Escott Reid in The Future of the World Bank, IBRD, September, 1965.

> Perhaps it should be regretted that the term 'foreign aid' was ever coined. In its original connotation and intent it was synonymous with charity. It may be desirable, or at least more practical politically, to recognize aid as an intelligent investment for the developed countries to make in the broad interests of world peace, stability and economic prosperity, and in the narrower interests of the stability, expansion and diversification of their domestic industry as a consequence of increased foreign trade.[13]

Since there are varying benefits accruing from various types of official financial flows to both donor and recipient, as will be elaborated in the body of this thesis, the term "aid" will often be used interchangeably with the term "official flows of financial resources". Since private financial flows do not receive overt government encouragement, except for guaranteed export credits, and since they raise conceptual and statistical problems as discussed in Chapter I, they will not be considered aid.

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[13] Peter C. Briant, Canada's External Aid Programme, Private Planning Association of Canada, April 1965, p. 7 and 8.

CHAPTER I

DAC AND THE PROBLEMS OF MEASURING PERFORMANCE

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DAC AND THE PROBLEMS OF MEASURING PERFORMANCE

In 1960 a group of developed nations began to meet together to evolve a common aid effort. With the establishment of the Organization for Economic Cooperation and Development (OECD) in September, 1961,[1] this group became one of its specialized bodies known as the Development Assistance Committee (DAC)[2] which consults together about the process of making national resources available to assist less-developed countries (LDCs). The DAC does not give aid itself but acts as a forum for encouraging its members to strengthen their aid efforts and for exchanging ideas and experience in the aid field. The main technique used is a series of meetings known as the

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[1]The OECD was set up as a successor organization to the Organization for European Economic Cooperation (OEEC) by a convention which was signed in Paris on December 14, 1960.

[2]The original membership of DAC included Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, Portugal, the United Kingdom, the United States and the Commission of the European Economic Community. Since that time, Australia (a non-OECD member), Austria, Denmark, Norway, and Sweden have become members. Such international bodies as the World Bank and the International Monetary Fund attend as observers.

the Annual Aid Review in which each member is cross-examined by the other members of the DAC on its current aid policies and efforts. The results of these meetings are submitted in the form of a chairman's report to a high-level meeting of ministers and officials responsible for aid policy in member countries. Later, this report is published by the OECD in the form of an annual review entitled Development Assistance Efforts and Policies. It is these annual reviews which supply much of the information contained in this thesis and which have become the source of information for public comment on the aid program in Canada and in other developed countries. The most useful information presented by the annual reviews is the measurement of official and private flows of long-term financial resources to the LDCs and multilateral agencies. It is the analysis of this information, with particular reference to Canada, which the thesis will use as a starting point for examining Canada's role in providing long-term financial resources to the LDCs.

Between 1956 and 1961 the total official and private flow of long-term financial resources to LDCs and multilateral agencies increased from US$6,074 million to US$9,241 million but decreased to US$8,529 million, US$8,616 million and US$9,142 million for the next three years, 1962-1964 respectively. This levelling off was the cause for a great deal of concern reflected in contemporary articles on the problems of underdevelopment.[3] In 1965 the total official and private flows increased to US$10,493 million and by 1967 had reached US$11,306 million. Though absolute increases have been recorded since 1964 the total flows have remained fairly constant since 1964 in relation to economic capacity as measured by the National Income or GNP of the DAC countries (see Table 2).

The DAC's classification of the official flow of financial resources includes grants and grantlike contributions, technical assistance, loans, multilateral grants and capital subscriptions, and multilateral bonds, loans and participations. Grants and grantlike contributions are gifts to LDCs which do not require repayment in any form. These grants are normally tied to purchases in the donor country and, as a result, grants can often be regarded as a physical transfer of goods. Technical assistance is almost entirely made up of the donor's cost of the services of technicians from developed countries working in LDCs and the

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[3] See, for example, Escott Reid, "The Crisis in Foreign Aid", The World Today, Royal Institute of International Affairs, August, 1966, Vol. 22, No. 8, P. 315, and George D. Woods, "The Development Decade in the Balance", Foreign Affairs, January, 1966, P. 206.

Table 2. -- Total net flow of official and private financial resources from D.A.C. members to L.D.C.'s and multilateral agencies, 1956-67

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Net flow of official resources (millions of U.S.$)	3,263	3,858	4,388	4,329	4,930	6,029	5,950	6,072	5,856	6,200	6,498	6,977
Net flow of private resources (millions of U.S.$)	2,998	3,779	2,917	2,820	3,182	3,212	2,579	2,544	3,287	4,293	3,973	4,329
Total net flow (millions of U.S.$)	6,261*	7,637	7,305	7,148	8,112	9,241	8,529	8,616	9,143	10,493	10,471	11,306
Net flow of official resources as % of G.N.P.	-	-	-	-	0.54	0.63	0.57	0.54	0.48	0.47	0.46	0.46
Net flow of private resources as % of G.N.P.	-	-	-	-	0.35	0.33	0.25	0.23	0.27	0.33	0.28	0.29
Total net flow as % of G.N.P.	-	-	-	-	0.89	0.96	0.82	0.77	0.75	0.80	0.74	0.75
Net flow of official resources as % of national income	-	-	-	-	0.67	0.78	0.71	0.68	0.60	0.59	0.57	0.58
Net flow of private resources as % of national income	-	-	-	-	0.44	0.42	0.31	0.29	0.34	0.40	0.35	0.36
Total net flow as % of national income	-	-	-	-	1.11	1.20	1.02	0.97	0.94	1.00	0.92	0.93

Table is based on 1968 D.A.C. Review

*corrected for an error in the D.A.C.'s arithmetic donor's cost of students from LDCs studying in developed countries. Technical assistance is undervalued to the extent that tuition fees in countries like Canada contain a large element of government subsidy and to the extent that grants of capital goods often contain elements of technical assistance arising out of training residents in LDCs to operate new plants, etc.

Loans include disbursements on all loans to LDCs, no matter what the interest rate, from interest-free loans to commercial loans, so long as the loan is made by the government of the developed country. Loans made by suppliers or financial institutions in the developed countries and guaranteed by the government of the developed countries are included under private flows. Amortization of past government loans are deducted from the current disbursed amounts giving a net loan figure. Amortization includes the repayment of principal only and does not include the payment of interest. Because the repayment of interest is not included, the net loan figures can be considered misleading. Because loans of 0 per cent interest and 6 per cent interest cannot really be equated in terms of cost either to the developed country or in terms of benefit to the less-developed country, the DAC took steps to include repayments of interest on official government loans as a memo item in 1965.

Multilateral grants and capital subscriptions include contributions to such organizations as the specialized bodies of the UN, the IBRD and IDA, and such regional organizations as the Inter-American Development Bank (IADB) and the new Asian Development Bank. There are two problems in these classifications. First there is a lag between payment to the international organization and disbursement to the less-developed country. Second some multilateral organizations make loans to developed as well as underdeveloped countries. Table 3 shows that the proportion of loans made by the IBRD and IDA to developed countries up to June 30, 1962 was 35.9 per cent. Since 1962, however, the proportion of loans to developed countries has decreased substantially. This trend remains pronounced even when the loans by IDA are excluded from the calculations.[4] Therefore, to a decreasing extent some multilateral contributions do not go to LDCs at all. This is a more important factor in multilateral portfolio investment because the IBRD has not been a significant recipient of official grants and capital subscriptions in recent

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[4]On the other hand, the IBRD has been able to sell participations on loans to the developed countries more easily on the world capital markets. By June 30, 1962 the proportion of unsold loans to developed countries (not including loans to LDCs guaranteed by developed countries) was 24.4 per cent of all unsold loans.

Table 3. -- I.B.R.D. Loan Commitments

(in millions of U.S.$)

	Up to June 30, '62	62/63	63/64	64/65	65/66
Commitments to developed countries	$2430.5*	$ 25.0	$ 234.8	$ 282.5	$ 112.5
Total I.B.R.D. Commitments	$6544.4	$ 448.7	$ 809.9	$1023.3	$ 839.2
Total I.D.A. & I.B.R.D. Commitments	$6773.5	$ 708.4	$1092.0	$1332.4	$1123.3
Commitments to developed countries as % of total I.B.R.D. commitments	37.1%	5.6%	30%	27.6%	13.4%
Commitments to developed countries as % of Total I.B.R.D. and I.D.A. commitments	35.9%	3.5%	21.5%	21.4%	10%

*In addition $539 million were committed to L.D.C.'s but were guaranteed by either Belgium, France, or the United Kingdom.

Source: The information has been derived from information appearing in I.B.R.D. annual reports.

years, relying instead on the world's capital markets and repayments of existing loans for its funds. The category "multilateral bonds, loans and participations, net" includes bonds of, loans to, and participations in loans of, such international agencies as the IBRD.

In the case of Canada, the flow of official capital has shown a generally upward trend in recent years marked by significant fluctuations (see Table 4). In 1958 wheat loans of US $36 million made a sizeable impact as did the initial contribution to IDA in 1960. During 1962 Canada began reporting on the basis of calendar years instead of fiscal years as was done previously; therefore, the figures for 1962 reflect flows for nine months only. Canada's balance of payments crisis in mid-1962 also contributed to the poor performance in 1962. Disbursements under Section 21A of the Export Credits Insurance Act began in 1961 and until 1964 added substantially to the official flow of financial resources. Since that time, the net flow of resources from this source has decreased but should be counterbalanced by disbursements under CIDA's "soft loan" programme in the next few years (see Table 5).

The DAC enumeration of the private flow of long-term financial resources to LDCs includes direct investment, multilateral

he Flow of long-term financial resources to less-developed countries and multilateral agencies from Canada
ions of U.S.$)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
of Financial Resources												
grant-like contributions*	23	44	50	53	48.1	48.5	22.5	45.6	55.9	54.8	135.4	108.9
ssistance	N/A	N/A	N/A	N/A	N/A	N/A	4.2	5.8	8.3	12.6	19.2	22.7
	---	---	36	---	---	-3.4	15.2	38.8	47.1	28.5	25.9	35.3
loans extended	---	---	(36)	---	---	(1.0)	(20.4)	(40.7)	(50.5)	(40.2)	(51.4)	(53.4)
ion received	---	---	---	---	---	(-4.4)	(-5.2)	(-1.9)	(-3.4)	(-11.7)	(-25.3)	(-18.1)
l Grants & Capital Subscriptions	7	4	5	7	27.2	16.4	12.5	12.8	16.4	24.1	31.2	46.1
l Bonds, Loans & ticipations, net	---	---	---	---	---	---	---	-5.0	---	---	---	---
l Flow of Financial sources, net	30.0	48.0	91.0	60.0	75.3	61.5	54.4	98.0	127.7	120.0	211.7	213.0
of Financial Resources												
stment	N/A	N/A	N/A	N/A	N/A	N/A	38.1	33.0	33.0	17.0	33.0	12.0
new investment	N/A	N/A	N/A	N/A	N/A	N/A	(30.0)	(25.0)	(25.0)	(8.0)	(24.0)	(3.0)
ortfolio Investment	N/A	N/A	N/A	N/A	N/A	N/A	3.0	12.0	12.0	10.0	N/A	5.0
l Portfolio Investment	7.0	19.0	14.0	-9.0	26.9	27.0	8.6	-32.4	-16.7	15.9	16.0	17.0
Export Credits 1-5 Years	7.0	2.0	8.0	-4.0	8.2	-5.0	5.0	17.9	0.8	-8.9	5.4	6.2
eed Export Credits 1-5 Years	N/A	N/A	N/A	N/A	N/A	N/A	0.5	2.0	0.1	-1.0	0.6	0.7
Flow of Financial esources, net**	76.0	83.0	64.0	23.0	70.0	39.4	55.2	32.5	29.2	33.0	55.0	40.9
l & Private Flow, net	106.0	131.0	155.0	83.0	145.0	100.9	109.6	130.5	156.9	153.0	266.7	253.9
ition, interest s received	---	---	---	---	---	---	---	-1.3	-3.1	-6.8	-9.4	-9.3

hnical assistance, 1956 to 1961

l not available items under private flows, 1956 to 1961

ous D.A.C. Annual Reports

Table 4. -- The Flow of long-term financial resources to less-developed countries and multilateral agencies
(in millions of U.S.$)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Official Flow of Financial Resources										
Grants and grant-like contributions*	23	44	50	53	48.1	48.5	22.5	45.6	55.9	54.8
Technical Assistance	N/A	N/A	N/A	N/A	N/A	N/A	4.2	5.8	8.3	12.6
Net Loans	---	---	36	---	---	-3.4	15.2	38.8	47.1	28.5
of which loans extended	---	---	(36)	---	---	(1.0)	(20.4)	(40.7)	(50.5)	(40.2)
amortization received	---	---	---	---	---	(-4.4)	(-5.2)	(-1.9)	(-3.4)	(-11.7)
Multilateral Grants & Capital Subscriptions	7	4	5	7	27.2	16.4	12.5	12.8	16.4	24.1
Multilateral Bonds, Loans & Participations, net	---	---	---	---	---	---	---	-5.0	---	---
Total Official Flow of Financial Resources, net	30.0	48.0	91.0	60.0	75.3	61.5	54.4	98.0	127.7	120.0
Private Flow of Financial Resources										
Direct Investment	N/A	N/A	N/A	N/A	N/A	N/A	38.1	33.0	33.0	17.0
of which new investment	N/A	N/A	N/A	N/A	N/A	N/A	(30.0)	(25.0)	(25.0)	(8.0)
Bilateral Portfolio Investment	N/A	N/A	N/A	N/A	N/A	N/A	3.0	12.0	12.0	10.0
Multilateral Portfolio Investment	7.0	19.0	14.0	-9.0	26.9	27.0	8.6	-32.4	-16.7	15.9
Guaranteed Export Credits 1-5 Years	7.0	2.0	8.0	-4.0	8.2	-5.0	5.0	17.9	0.8	-8.9
Non-Guaranteed Export Credits 1-5 Years	N/A	N/A	N/A	N/A	N/A	N/A	0.5	2.0	0.1	-1.0
Total Private Flow of Financial Resources, net**	76.0	83.0	64.0	23.0	70.0	39.4	55.2	32.5	29.2	33.0
Total Official & Private Flow, net	106.0	131.0	155.0	83.0	145.0	100.9	109.6	130.5	156.9	153.0
Note: in addition, interest payments received	---	---	---	---	---	---	---	-1.3	-3.1	-6.8

*includes technical assistance, 1956 to 1961

**includes all not available items under private flows, 1956 to 1961

Source: Various D.A.C. Annual Reports

Table 5. -- E.C.I.C. loans to less-developed countries

	1961	1962	1963	1964	1965	1966	1967	1968**
nitments (000 Can.$)	41,191	14,599	88,203	67,939	56,912	23,610	94,395	20,712
Maturity in years	11.1	12.7	12.8	16.9	16.5	10.7	16.8	11.8
Contracts	4	4	12	9	6	5	10	5
ts to South American Countries (000 Can.$)	41,193	6,868	52,498	8,779	9,843	18,774	14,215	3,886
Maturity in years (South America)	11.1	9.4	10.0	10.4	8.1	9.5	9.8	9.6
ts to all other countries (000 Can.$)	nil	7,731	35,705	59,160	45,069	4,836	80,190	9,146
Maturity in years (other countries)	N/A	15.6	16.9	17.9	19.1	15.4	18.0	12.3
bursements (000 Can.$)	996	22,086	43,690	57,279	41,823	44,555	35,898	53,621
ayments (000 Can.$)	nil	481	2,195	3,479	11,780	18,135	19,586	21,896
fer Effect (000 Can.$)*	996	21,605	41,496	54,800	30,043	26,420	16,312	31,725

ces due to rounding

t include a loan to New Zealand

Calculated from E.C.I.C. Annual Reports

ere are certain small discrepancies between these figures and figures appearing in the E.C.I.C. Annual
ports because (1) some commitments were made in U.S.$ and were converted into Canadian $ at the rate of
S.$ = Can. $1.08108 but disbursements were made at the rate existing on the day of disbursement. When
e project was complete the commitment figures were altered to equal the amount of the disbursed loan.
) In all cases, original commitments were made at a figure equal to or in excess of the amount required
cause the commitment preceded the negotiation of the commercial contract. In the latter case the commit-
nt was reduced to equal the disbursement figures when the contract was complete.

Table 5. -- E.C.I.C. loans to less-developed countries

	1961	1962	1963	1964	1965	1966	1967
Total Commitments (000 Can.$)	41,191	14,599	88,203	67,939	56,912	23,610	94,3
Weighted Maturity in years	11.1	12.7	12.8	16.9	16.5	10.7	16.
Number of Contracts	4	4	12	9	6	5	10
Commitments to South American Countries (000 Can.$)	41,193	6,868	52,498	8,779	9,843	18,774	14,2
Weighted Maturity in years (South America)	11.1	9.4	10.0	10.4	8.1	9.5	9.
Commitments to all other countries (000 Can.$)	nil	7,731	35,705	59,160	45,069	4,836	80,1
Weighted Maturity in years (other countries)	N/A	15.6	16.9	17.9	19.1	15.4	18.
Total Disbursements (000 Can.$)	996	22,086	43,690	57,279	41,823	44,555	35,8
Total Repayments (000 Can.$)	nil	481	2,195	3,479	11,780	18,135	19,5
Net Transfer Effect (000 Can.$)*	996	21,605	41,496	54,800	30,043	26,420	16,3

*differences due to rounding

**does not include a loan to New Zealand

Source: Calculated from E.C.I.C. Annual Reports

Note: There are certain small discrepancies between these figures and figures appearing in the E.C.I.C. Reports because (1) some commitments were made in U.S.$ and were converted into Canadian $ at the U.S.$ = Can. $1.08108 but disbursements were made at the rate existing on the day of disbursement the project was complete the commitment figures were altered to equal the amount of the disbursed (2) In all cases, original commitments were made at a figure equal to or in excess of the amount because the commitment preceded the negotiation of the commercial contract. In the latter case t ment was reduced to equal the disbursement figures when the contract was complete.

portfolio investment, bilateral portfolio investment, guaranteed private export credits, and non-guaranteed private export credits. It does not include transfers by private charitable organizations such as churches and other voluntary organizations which provide foodstuffs, technical assistance and relief work.[5] Transfers by private charitable organizations are not included in the DAC figures because information on their activities is scarce, the assistance is often related to specific aims which may not necessarily coincide with development aims, and the services performed are hard to value due to the fact that they are often conducted at rates below the market rates.[6]

In 1965, the flow of private financial resources from DAC members increased to US $3.9 billion from US $3.2 billion in 1964 and US $2.4 billion in 1962 and 1963.[7] The large increases in the private flow between 1963 and 1965 therefore accounted for nearly

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[5]CIDA estimates transfers by private charitable organizations to be about $25 million per year. A Report on Canada's External Aid Programs, CIDA, Fiscal Year 1965-66

[6]Admittedly, it is hard to see DAC's fine distinction between the problems in determining private charitable transfers and the problems in determining all private transfers.

[7]Development Assistance Efforts and Policies, 1966 Review, OECD, P. 39

all of the increase, from US $8.5 billion in 1963 to US $10.1 billion in 1965, in the total flow of financial resources. In the case of Canada, the flow of private financial resources has remained fairly unstable for the last three years but remains considerably below levels established in the 1956-1960 period (see Table 2).

The DAC admits in most of its publications, that the statistical basis for the estimates of the flow of private financial resources is weak and, in some cases, that the figures are misleading.[8] In considering the Canadian statistics and the difficulties involved in their formation, the problems of formulating all DAC statistics on private flows will be evident.[9]

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[8]For instance, Development Assistance Efforts and Policies, 1963 Review, OECD, P. 19: "Unfortunately, the data available on private capital movements to the less-developed areas are both incomplete and, in several respects, misleading .... Doubts concerning the net figures for the flow of private capital are also raised by the existence of a considerable item of 'errors and omissions' in favour of DAC members in the consolidated international balance of payments, some considerable part of which undoubtedly is a 'backflow' of funds from the less-developed countries."

[9]I am indebted to Mr. E.B. Carty, formerly Director of the Balance of Payments and Financial Flows Division of the Dominion Bureau of Statistics, for his help in understanding the mechanics of, and problems involved in, estimating Canadian statistics of the flow of private financial resources to the LDCs.

Direct investment flows as currently supplied by Canada include capital transfers but make no allowance for the re-invested earnings of Canadian companies in the LDCs. Some foreign companies use wholly-owned Canadian subsidiaries as a channel for capital flows to the LDCs, but a total flow including these companies would be misleading and has not been estimated. Therefore, only those companies which are Canadian and have some Canadian stockholders are included by D. B. S. Conceptually, these figures too can be misleading to the extent that foreign shareholders or lenders exist and the actual funds transferred to the LDCs may originate from the capital markets of other DAC members. The reverse problem also exists with Canadian stockholders in foreign companies or funds raised in Canada but channelled through another developed country before transfer to an LDC. Reinvested earnings can currently be estimated only on the basis of the change in book value of the assets of subsidiaries in the LDC. Compounding these difficulties are the secrecy provisions of the Statistics Act which limit the disclosure of information obtained from private companies. For this reason, direct investment flows are only broken down by area and not by country of destination.

The major portion of the multilateral portfolio investment figures is made up of IBRD bonds purchased by Canadians. Canadian estimates differ considerably from those published by the DAC. Presumably, the DAC Secretariat makes adjustments on the basis of information obtained from the IBRD. There may be inaccuracies arising in the IBRD figures resulting from the inclusion of purchases by Canadian life insurance companies and banks employing the funds arising from their operations in other countries. Furthermore, it is not clear whether the DAC takes account of sales and purchases of IBRD bonds by Canadian investors on the world capital markets between the date of issue and the date of redemption. Finally, the same problems exist with private multilateral portfolio investment as with official multilateral flows. There is a time lage between the flow from the developed country and disbursement to the LDCs and some of the multilateral agencies make loans to developed countries.

Bilateral portfolio investment consists largely of issues of LDCs in Canadian markets, e.g. Israel and Jamaica, and the Euro-dollar type transactions of the Canadian banks which are very difficult to quantify. Some transactions, such as the widely reported loan to Uruguay by the Bank of Nova Scotia in 1965,[10] can be included, but most transactions are not public information.

Statistics on guaranteed private export credits between one and five years are submitted by the Export Development Corporation and represent the net change in outstanding export credits guaranteed by EDC. Non-guaranteed private export credits to less-developed countries are impossible to determine but probably are not very large. The figures included in the DAC reviews represent the portion of guaranteed private export credits not covered by EDC. The normal coverage of a guarantee is 85 per cent,[11] so the remaining 15 per cent of the credit is considered to be a non-guaranteed private export credit. As yet, EDC has not guaranteed any private export credits over five years and no figures appear under this category in the DAC reviews.

Therefore, it is apparent that the figures on the net private flows of financial resources to the LDCs must be treated with caution. However, these flows raise another problem which is

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[10] The Journal of Commerce, September 24, 1965 and Canadian Coin News, "Was Uruguay's Gold Sent Secretly to Banks in Toronto?", October 16, 1965, P. 1

[11] Export Credits Insurance Corporation: what it is & how it operates.

conceptual. When evaluating development assistance, is it rational to consider the inflow of private capital without considering the outflow of earnings on that capital?

The DAC figures cover only capital flows. Therefore, current account items such as interest payments and dividends flowing from the LDCs to the developed countries are not included. These payments are very large and may even exceed new private investment and could therefore act as a net drain on the resources of the less-developed countries.[12] Private investment and lending categories are labelled as net, and yet no allowance is made for reverse flows in the form of investments by residents of less-developed countries. These flows have probably been particularly large from time to time in the case of bilateral portfolio investment from the South American countries. Therefore, to the extent that reverse flows, dividends, and interest are not included, the private investment flow figures of the DAC are misleading indications of the development assistance efforts of the developed countries. Even the DAC admits that "while the totals of public and private flows give an indication of the relative contributions

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[12]The IBRD estimates that net payments by LDCs of income on investments by developed countries in the form of interest and dividends (including reinvested earnings) exceeded $4 billion in 1965. IBRD Annual Report, 1965-66, P. 32

by different economies in terms of resources, the official flows come closer to representing explicit policy decisions to provide assistance to the less-developed countries."[13]

Finally, it is perfectly obvious that a country which is a net importer of capital, such as Canada, cannot be expected under any criterion to match the per capita outflow of private capital to the LDCs from countries which are net exporters of capital.

Therefore, this thesis will evaluate further only the flow of official financial resources from Canada to the LDCs. Further analysis of the private flows will be waived because the unreliability of the statistics, the conceptual problems raised by overlooking backflows, and the incomparability of performances by nations which are net capital importers with those which are net capital exporters, make discussion of private flows only marginally meaningful and often misleading.

The Pearson Commission has recommended that "official development assistance should be raised to 0.70 per cent of donor GNP by 1975, and in no case later than 1980. This compares with average flows of 0.39 per cent in 1968".[14] This target is a more

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[13] Development Assistance Efforts and Policies, 1966 Review, OECD, P. 52

[14] Pearson, Lester B. et al, Partners in Development, Report of the Commission on International Development, Praeger, New York, p. 18. The "question of will" is explored further in his first Chapter.

equitable target than 1 per cent of GNP or national income or any other target which includes private flows. The reasons should be clear from the above discussion but one further reason, a psychological one, should be mentioned. It seems clear that development will not occur, at least not rapidly, without a commitment of will in both developed and less-developed countries that development should and must occur. Certainly private investment can and may promote development but this will occur as a secondary objective to the pursuit of profits to the firm. Official transfers are more likely to occur as a result of political commitments by governments in pursuit of development objectives with trade and political objectives as secondary motives. This will be discussed further in Chapter 3.

CHAPTER 2

THE DAC GOALS AND CANADA'S AID PROGRAM

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THE DAC GOALS AND CANADA'S AID PROGRAM

Following a series of preliminary meetings the DAC adopted a Resolution on the Common Aid Effort in March, 1961 recommending that the members agree "to expand the flow of resources to the less-developed countries, to improve the effectiveness of development assistance and to provide for increased assistance in the form of grants or loans on favourable terms."[1] Canada's aid program at this time was developing significantly. The Colombo Plan allocations had been increased to $50 million in the fiscal year 1959-60, special programs in the Caribbean and Commonwealth Africa had been introduced recently and a program for Francophone Africa was being contemplated. In the OECD's first

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[1] Development Assistance Efforts and Policies in 1961 of the Members of the Development Assistance Committee, Sept. 1962, OECD, Paris, p. 9.

publication on aid[2] the financial flows of resources from 1956 to 1959 were itemized as outlined in Chapter 1. The only other information given was an outline of the aid programs of individual countries and statistics on contributions toward the needs of the IBRD and the IMF.

In 1962 the first of the annual reports by the chairman of the Development Assistance Committee was published.[3] In his report the chairman pointed out the need to assess the relative aid effort of various members of the DAC.[4] Such measures as relative GNPs, relative per capita GNPs, and terms of loans were discussed as factors which would make the aid effort of a particular DAC member more or less burdensome to that member. No effort to assess relative burdens was made though loans to LDCs from the DAC members were broken down by maturities.

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[2]The publication was issued by OECD's predecessor, OEEC. The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59, OEEC, Paris, April 1961.

[3]Except for this report entitled Development Assistance Efforts and Policies in 1961, OECD, Paris, 1962, none of the other DAC reports mention in their title that they refer to the preceding year. Thus the 1963 review covered the year 1961.

[4]Ibid. p. 16.

In 1963 the chairman's report[5] contained no new statistical information except a table indicating the future commitments of donor nations. Commitment figures were added because it was rightly felt that they were more indicative of the present policies of the governments of the donor countries than disbursements which reflected past policies. The 1963 report was supplemented by a detailed statistical study entitled The Flow of Financial Resources to Developing Countries in 1961 which covered the years 1956-1961.[6] This publication contained detailed information on financial flows from the developed countries and included detailed information on the distribution of these financial flows among LDCs. Also, an initial attempt was made to delineate relative burdens by breaking down the loans into various interest rate brackets (interest free, zero % to 3%, etc.). This latter information was not very meaningful.

Up to this time Canadians still felt that their contributions to foreign aid were fairly generous[7] in spite of the fact

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[5] Development Assistance Efforts and Policies, 1963 Review, OECD Paris, 1963.

[6] The Flow of Financial Resources to Developing Countries in 1961, OECD Paris, July 1963.

[7] F. C. Stinson said in the House of Commons during the 1960/61 session: "Compared with other countries of the West, Canada has a fairly good record in foreign aid." House of Commons Debates, 1960/61 session, p. 4,056.

that the NDP (then the CCF) was advocating adoption of a goal of 1 per cent of GNP for foreign aid.[8] In spite of the new programs Canada's foreign aid program remained concentrated in Colombo Plan countries.

In October 1961, the DAC had established a Working Party "to examine the terms and conditions of aid, their relationship to the economic circumstances of the recipients, including their foreign indebtedness and debt-servicing capacity, and the principles and conclusions which might be drawn up as a guide for future action with regard to aid terms."[9] This Working Party reported to the DAC in April 1963 and a Resolution containing policy recommendations was adopted and published in the 1964 Review. The Resolution noted the LDCs increased debt service, particularly of suppliers' credits of less than five years and reaffirmed the Resolution on the Common Aid Effort of March 1961. The new Resolution on the Terms and Conditions of Aid recommended to the members of the DAC:

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[8] Mr. Regier, House of Commons Debates, 1959 session, p. 3,858, and 1960 session, p. 972. Mr. Hazen Argue, ibid., 1960 session, p. 3,907 and 1960/61 session, p. 4,069.

[9] Development Assistance Efforts and Policies, 1963 Review, OECD Paris, 1963, p. 31.

> (1) that they relate the terms of aid on a case-by-case basis to the circumstances of each underdeveloped country or group of countries; (2) where aid is on a project basis and where the terms appropriate to the project differ from the terms appropriate to the country, that they should consider whether they can apply one of the following methods: to provide an appropriate 'mix' of hard loans and soft loans or grants; to lend under a 'two-step procedure' providing for soft loans to governments and on-lending on hard terms to projects; to lend to projects on hard terms and provide separate financial aid for balance of payments relief; (3) that they make it their objective in principle to secure a significant degree of comparability in the terms and conditions of their aid and so far as possible to eliminate or reduce discrepancies between them.[10]

The first two recommendations are rather nebulous when they were not recommending the obvious. It was not clear then or now how the appropriate terms of aid should be determined. The third recommendation was clearly aimed at countries, like Canada, in which a large portion of their aid was composed of long-term suppliers' credits. Long-term suppliers' credits were the only form of loans Canada was making available at that time (see Table 4).

The 1964 DAC review went further than the previous reports in attempting to determine the burden of aid on DAC members. A table was produced showing the percentage included

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[10] Development Assistance Efforts and Policies, 1964 Review, OECD Paris, Sept. 1964, p. 97 and 98.

in the official flows of (1) grants (2) grants and loans under 3 per cent, and (3) grants and loans under 5 per cent. Canada's percentage was 42.5 per cent in all three categories compared to DAC averages of 58.5 per cent, 79.3 per cent, and 83.6 per cent respectively. These figures indicated that the terms of Canada's aid were not as generous as generally believed. Reid Scott brought this matter to the attention of the House of Commons.[11] The 1964 DAC Annual Review also made an attempt to analyze technical assistance by reporting the number of students from LDCs studying in various donor countries and the number of experts and volunteers from various donor countries working in the LDCs.

At the end of 1964, a report entitled The Flow of Financial Resources to Less-Developed Countries, 1956-1963 was published.[12] This report included tables on the weighted average maturity of loan commitments and the weighted average interest rate of loan commitments for 1962 and 1963. Since Canada did not make any commitments under its new concessional loan program until 1964, its average financial terms

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[11] House of Commons Debates, 1964/65 session, p. 12,725.

[12] The Flow of Financial Resources to Less-Developed Countries, 1956-1963, OECD Paris, Dec. 1964.

did not look very impressive compared to the DAC averages (see Table 6). A Chapter on Canada's aid program did mention the new concessional loan program and indicated that it would ease the overall terms of Canadian aid as well as broaden it due to the new cooperative agreement with the IADB.[13] Statistics on the geographical distribution of official bilateral flows were also included in this publication (see Table 7). Finally, an interesting table broke down the official bilateral commitments by type of project. This table indicated that 74.4 per cent of Canadian bilateral commitments were for financing capital projects in the year 1962 and 1963 while 19.8 per cent went to non-project assistance and 5.7 per cent went to technical assistance. These figures compared with 41.8 per cent, 38.6 per cent and 11.7 per cent, respectively, for all DAC countries plus multilateral agencies.[14]

The 1965 DAC annual review took an important statistical step when it produced in the body of its report a table relating the flow of financial resources from developed countries to their

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[13] Ibid. p. 69.

[14] Ibid. p. 50-51. The DAC total included 2.5 per cent for "Contributions for Clearly Specified Current Expenditures", 1.1 per cent for "Consolidated and Refinancing Loans" and 4.3 per cent for "Other".

Table 6. -- Canada's performance compared to D.A.C. averages

	1960		1961		1962		1963		1964		1965		1966		1967	
	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC
total official and private % of national income	0.51	1.11	0.31	1.20	0.38	1.02	0.43	0.97	0.43	0.94	0.47	1.00	0.67	0.92	0.59	0.93
total official and private % of G.N.P.	0.39	0.89	0.24	0.96	0.29	0.82	0.32	0.77	0.32	0.75	0.35	0.80	0.50	0.72	0.44	0.75
total official resources onal income	0.27	0.67	0.22	0.78	0.19	0.71	0.32	0.68	0.39	0.60	0.35	0.59	0.53	0.57	0.50	0.58
total official resources P.	0.20	0.54	0.17	0.65	0.14	0.62	0.24	0.54	0.29	0.48	0.26	0.47	0.40	0.46	0.37	0.46
private capital as % of ome	0.25	0.44	0.09	0.42	0.19	0.31	0.11	0.29	0.04	0.34	0.13	0.40	0.14	0.35	0.10	0.36
private capital as % of	0.19	0.35	0.07	0.33	0.15	0.25	0.08	0.23	0.03	0.27	0.09	0.33	0.10	0.28	0.07	0.29
centage of total mitments	-	-	-	-	-	-	-	-	50.8	60.0	54.1	60.3	77.0	59.5	48.6	54.7
oans at interest rate of 3% of total official commitments	-	-	-	-	-	-	-	-	63.3	84.2	77.1	78.6	91.2	85.0	71.9	78.3
oans with maturity of nore as % of total nitments	-	-	-	-	-	-	-	-	63.3	84.1	77.1	75.4	91.2	78.2	71.9	74.6
rage grace period of ents (years)	-	-	-	-	-	-	-	-	4.9	6.4	6.3	4.5	6.5	5.3	4.4	5.3

rst six rows are based on disbursements and the last four rows are based on commitments.

.C. Annual Reviews

Table 6. -- Canada's performance compared to D.A.C. averages

	1960		1961		1962		1963		1964		1965		1966	
	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC	CAN	DAC
Net flow of total official and private resources as % of national income	0.51	1.11	0.31	1.20	0.38	1.02	0.43	0.97	0.43	0.94	0.47	1.00	0.67	0.9
Net flow of total official and private resources as % of G.N.P.	0.39	0.89	0.24	0.96	0.29	0.82	0.32	0.77	0.32	0.75	0.35	0.80	0.50	0.7
Net flow of total official resources as % of national income	0.27	0.67	0.22	0.78	0.19	0.71	0.32	0.68	0.39	0.60	0.35	0.59	0.53	0.5
Net flow of total official resources as % of G.N.P.	0.20	0.54	0.17	0.65	0.14	0.62	0.24	0.54	0.29	0.48	0.26	0.47	0.40	0.4
Net flow of private capital as % of national income	0.25	0.44	0.09	0.42	0.19	0.31	0.11	0.29	0.04	0.34	0.13	0.40	0.14	0.3
Net flow of private capital as % of G.N.P.	0.19	0.35	0.07	0.33	0.15	0.25	0.08	0.23	0.03	0.27	0.09	0.33	0.10	0.2
Grants as percentage of total official commitments	-	-	-	-	-	-	-	-	50.8	60.0	54.1	60.3	77.0	59.
Grants and loans at interest rate of 3% or less as % of total official commitments	-	-	-	-	-	-	-	-	63.3	84.2	77.1	78.6	91.2	85.
Grants and loans with maturity of 25 years or more as % of total official commitments	-	-	-	-	-	-	-	-	63.3	84.1	77.1	75.4	91.2	78.
Weighted average grace period of loan commitments (years)	-	-	-	-	-	-	-	-	4.9	6.4	6.3	4.5	6.5	5.

Note: The first six rows are based on disbursements and the last four rows are based on commitments.

Source: D.A.C. Annual Reviews

Table 7. -- Bilateral net flow from Canada to L.D.C.'s

(in millions of U.S.$)

	1960	1961	1962	1963	1964	1965	1966	1967
Europe	0.01	---	0.01	---	0.03	0.03	0.04	0.10
Africa total	0.21	0.88	2.02	1.66	6.25	10.20	19.72	21.57
North of Sahara	---	---	---	0.01	0.04	0.26	3.80	3.88
South of Sahara	0.21	0.88	2.02	1.65	6.20	9.91	15.85	17.61
unspecified	---	---	---	---	0.01	0.03	0.07	0.08
America total	4.82	3.81	20.70	34.86	33.75	6.44	3.59	3.43
North & Central	3.21	2.83	11.98	15.54	26.04	6.05	5.26	5.52
South	1.61	0.98	8.72	19.32	7.72	0.38	-1.69	-2.13
unspecified	---	---	---	---	-0.01	0.01	0.02	0.04
Asia total	43.03	43.60	24.14	50.99	71.13	78.72	152.95	139.96
Middle East	---	---	---	0.35	1.69	-0.10	-0.19	-0.19
South	40.49	41.41	21.71	47.87	66.30	65.25	142.54	133.39
Far East	2.54	2.19	2.43	2.77	3.14	13.53	10.57	6.70
unspecified	---	---	---	---	---	0.04	0.03	0.06
Oceania	---	---	0.01	---	---	0.01	0.03	0.03
Other & Unallocated	---	-3.27	-4.96	2.74	0.12	0.51	4.13	1.73
Total	48.07	45.02	41.92	90.24	111.28	95.91	180.46	166.82

Source: "Geographical distribution of financial flows to less developed countries, 1960-64". O.E.C.D. Paris, 1966, and "Geographical distribution of financial flows to less developed countries, 1966-67". O.E.C.D., Paris, 1969.

respective national incomes. Table 6 shows that the Canadian performance by this standard compares very poorly with the DAC averages even if compared on the basis of official flows only. These results undoubtedly shattered any remaining illusions in Canada about Canadian generosity relative to the other donors.

The percentage of national income approach to analyzing aid burdens was the outgrowth of the United Nations Conference on Trade and Development (UNCTAD) recommendation "Growth and Aid" in 1964 and the subsequent "Recommendation on Assistance and Development Efforts" adopted by the DAC in July 1965. This latter recommendation grew out of the Report of the Working Party on Assistance Requirements. The recommendation recalled the 1961 DAC resolution and the UNCTAD recommendation and further recommended "that member governments take appropriate steps to implement the following policies (a) to attain and if possible exceed the UNCTAD target of national income, as defined in the UNCTAD recommendation . . ."[15]

The UNCTAD target, however, is not entirely clearcut. The 1966 DAC review pointed out that:

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[15] Development Assistance Efforts and Policies, 1965 Review, OECD Paris, 1965, p. 115.

"the exact percentage to be calculated never has been clear, either as to numerator or denominator. The choice of national accounting aggregate will effect the overall assistance amounts to be raised under a given percentage target. The choice may also affect the relative position of individual Member countries depending on differences in the relative importance of the items which appear in some but not all of the aggregates, such as indirect taxes, depreciation, net factor income from abroad, etc. . . .

"In material recently presented by the United Nations and UNCTAD Secretariates, comparisons have been made on the basis of gross national produce it being contended that the reference to 'national income' in A. IV. 2 [of the UNCTAD recommendation] is to be taken in its generic sense and therefore does not refer to any specific technical meaning of the term."[16]

Nonetheless, the DAC continued to use national income as the denominator pending the experts' final report and appropriate action by UN bodies.

Another recommendation adopted by DAC in 1965 set out a target for terms and conditions of development assistance to be achieved within three years equivalent to the 1964 average DAC terms and conditions which were (1) 80 per cent of total commitments as either grants or loans of 3 per cent interest or less, (2) average repayment periods of twenty-five years, and

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[16] Development Assistance Efforts and Policies, 1966 Review, OECD Paris, Sept. 1966, p. 50.

(3) grace periods of seven years.[17]

In the 1966 DAC Review one more step was taken toward equating burden sharing by including interest received on official resource transfers as a memo item but not in the body of the tables, calculating the net transfer. However, the only real improvement would have been the inclusion of the interest memo item in the body of the financial flow tables thereby establishing a true "net" transfer figure.

The 1967 DAC Review[18] devoted considerable coverage to discussing the progress of the LDCs in terms of their growth rates and gave substantial coverage to the growing debt problem of the LDCs. There were also considerable statistical innovations. One table attempted to determine the net transfer effect by deducting amortization and interest received from commitments. It is hard to understand why DAC used commitments rather than disbursements in this exerciwe. Commitment figures are good indications of intent but not of performance. Deducting interest

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[17] DAC Review 1965, op. cit., p. 16 and 119. The Chairman's description of the recommendation and the recommendation itself do not exactly coincide. The above is the chairman's description because the recommendation itself appears confusing.

[18] DAC Review 1967. OECD Paris, Sept. 1967.

and amortization is rather meaningless in this context and was apparently dropped in succeeding reports. It would have been just as easy and much more meaningful to deduct interest from actual disbursement figures. In Canada's case using this approach the net official flow in 1966 would have been reduced by 4.5$ from U.S. $208.5 million[19] to U.S. $199.1 million by deducting the interest rate memo item. A similar calculation for Germany would have reduced the net official flow by 13.8% from U.S. $490 million to U.S. $423.6 million.

The terms of the 1965 DAC recommendations on terms of aid were finally clarified in the 1967 Review in a table showing compliance with the terms. Donor countries were to make 70% of their commitments to development assistance as grants (the primary requirement) or meet all the following three alternative provisions (a) 81% of total commitments were to be grants and loans at 3% interest or less, (b) 82% of total commitments were to be grants and loans with a maturity of 25 years or more and (c) the weighted average of grace periods of loan commitments was

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[19]This figure does not coincide with Table 4 because each year the DAC undates the previous years figure. The information in the tables of this thesis contains the most accurate information available, i.e., if the 1968 report has figures different for the year 1966 than the 1967 report has for 1966, the former figures were used.

to exceed seven years.[20] Canada met the primary requirement along with six other countries. Canada made 77% of its commitments as grants in 1966 compared to the DAC average in 1966 of 59.6%. None of the other DAC countries met all three alternative provisions and four countries did not meet any of the alternative provisions.

The third alternative provision seems unrealistic since none of the countries including those meeting the primary requirement, had an average weighted grace period on their loans in excess of seven years. Canada with an average weighted grace period of 6.5 years on loans came closest to meeting the provision and this was undoubtedly because ECIC had a bad year making long-term supplier commitments totalling less than $24 million in 1966 (see Table 5).

There was also more information on technical assistance in the 1967 Review but no statistical solutions were in sight for evaluating technical assistance in terms of quality. Even the idea of targets for technical assistance was not tackled. This is understandable because no real work has yet been done to determine the utility of technical assistance, as it is currently understood. Some of the problems in evaluating technical assistance are discussed

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[20] Ibid. p. 81.

in Chapter 5 in relation to Canada's aid program. Until the types of problems mentioned in Chapter 5 are solved it is meaningless to discuss targets and comparative performance between countries in the field of technical assistance.

The most interesting development in the 1967 DAC review was a table comparing performance using the concept of the grant element in loans. The grant element concept was discussed in Annex I of the Flow of Financial Resources to Less-Developed Countries, 1961-65[21] which was published just before the 1967 DAC Review. The concept is best expressed briefly in the 1967 Review.

The grant element consists of contributions "actually given as grants together with the imputed grant equivalent of current loans . . . The imputed grant element depends on the difference between the rate of interest on the loan and the rate of return which would have been obtained through alternative uses taking the whole lifetime of the loan into account. The calculated grant element is substantially affected by the choice of the alternative rate of return which is used for discounting purposes.

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[21] Flow of Financial Resources to Less-Developed Countries 1961-65, OECD Paris, 1967.

A uniform rate of 10% has been chosen as an approximate indication of economic rates of return".[22]

This approach has distinct advantages over the attempt to meet the DAC's 1965 terms of aid recommendations. For instance, the DAC terms of aid recommendations make no distinction between loans of zero per cent interest or 3 per cent interest. It also takes no account of the varying interest rates above 3 per cent. There is also no account taken of varying repayment periods on loans so long as a certain proportion of the repayment periods plus grants are more than 25 years.

It is interesting to note that Canada fares better using the grant element concept than the other approach probably because its zeroper cent loans spread over 50 years are matched only by one other country--Sweden. The total grant element in Canada's aid program was 91% in 1966 placing it fourth after

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[22]DAC Review 1967 op. cit. p. 177. A mathematical example of this concept was presented in the DAC Review 1968, Annex II. The amortization and interest payments on each loan commitment are discounted to their present value at a discount rate of 10% to obtain a total discounted debt service. The dollar value of the grant element is the face value of the loan less the total discounted debt service. The dollar value of the grant element is then expressed as a percentage of the face value of the loan. The total grant element figure is obtained by adding grants to the grant element of loans and comparing this amount to total commitments.

Australia, Norway and Belgium. The first two countries did not make loans in 1966 so their total grant element was 100%. The DAC average total grant element was 79%. Even in 1965 Canada's total grant element was 79% compared to the DAC average of 77%.[23] It is noteworthy that in 1965 Canada's performance was less than the DAC average using the approach of compliance with the 1965 DAC terms of aid recommendation. Grants as a percentage of total commitments was 54.1% compared to the DAC average of 60.3%. Under the alternative provision stating that grants and loans at interest rates of 3% or less should be 81% of total commitments Canada scored 77.1% compared to the DAC average of 78.6%.[24] These discrepencies emphasize the argument that the DAC 1965 terms and recommendations do not take account of variability within the parameters laid down in the recommendations.

In the 1968 DAC review the grant element concept was kept. Canada's performance fell to 74% compared to the DAC average of 75%.[25] This was entirely because ECIC had a record year making commitments of long-term supplier credits totalling more than $94 million. Canada's return to a total grant element

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[23] DAC Review 1967, op. cit. p. 77.

[24] Ibid. p. 81.

[25] DAC Review 1968, OECD Paris, Dec. 1968, p. 62.

performance in excess of 85% can easily be predicted for the 1969 DAC review because ECIC's commitments dropped to $20 million in 1968 (see Table 5). Since, as Chapter 7 points out, there seems to be a limited scope for expanding long-term export credits, it is fairly certain that Canada's performance, in meeting the grant element test of its aid program will be fairly commendable in the future.

As might be expected Canada also failed during 1967 to meet the primary requirement of the 1965 DAC recommendation on terms of aid. Canada recorded a level of 48.6% compared to the DAC average of 54.7%, far below the recommended 70%. Canada along with six other countries also failed to meet any of the alternative provisions.[26]

A noteworthy addition to the description sections of the DAC 1968 review was a description of nine selected aid projects in Part 3.[27] This innovation is one which should commend itself to other bilateral and multilateral institutions because the success stories of aid need much wider publicity.

The most significant statistical development in the DAC 1968 review was the introduction of figures comparing the net

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[26] _Ibid._ p. 167.

[27] _Ibid._ p. 197-246.

transfer of resources to GNP as well as to National Income. The DAC pointed out that the new 1% GNP target (or perhaps it could be called the clarified National Income target) was adopted by the UNCTAD II meeting in New Delhi in March 1968.[28] The GNP target in effect increases the previous target by about 25% for all DAC countries. Canada's total performance against the National Income target was 0.5% in 1967 compared to the DAC average of 0.93%. Canada's total performance compared to the GNP target in 1967 was 0.44% compared to the DAC average of 0.75% (see Table 6). This performance puts Canada tied with Denmark for ninth place among 16 countries in relation to National Income and by itself in ninth place in relation to GNP.[29]

Canada's performance to date has shown considerable improvement. The net flow of official resources in relation to National Income has increased from 0.22% in 1961 to 0.53% in 1966 and as a percent of GNP from 0.17% in 1961 to 40% in 1966 (see Table 6). This seems to be a creditworthy performance in view of the fact that aid programs cannot be built up overnight

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[28] Ibid. p. 12.

[29] Ibid. p. 266.

either in terms of public acceptance or in terms of the administrative capacity in Canada needed to run an effective program. The private flow of financial resources has been very uneven and cannot be regarded as a true indication of the policy of the Canadian Government. The year 1967 showed a negligible increase in disbursements from Canada (see Table 4) and consequently a decline in the performance in relation to both GNP and National Income targets (see Table 6). The obvious question is whether such a result indicates a levelling off of Canadian aid intentions and objectives. Preliminary figures for 1968 reveal that in that year too, Canada's performance continued to stagnate.[30] The net official flow of financial resources remained at the same level as 1968, i.e., US $213 million but represented only 0.34% of GNP. A record flow of private capital totalling US $93.6 million brought Canada's total flow of resources to a record level of US $306.4 million or 0.49% of GNP[31] but as pointed out earlier private flows fluctuate drastically and cannot be expected to underpin the aid program.

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[30]The DAC 1969 Review was not available to me when this thesis was written. However, the CIDA 1969 Annual Review has made a few figures available.

[31]CIDA Annual Review 1969. p. 16.

In 1967, ECIC's performance was partially responsible for the levelling off of Canada's official flow of financial resources. The net transfer effect of ECIC's loans decreased by $8 million in 1967 compared to 1966 but increased by $15 million in 1968 compared to 1967 (see Table 5). Allocations under the multilateral program were constant in the fiscal years 1966-67 and 1967-68 at about $48 million but increased to $61 million in 1968-69.[32] Fiscal years do not exactly coincide with the DAC's calendar year approach but the figures indicate that the problem does not lie with Canada's multilateral aid program because the lag between allocation and disbursement is virtually non-existent. The disbursement problem in multilateral aid normally lies with the multilateral institutions as will be pointed out in Chapter 9.

The problem thus must therefore lie with Canada's bilateral aid program. Allocations under the bilateral aid program have increased from nearly $130 million in 1965-66 to over $227 million in 1968-69.[33] Disbursements in the fiscal year 1967-68 totalled slightly more than $130 million[34] while

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[32] Ibid. p. 25.

[33] Ibid. p. 24.

[34] CIDA Annual Review 1967-68. p. 36-38.

disbursements in 1968-69 totalled more than $153 million.[35]

An explanation of the levelling out phenomenon in the DAC figures may perhaps date back to the near famine conditions in the Indian sub-continent in 1965 and 1966. Table 4 indicates that grants and grant-like contributions from Canada increased from US $54.8 million in 1965 to US $135.4 million in 1966. The External Aid Office Annual Review 1966-67 indicates that food aid allocations to India increased from $7 million in 1964-1965 to $25 million in 1965-1966 and $77 million in 1966-1967. In 1966-67 food aid allocations to Ceylon increased from $2 million in the previous year to $15 million.[36] It can be assumed under the circumstances that these amounts were disbursed almost immediately. In 1967-68 food aid disbursements to India were $50 million and in the case of Ceylon they were less than $2 million.[37] This $40 million in assumed decreases in disbursements had to be replaced with other types of bilateral assistance. In 1968-69 food aid to the Colombo Plan region dropped by a further $12 million.[38] One is forced to conclude

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[35] CIDA Annual Review 1969. p. 34.

[36] 1966-1967 Annual Review, External Aid Office. p. 30-33.

[37] CIDA Annual Review 1967-68. p. 36.

[38] CIDA Annual Review 1969. p. 32.

that Canada's performance in 1966 which nearly doubled the previous year's performance as far as the official flow of resources is concerned (see Table 4) was artificially inflated due to a timely response to a crisis situation. In the ensuing two years it probably took a great deal of effort to reorient the flow of official resources from emergency food aid into more development oriented projects.

An attempt at reconciling Canadian budgetary statistics with CIDA's statistics indicates that in addition to the replacement of temporary food aid in 1967 there may have been a problem with disbursements in late 1968. In the first nine months of the fiscal year 1968-69 budgetary figures indicate that CIDA expenditures totalled $72 million.[39] The budget figures for the full fiscal year indicate CIDA's expenditures totalled $141.3 million for the full year.[40] As a result virtually half of CIDA's expenditures took place in the last three months of

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[39]Government of Canada, Statement of Financial Operations for December 1968 and the first nine months of the Current Fiscal Year, Table II.

[40]Budget Speech delivered by the Minister of Finance in the House of Commons, June 3, 1969. The Queen's Printer, Ottawa, 1969. p. 183.

the fiscal year, i.e., during 1969. As a result one can assume that the disbursement problem was temporary and that the 1968 results were artificially deflated. Concomitantly, the 1969 figures will be artificially inflated. Recent figures from the Department of Finance indicate that during the first eight months of the fiscal year 1969-70, CIDA's expenditures totalled over \$140 million.[41] When this amount is added to the \$69 million in the first three months of 1969 CIDA grant operations, which are the only ones appearing in the Statement of Financial Operations, it is apparent that they will exceed \$200 million in 1969. When conservative assumptions are made about the net transfer effect of ECIC's operations (say \$25 million) advances to multilateral programs (say \$35 million because these programs were allocated \$35 million in the fiscal year 1968-69) and disbursements under the soft loan program (say \$50 million compared to the increase in special loan assistance to developing countries during the fiscal year 1968-69 of \$48.5 million),[42] the official transfer of financial resources from Canada to the less-developed countries should approximate US \$300 million in 1969.

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[41] Government of Canada, Statement of Finance Operations for November 1969 and the first eight months of the current fiscal year. p. 6.

[42] Budget Speech, op. cit. p. 235.

In answer to the earlier question as to whether there is any indication of a levelling off of Canadian aid intentions and objectives the answer is "probably not" since 1969 is expected to reveal a startling improvement in performance though it will be due to some extent to structural and disbursement problems in the two preceding years.

CHAPTER 3

MOTIVATION

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MOTIVATION

"It is impossible to escape the impression that one of the very real problems that plague Western foreign aid policies is deep uncertainty and confusion about the nature and purpose of foreign aid."[1] Goran Ohlin gathers this impression from a comprehensive study for the OECD of the aid policies of developed countries. He shows that a few countries have tried, with a certain amount of success, to define the nature and purpose of foreign aid.[2] This cannot be said for Canada.[3] "As it has emerged gradually, the Canadian aid program has not been endowed with an explicit doctrine. Strategic motives and considerations of national security have been of little account. Until recently, Canadian aid was largely in the form of grants and it has been

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[1]Goran Ohlin, Foreign Aid Policies Reconsidered, Development Centre Studies, Development Centre of the OECD, Paris, 1966, p. 13.

[2]The British have done so in a series of three White papers and the French in the Neanneney Report of 1963.

[3]CIDA is, however, currently preparing a White paper on the subject which should help overcome this deficiency.

suggested that the predominantly humanitarian motives for Canadian aid were expressed both in this fact and in the relatively modest proportions of Canadian aid."[4]

In 1962 Irving Brecher pointed out that "economic aid to the less-developed world has not commanded vigorous support as an instrument of Canadian policy,"[5] but felt that this was changing. He too pointed to altruistic motives and reaches the same conclusion as Ohlin:

> We help our less fortunate fellow man in other countries because considerations of humanity leave us no alternative . . . On the other hand, the humanitarian motive for giving aid probably explains in part why Canada's program has not assumed larger proportions. The truth is that men and legislatures are also moved by considerations less lofty than those of humanitarian giving.[6]

Dr. F. J. Chambers has pointed to what may be the reasons why aid programs based on altruistic motives remain small.[7] Primarily the amount of money devoted to foreign aid is a political

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[4]Ohlin, op. cit., p. 48.

[5]Irving Brecher, "Canada's Foreign Economic Aid", The Canadian Banker, winter, 1962, Vol. 69, No. 4, p. 39.

[6]Ibid. p. 44. Prof. Brecher's observation may be the source of Ohlin's comment.

[7]F. J. Chambers, from the text of an address at the University of Ottawa on September 20, 1966. Dr. Chambers has, since presentation of this paper, taken up the post of Director of CIDA's Planning Division.

decision. This political decision is influenced by three factors. First there is a growing disillusionment with the results of foreign aid which Dr. Chambers feels is particularly evident in the United States at present. Second there is an increasing awareness of the poor classes in the developed countries themselves and the political necessity of helping them. Finally, he feels that the increasing demand for capital goods within the developed countries combined with the various legal restrictions against the natural flow of capital imposed by both the developed countries and the LDCs discourages the flow of resources to the LDCs. It is clear from Dr. Chambers' observations that it will take more than altruistic motives to encourage the flow of aid necessary to encourage rapid development in the LDCs.

Very little work has been done in determining the attitudes of the Canadian public toward foreign aid. However, a survey for the Canadian Peace Research Institute conducted by Jerome Laulicht in 1965 concluded that only 12 per cent of the public favoured more foreign aid at that time while 73 per cent of politicians favoured more foreign aid at that time.[8] The Hon. George Hees may have been aware of this survey when he advocated

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[8]Blair Fraser, "Our Quiet War Over Peace: Politicians vs the People", MacLean's, January 23, 1965, pp. 18-19.

reducing the foreign aid program in September, 1966.[9] It can be assumed that Mr. Hees received severe criticism from various interested political pressure groups as he later withdrew his statement.[10]

Both Professor Briant[11] and Professor Brecher appear to be aware of the need to stress other motives than those which

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The article stated in part: "Foreign aid is another of the conventional pieties of Canadian politics. In parliamentary debates on foreign affairs it is customary for Opposition speakers to urge the Government to increase foreign aid; when the Government does this, it's reproached for not giving even more.

"Only about one in eight Canadian voters would agree with this attitude, according to the survey. An additional one in five would be willing to increase aid if disarmament could be achieved by devoting to this use some of the money saved from the defence budget. About a third don't object to the present aid program but consider it sufficient. (The survey was before the most recent increase.) One-quarter would like to see the aid program reduced; a small handful would abolish it altogether."

[9]Mr. Hees was quoted in The Globe and Mail editorial of September 18, 1966, p. 6, "Some Curious Proposals" as saying: "If instead of placing the whole burden on the people of this country the Government will make sizeable reductions in its foreign aid and domestic building programmes it can materially reduce the additional tax burden it will impose on the Canadian people." The editorial goes on to exorcise Mr. Hees's proposal.

[10]Bruce Phillips quotes Mr. Hees in The Ottawa Citizen of February 16, 1967 as saying, when asked about his statement advocating reduced foreign aid: "Everyone in public life sooner or later makes a damn fool statement . . . I don't know what was in my mind. Just one of those unexplainable things. Maybe I was tired."

[11]See quotation in the Introduction of this thesis.

are purely altruistic if foreign aid is to be increased. Professor Brecher states that "even casual observation suggests that Canada's aid program has provided a relatively simple means of sustaining employment in some of its resource and capital goods industries" and, while admitting that no studies have yet been made to show the short-run and long-run impact of aid on Canadian trade, he feels:

> For the long run, it seems reasonable to assume that economic expansion in the underdeveloped world will be highly conducive to rising Canadian exports.[12]

Dr. Keith Spicer in his book, A Samaritan State? External Aid in Canada's Foreign Policy, attempts to destroy just about every conceivable justification for external aid and finally settles on two rather vague and nebulous reasons which, he claims, provide aid-giving with a rationale that is both stable and utilitarian. His first reason "sees aid as a kind of insurance policy, a premium paid against the risks--also unmeasured, but potentially disastrous--of withholding aid . . . Participation in international development may not guarantee Canada any tangible, verifiable protection against the dangers of a revolutionary world society; but her total abstention from development is certain to

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[12] Brecher, op. cit., pp. 45-46.

prevent her from even appreciating many of these dangers." His second reason is merely the positive form of the first reason. "If we agree that absence from the work of development would be punished by ignorance, we accept almost axiomatically that presence, participation, should in some degree lead to understanding: to understanding of the developing nation's real needs, hopes, fears, prejudices, interests, expectations; to understanding of their mentality, their culture, their society, their government; to understanding, in sum, of their peoples--at every level of life, humble and exalted, to which the day-to-day operations of aid assure a donor access . . . ."[13] Since the validity of this conclusion lies in the realm of political science and international affairs, it will not be disputed, though it must be admitted, that the argument is not too convincing. Dr. Spicer, a political scientist, professes no modesty in disputing the validity of economic arguments in favour of foreign aid.[14] It is true that very little evidence is available to justify economic benefits to Canada in giving foreign aid but lack of evidence does

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[13]Keith Spicer, A Samaritan State? External Aid in Canada's Foreign Policy, University of Toronto Press, 1966, p. 51.

[14]Many of Spicer's economic arguments are based on an article by G. L. Reuber, "Why Canadian Foreign Aid?", International Journal, Vol. 14, No. 1, Winter 1958-59, pp. 11-20.

not prove the inverse proposition either. It is hoped that this thesis will provide some rudimentary, although superficial, evidence of economic benefits to Canada from the aid program.

The most frequently espoused reason for giving aid seems to be the promotion of peace and brotherhood. Aid given for this reason is just as likely, if not more likely, to achieve the opposite result. "It has been fashionable in some quarters to believe that economic development will bring social peace or even world peace, but most of us know very well that economic development is a very disturbing process, and on the contrary produces the very greatest social tensions.[15] The Pearson Commission has added "Development is not a guarantee of political stability or an antidote to violence. Change is itself intrinsically disruptive . . . Nor is development an assurance of peaceful and responsible

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However, he misses the point of Reuber's argument which essentially advocates the setting of the costs of aid against a variety of benefits, economic, political and humanitarian. Costs of various types of aid differ and economic benefits, as well as other benefits, will vary depending on the nature of the aid given, as will be apparent in the analysis of some of the aspects of the aid program in this thesis. Reuber's point is not that there are no economic benefits to Canada in the aid program, but rather that economic benefits exclusively cannot justify aid.

[15]Lewis, Arthur W., in A Reappraisal of Economic Development, edited by Andrew H. Whiteford, Aldine Publishing Co., Chicago, p. 20.

international behaviour . . . history holds too many cases of highly developed or rapidly developing nations which have behaved both aggressively and irresponsibly toward their neighbours . . . Aid for development does not usually buy dependable friends."[16]

Therefore, the Canadian aid program continues without a clearly enunciated but much needed rationale. There is nonetheless some evidence that, in recent years, the basically altruistic motives of the Canadian aid program are being supplemented by other motives which are basically economically motivated. The replacement of Herbert O. Moran, a diplomat, as Director General of the External Aid Office (now CIDA) with Maurice Strong, a young businessman and former president of Power Corporation of Canada, may be indicative of this new orientation.[17] The Hon. Paul Martin, when he was Secretary of State for External Affairs, made it clear in a speech to the Canadian Export Association in September, 1966 that External

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[16]Pearson, op. cit., pp. 7-9.

[17]This observation has been made in a number of papers including an editorial entitled "A Man Who Dared" in the Financial Times of Canada, September 26, 1966, p. 6, which stated in part: "From his beachhead in the External Aid Office he may be able to spread a more realistic attitude among ministers and civil servants, starting with the departments administering export credits and Canadian technology."

Aid funds will be available to Canadian exporters who obtain business in LDCs on the basis of international tender. "We want to help you to identify and take advantage of the opportunities our aid programme provides for you and we want to take more advantage of your specialized knowhow in selecting projects and establishing procedures which will most effectively employ our aid funds . . . In some cases where a Canadian exporter has been the successful bidder following an international tender call, a decision to finance the project or product in question with aid funds does not need to be accompanied by a subsequent domestic tender call in Canada."[18] Trade Minister Robert Winters made a similar point to the same organization on October 17, 1966.[19]

One of the most interesting developments in recent years was the creation of the Centennial International Development Programme (CIDP) which was set up with a grant from the

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[18]From the text of Mr. Martin's speech appearing in Foreign Trade, "Canada's Aid Programs and the Business Community", November 16, 1966, Vol. 126, No. 11, pp. 27-31.

[19]The Financial Post, "How Foreign Aid Men Can Help Exporters", October 22, 1966, p. 3, commented on this speech as follows: "Now exporters will be encouraged to go out and drum up potential business; if they get promising results, Ottawa will find a way to include the countries and products concerned in its aid package."

Centennial Commission.[20] The objective of this organization was to provide a dynamic, international dimension to Canada's centennial celebrations by developing programs to (1) publicize the international development programs of both governmental and non-governmental organizations in Canada, (2) encourage Canadians to increase their support for voluntary agencies including UN organizations already in the field, and (3) increase public awareness of Canada's opportunities to participate in international development programs and stimulate Canadians to recognize their responsibilities as citizens of the world. To achieve these ends, the CIDP intended to mount a public education campaign and develop a speakers bureau of people familiar with international development problems. This campaign was to be particularly directed toward youth. Serious thought was also being given to the establishment of a Canadian International Development Institute which could do research in the area of development problems and act as a channel, similar to the Canada Council, for directing government grants and assistance to voluntary organizations in Canada.

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[20]The comments on this organization are based on a discussion with J. Duncan Edmonds, formerly the Executive Director of the CIDP.

The objectives of the CIDP have not had much influence on defining a meaningful purpose for Canada's aid program but it may have had some success in eliminating the previously mentioned gap between political and public support for the aid programs. The most successful aspect of eliminating this particular gap has been through the organization of the widely publicized OXFAM marches and similar publicity efforts.[21]

[21]In January 1970, I understand, a Bill was presented to Parliament setting up an International Development Research Institute in Canada. No information on this Bill was available to me at the time of writing this thesis.

CHAPTER 4

THE DEVELOPMENT OF CANADA'S BILATERAL PROGRAM

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Canada's bilateral aid program began with the Colombo Plan and remained concentrated in the participating countries of the Colombo Plan for almost a decade.[1] The Colombo Plan was conceived at a meeting of the foreign ministers of the members of the British Commonwealth of Nations, held at Colombo, Ceylon, in January 1950. It was the first such meeting that the newest members of the Commonwealth--India, Pakistan, and Ceylon, attended and naturally enough the problems of these new members were of primary concern.

Under the motivating leadership of Australia, a Consultative Committee on Cooperative Development in South and Southeast Asia was established. After meetings in Sydney, Australia in May 1950 and London in October of the same year,

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[1]The information on the early years of the Colombo Plan is based on Keyfitz, Nathan,"Canada and the Colombo Plan" Behind the Headlines, Vol. 20, No. 5; Elman Russell, Asian Experiment, the Ryerson Press, Toronto 1961, and Spicer, Keith, A. Samaritan State? University of Toronto Press, 1966.

the Committee produced a report entitled "The Colombo Plan for Cooperative Economic Development in South and Southeast Asia". This report surveyed the economic needs and the development programs of the Asian countries. It also examined the extent to which external aid would be needed to carry out these programs. The original estimates of the needs amounted to $5 billion over six years of which only $2 billion could be financed internally. The remaining $3 billion would have to come from outside the area. This report was the original "Colombo Plan" but the term has come to mean the continuing program of co-operation in promoting economic development in the area.

The 1950 report said "The improvement in the welfare of the South and Southeast Asia peoples is a vast human endeavour, and the community of free nations stands to gain immensely by it. The political stability of the countries of the area is possible only in conditions of economic progress, and the steady flow of capital from the more highly developed countries is essential for this purpose. The conception of the Commonwealth countries approach to the problem is that a fresh impetus should be given to economic development in South and Southeast Asia in order to raise standards of living and thus to enlarge the volume of trade around the world from which all countries may benefit."[2]

The Colombo Plan was not and is not, as is commonly believed, an aid program but rather a mechanism for combining the needs of less-developed countries in the area, as expressed in their various national economic development programs, with the aid programs of the more fully developed countries, Britain, New Zealand, Australia and Canada. Later, countries outside the Commonwealth, such as the United States and Japan, and some of the underdeveloped countries themselves, such as India, were to participate in giving aid.

The major organ of the Colombo Plan is that amorphous body, the Consultative Committee. It is an intergovernmental body which exercises general supervision over the execution of the Colombo Plan. Since the inception it has been meeting once a year to allow the various countries to review the progress of the past year and to exchange views on policy matters. No collective policy decisions are taken at these meetings that bind all members, instead bilateral agreements are negotiated, which are the basis for aid.

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[2] Warren, J.H. "The Economics of the Plan", in Canada and Colombo, Queen's Quarterly, Autumn 1954, p. 331.

There is another intergovernmental body, the Council for Technical Cooperation, which meets annually in Colombo. Its activities between meetings are carried on by a small permanent bureau through which pass requests for technical assistance, offers of facilities and experts, and the nomination of individuals.

Finally there is a permanent Information Unit also located in Colombo which assists member governments in publicizing what is being done under the Plan. It also supplements their work with publicity of its own.

When the plan was originated, it included India, Pakistan, Ceylon, the United Kingdom, Australia, New Zealand, Canada and the British territories in the area, Malaya, Singapore, Sarawak, Brunei and North Borneo. Provision was made for the entrance of other countries outside the British Commonwealth and since then Afghanistan, Bhutan, Burma, Cambodia, Indonesia, Iran, Japan, Korea, Laos, the Maldine Islands, Nepal, the Philippines, Thailand, the United States, and Vietnam have joined. Malaysia and Singapore have also rejoined as independent states.

Canada's initial participation was limited to a token $400,000 contribution to technical assistance in 1950. F.A. Berwin in quoting from The Economist of May 6, 1950 and March 4, 1950, indicated Canada's initial reluctance to participate. "Canada is no more than an interested observer" and "In considering possible sources of help the Canadian Government has to make clear, however embarrassing it may be, that not much is to be expected of it."[3] Mr. Mayhew, Canada's representative to the meetings told Parliament "I made it quite clear several times during the conference that Canada's ability to be of help would be severely restricted by its other International commitments",[4] (i.e. NATO).

However, between 1951 and 1961, Canada contributed $395,150,000 in Colombo Plan aid. The reasons for the change in attitude that brought about this increased participation, were undoubtedly political in the first instance.

In early 1950, the major communist threat was still in Europe, Canada was contributing heavily to NATO and to the rebuilding of Europe. China had been taken over by the communists in 1949 and Canada had seen $90 million loaned to China produce no return whatsoever. Mainland China was not then regarded as a threat. The Korean War was not to commence until June and China's participation was not to come until later.

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[3]F.A. Berwin, "Canadian Economic Assistance to Underdeveloped Areas", International Journal, Autumn 1950, p. 312.

[4]Ibid. p. 312.

By early 1951, however, the situation had changed. Canada was heavily involved in the Korean War. The response of other countries to the Colombo Plan (Britain, Australia and New Zealand) was very generous and the United States had embarked on its own aid scheme--Truman's Point Four program. The Colombo Plan, by this stage, was receiving the backing of one very influential Cabinet Minister, Mr. L. B. Pearson. A realization was developing that communism's basic attraction in the underdeveloped countries, was an economic one. Revolutions were fermenting in Malaya, Indo-China and Burma. India, democracy's answer to communism, was starving. The war in Korea was indicating that it might be more expensive to fight a war, even a limited one, than to spend a little money on preventing it in the first place.

There were also humanitarian appeals and economic appeals (on the basis of building markets for manufactured goods and disposal of wheat surpluses). Nonetheless, the most important appeal was undoubtedly a political one--that of effectively combatting communism. This is best illustrated by one of the many speeches on the subject from the floor of the House of Commons. On February 6, 1951, M. Paulin from Beauce said, "If we are to fight communism . . . I know of no other way of doing it successfully. Let us raise the standards of living in underdeveloped countries and their citizens will be much more inclined to shun communistic theories than if we resorted to bombing."[5]

The validity of some of these appeals can be questioned. However, such questions would be irrelevant because what is important here is the effect of the appeals not their validity. The effect was to greatly increase Canada's participation and interest in the Colombo Plan.

On September 10, 1951, Canada, by an exchange of separate notes with India and Pakistan, initiated its part in the Colombo Plan. The notes provided that:

"(1) All aid supplied by the Government of Canada consisting of goods and services shall be made in accordance with specific programs agreed upon from time to time between the Canadian Government and the receiving government.

"(2) Provision is made for Canadian financial assistance to be given either on a grant or a loan basis, depending on the nature of the particular project and the uses of which the goods and services are put.

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[5]House of Commons Debates 1951, 1st Session, Feb. 6, 1951, p. 134.

"(3) The particular terms of each specific program are a matter for agreement between the Canadian and the other governments concerned, subject to the following general provisions covering grant aid and loan aid:

(a) If goods financed by grants from the Canadian Government should be sold or otherwise distributed to the public by the receiving government, 'counterpart funds' are normally to be set up.

(b) The receiving government is to set up a special account for these funds and to pay into it the rupee equivalent of the Canadian expenditures on goods and services supplied in connection with the project concerned.

(c) These funds are to be used to finance the local costs of economic development projects agreed upon by the Canadian Government and the government of the receiving country.

"(4) For specific projects which are agreed to be appropriate for financing by loans, the terms of the loans are to be determined by the two governments, taking into account the commercial character of the project in question, and its anticipated effects on the foreign exchange position of the receiving country."[6]

It can be seen from this statement that two of the major problems facing underdeveloped countries were met directly. The problem of external financing is alleviated by the policy of granting needed goods and services to these less-developed countries who would otherwise have to pay for them with scarce foreign exchange. The problem of internal financing, to pay for local labour and construction costs, was alleviated by the sale of Canadian food and raw material donations, such as wheat, metals, wood pulp, fertilizer and asbestos, to the people and industries in the recipient country. The proceeds of these sales of commodities created "counterpart funds" in the currency of the recipient country. The counterpart funds were used by the government subject to Canadian approval to pay for the internal costs of development as well as alleviating food and raw material shortages.

Similar exchanges of notes took place with other countries.

The budget of Canada's Colombo Plan assistance was approved by Parliament. The general aid policy was designed by

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[6]"The Colombo Plan", External Affairs, April 1953, p. 106.

the External Affairs Department. The review of expenditures to see that they were made in accordance with the intentions of Parliament was made by the Department of Finance and until 1960 the execution and administration of Canada's aid was undertaken by the Trade and Commerce Department, undoubtedly to ensure as much as possible that Canadian aid was additional to normal trade with LDCs and possibly to receive the powerful support of the Minister of Trade and Commerce, C. D. Howe.[7] Since 1960, this unweildy process was somewhat simplified when External Affairs took over the execution and administration. An interdepartmental committee of senior civil servants still considered all projects and the Cabinet approved each individual capital aid project.

The administration of the Colombo Plan in Canada was, until 1960, supervised by the International Economic and Technical Cooperation Division of the Department of Trade and Commerce, under the direction of Mr. R.G. Nik Cavell. This bureau located technical experts to serve abroad, and arranged for training programs in Canada for trainees from abroad. Mr. Cavell made regular trips to the Colombo Plan area to inspect

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[7]Spicer, op. cit., p. 95.

the effect of Canadian aid, examine newly proposed projects and to renew contacts with members of these nations' governments. When visiting the site of a new economic development project he was accompanied by Canadian consulting engineers to test the feasibility and soundness of the projects. Finally he was in charge of the publicity for the Colombo Plan in Canada. This involved reports to Parliament, pressure on administrative and executive committees for appropriations, and the writing of articles in Canadian journals and magazines to create an awareness among the public of the Colombo Plan and its accomplishments.

A typical aid project started as a request from one of the LDCs. The LDC decided which of the tasks facing it would benefit most from Canadian aid. The request is made through regular diplomatic channels (i.e., the High Commissioner or Ambassador). The request was forwarded to Ottawa where it is assessed and approved. This process ensured, to a certain extent, that foreign aid was politically neutral. Projects suggested by donors rather than recipients, would tend to influence the direction of development and create dependence on the donor country to a greater extent.

Canada's Colombo Plan aid was largely in the form of goods and services and no monetary transfers were made between countries. Each project involved contributions from both the recipient and donor country. For instance, a Canadian technician was paid in Canada but he was housed and his living expenses are paid by the country in which he worked though counterpart funds may have been used. Most of the equipment was bought in Canada though component parts were sometimes bought elsewhere. In some cases a non-Canadian technician was sent (i. e., an English trawler captain was hired to go to Ceylon). Therefore, as a rule, Colombo Plan aid did not affect Canada's balance of payments directly. It can be argued that an indirect effect on the balance of payments was a reduction in exports because the recipient countries would have bought some of the capital goods from Canada on commercial terms. In answer to this it has been argued that Colombo Plan aid, through the demonstration effect, increases exports indirectly. For example, Pakistan received six Beaver aircraft from Canada and was so impressed with their performance that five more were purchased.

This rather complicated method of giving aid was based on a combination of experience and pragmatism. Canada's experience with loans to LDCs, particularly with the $90 million loan to China, had left Canada with a distrust of straight loans not destined for a specific purpose. The failure of many highly publicized but ill-conceived development schemes, such as the Tanganyika "ground nuts" fiasco, left the reasonable desire to thoroughly examine any project in which Canada was asked to participate. The dire food shortages in India and Pakistan in the early 1950's led to the contribution of $70 million worth of aid in the form of wheat and flour to be sold for "counterpart funds".

Of almost $400,000,000 in Colombo Plan aid given between 1951 and 1961, nearly $350,000,000 of it had been given to three countries, India ($197 million), Pakistan ($129 million), and Ceylon ($20 million). The reason for the concentration of aid in these three countries hinged on several factors. Canada did not have the same proximate interest in Southeast Asia as, say, Australia. However, Canada did have a political interest in the continuation and solidarity of the British Commonwealth in which these three countries are members. Another important factor was the relative political stability in these three countries, in comparison with Indonesia, Viet Nam, and Cambodia. Though Canada had a major interest in combatting communism in these countries, it did not want to give aid where the political situation is so shakey that the money would be wasted (as in China). The major portion of the aid to Malaysia, another Commonwealth member, has come since political stability was established there.

Initially, Canada's own development experiences were reflected in the four areas which are emphasized in the capital aid given through the Colombo Plan. The most important contribution was in the generation and distribution of electric power, which reflected Canada's own reliance on electric power. Canada's historic transportation problems and the efforts made in overcoming them were reflected in the emphasis on aiding the transportation and communication systems of these LDCs. Aerial and other surveys reflected the importance these played in the development of Canada. Finally, Canada's experiences with the atomic reactor at Chalk River led to its involvement in this phase of development assistance. This emphasis placed by the capital assistance programs is illustrated by the Aerial Resources Survey, the railway project, the Warsak Hydro-electric and Irrigation project and the Dacca-Chittagong Power Distribution Link in Pakistan, the Gal Oya project in Ceylon, the Mayurakshi Power and Irrigation project, Chittarajan Locomotive Works, Umtru Hydro-electric project and the Atomic Reactor in India.[8]

In 1958, the Canadian bilateral program began to expand into other parts of the Third World.[9]

In the period 1958-61, nearly $10 million was given to the West Indies Federation consisting of Jamaica, Trinidad and Tobago, Barbados and the former British islands in the Windward and Leeward groups. This program was largely influenced by political factors due to Canada's interest in promoting the Federation and the fact that these Commonwealth countries were in close physical proximity to Canada. This interest is illustrated by the fact that nearly $7 million was spent for strengthening inter-island transportation with two passenger carrying freight ships, a deep water dock for St. Vincent and loading equipment for several of the islands. After the breakup of the Federation in 1962, separate programs were established for Jamaica, Trinidad and Tobago, Guyana and a common fund was

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[8]For details on these projects see Spicer, op. cit. and Elman, op. cit.

[9]The information on the Caribbean program and other programs was obtained from Spicer, op. cit., a pamphlet entitled "Canadian International Development Agency," No. 4, Commonwealth Caribbean Assistance Programs, Government of Canada, Queen's Printer, Ottawa, 1969, and CIDA Annual Reports.

established for the Leeward and Windward islands plus Barbados and British Honduras. By the fiscal year 1968-69, annual allocations increased to $22 million.

The emphasis on encouraging the islands to retain some form of cooperation was continued by the assistance given to the University of the West Indies. In addition to a $700,000 students' residence at St. Augustine, Trinidad, which originated under the program for the former West Indies Federation and the provision of $125,000 for the library at Cave Hill campus in Barbados, a $5 million program over five years was introduced in 1966 for the University of the West Indies to include construction of buildings, provision of Canadian professors to the University and scholarships for postgraduate work in Canada (21 in 1968-69) and third country scholarships for West Indian students to study at the various campuses of the University in the West Indies (93 in 1968-69). This was the first time Canada provided scholarships at an institution outside of Canada. Finally, Canada's participation in the new Caribbean Development Bank is no doubt motivated by a continued interest in encouraging economic and political cooperation between the islands.

In 1960 the new Caribbean program was followed by the establishment of a technical assistance program for the

Commonwealth countries of Africa. The Commonwealth tie was again evident for these newly emerging nations. By 1968-69 increasing emphasis was being placed on capital projects particularly in pre-investment studies and feasibility studies emphasizing the development of natural resources and allocations in the fiscal year 1968-69 exceeded $25 million. In 1969-70 the allocations include $9 million for Nigeria, $7.25 million for Ghana, $3.5 million for Tanzania, $3.2 million for Kenya and $2.3 million for Uganda.

Finally, in 1961, a program for Francophone Africa was introduced. Starting as a fairly nominal program, total allocations increased to $57 million by March 31, 1969, of which nearly half was allocated during the fiscal year 1968-69. The allocation for 1969-70 is $30 million. The growth of this program particularly in recent years can be attributed more to domestic politics than to external politics. Since one-third of all Canadians are of French origin the previous concentration of aid flows to Commonwealth countries tended to ignore internal political realities in Canada and to limit the pool of human resources Canada could draw upon particularly in the field of technical assistance.

Latin America has been the one major area of the Third World which Canada has ignored in its bilateral program. A number of factors probably influenced a reluctance to embark on a program in Latin America. Knowledge and familiarity with Latin America has been notably missing in the Canadian public awareness, Latin America has traditionally been regarded within the sphere of influence of the United States, and assistance to Latin America has flowed through various organs of the Inter-America system such as the Organization of American States and the Inter-American Development Bank which have been organizations of which Canada has been traditionally wary.[10] Per capita incomes are also higher in Latin America compared to the rest of the Third World. Finally, the language barrier undoubtedly has been a hindrance to developing a substantial program particularly in the field of technical assistance. Nonetheless, in 1964[11]

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[10]I remember vividly a classic statement by a retired civil servant at a meeting of the Canadian Institute of International Affairs on Latin American policy in Ottawa during 1967 when he recommended that Canada would be advised to continue the policy he recommended in the 1920's concerning the Pan American Union. "To obtain maximum political influence Canada should always look as though it was on the brink of joining the OAS but never quite take the fatal step."

[11]Inter-American Development Bank Annual Reports for 1967 and 1968.

Canada took an initial step toward assistance to Latin America by allocating $10 million of development loan funds to be administered by the Inter-American Development Bank (IDB) which submits and assesses proposals submitted by member countries before submitting them to CIDA for final approval. Since that time a total of $50 million has been made available for projects in Latin America.

These funds which can be loaned at zero per cent interest over 50 years with the IDB charging the borrower 1/2% interest commission for administration. The funds have not been utilized very rapidly. By the end of 1966 less than $9 million had been committed. In 1967 three loans totalling $18, 667, 000 were signed and in 1968 an additional three loans totalling $18, 667, 000 were signed. By the end of 1968 commitments totalled $39, 843, 000 had been committed but only $2, 724, 660 had been disbursed. In addition, ECIC made $15 million available for parallel financing in 1965 but by the end of 1968 none of this amount had been committed. It would seem that there are many difficulties in these types of arrangements and that a direct bilateral program in Latin America could achieve better results. It can hardly be argued legitimately that the price of Canadian goods and services is not competitive, particularly in view of the success ECIC has had in channelling long-term supplier credits into Latin America on a bilateral basis (see Chapter 7).

The highly publicized Ministerial mission to Latin America may bring about a change in aid allocation to Latin America though the only effect to date seems to be the closure of some of the Canadian Embassies to Latin America.

In spite of the dispersion of Canada's aid efforts in the 1960's described above, the Colombo Plan region still remains the major area of concentration for Canadian aid. By the end of the fiscal year 1959-60, allocations to the Colombo Plan region totalled $348, 576, 100 and in the fiscal years 1960-61 to 1964-65, an additional total of $244, 606, 800 was allocated to the region. Except for an allocation of $92, 598, 100 in the fiscal year 1965-66, annual allocations have subsequently exceeded $100 million per fiscal year reaching a peak of $158, 786, 700 in the fiscal year 1966-67. By the end of the fiscal year 1968-69, total allocations to the Colombo Plan region exceeded $1. 1 billion. This can be compared to total allocations of $95. 1 million to Commonwealth Africa, $81. 5 million to the Commonwealth Caribbean, $57 million to Francophone Africa, and $54. 5 million to Latin America. Consequently, the Colombo Plan region has received more than 85% of total Canadian aid allocations.

However, the pattern has changed markedly in recent years. In the fiscal year ending March 31, 1969, allocations of both grants and soft loans under the bilateral program totalled \$227.6 million of which the Colombo Plan region received 55.4%, the Commonwealth Africa program received 11.2%, the Commonwealth Africa program received 9.7%, the Francophone Africa program received 9%, and Latin America received 4.8%.[12]

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[12]These figures do not add up and do not necessarily coincide with previous figures given because substantial unallocated contingencies are built into each program and have, in some cases, been carried over from previous years.

CHAPTER 5

AN EVALUATION OF CIDA'S ORGANIZATION POLICY AND PERFORMANCE

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AN EVALUATION OF CIDA'S ORGANIZATION, POLICY AND PERFORMANCE

"The extraordinary instability of staff and structure since the mid-1950's suggested plainly that Canada's aid administration was floundering . . . At no time during the ten years after Colombo can one identify a serious official attempt to assess underdevelopment as an entirely fresh challenge, demanding a global review of priorities in allocation of foreign aid resources. Never in a lucid and systematic way did governments try to fix attainable goals for Canadian aid or study is practical integration with other instruments of foreign policy".[1] Keith Spicer in his book A Samaritan State? has vividly described in considerable detail the administrative problems leading to the formation of the External Aid Office (EAO) in 1960 which centralized all aspects of the transfer of official resources to the less-developed countries except for

[1]Spicer, op. cit. p. 102-103.

contributions to multilateral agencies and long-term export credits under one agency reporting to the Under-Secretary of State for External Affairs. Spicer also goes on to discuss the administration of the External Aid Office and it would be redundent to repeat his extensive and well documented description for the purposes of this thesis.

Spicer did, however, point out many additional changes needed in the organization of the EAO and I shall enumerate some of these suggestions and show the extent to which they have been taken into account in subsequent administrative reorganizations. The impetus for these changes came undoubtedly from the new head of EAO, Maurice Strong, who was appointed in the Fall of 1966 and was symbolized by the change in EAO's name to the Canadian International Development Agency (CIDA) in late 1968. At the time CIDA was created, Strong became President and the Agency reported directly to the Secretary of State for External Affairs removing much of the departmental influence exerted by External Affairs when reporting was through the Under-Secretary of State.

Spicer pointed out that "no direct machinery exists for either program evaluation or liaison with Canadian Voluntary

Agencies"[2] at the time his book was published. In April 1968, a division for non-governmental organizations was set up in CIDA with a budget of $5 million to evaluate and in certain cases supplement the budgets of non-governmental organizations. These organizations who contributed a flow of about $35 million to less-developed countries in 1968[3] often achieve far greater returns in terms of dollars spent than official government aid. In 1968-69, $2, 374, 360 was given to the Canadian University Students Overseas (CUSO) which started sending volunteers abroad in 1961 and had 1, 000 volunteers overseas in 1968. Unlike its American counterpart, the Peace Corps, its volunteers do not offer their services free. The recipient country pays the normal teachers' salary in the less-developed country to these volunteers. This has one enormous advantage. Under the system of providing free teachers in some countries the Peace Corps encourages the use of foreign volunteers when school budgets are tight, leaving local teachers

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[2]Spicer, op. cit. p. 112.

[3]Strong, Maurice F. Press release from CIDA entitled "Text of Transcript of Audio-Visual Presentation, made by Mr. Maurice F. Strong, President, CIDA, to the House of Commons Committee on Defence and External Affairs on Tuesday, April 19, 1969".

who in some countries are well trained, without jobs.[4] An additional $311,000 was allocated to the Canadian Executive Service Overseas (CESO) which sends retired Canadian businessmen to less-developed countries where they serve for free while the recipient country provides housing and local costs. The success of this program is yet to be demonstrated though a few classic success stories are already circulating in development circles. One key advantage of using retired executives is that they have had experience with more primitive techniques than their younger colleagues from developed countries and can more easily promote change at a level more consistent with the technological needs of the less-developed countries. Such needs are often more oriented toward labour intensive rather than capital intensive techniques[5] with which CESO's younger

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[4]This is particularly true in the Philippines where adequately trained teachers are not in short supply. The Peace Corps is aware of this problem and is trying to reorient their program to technical teachers where there is a shortage but fear they would lose the enthusiasm of the young volunteers who would have to be replaced by older, experienced technical school teachers at wages existing in developed countries because they usually have families to support. There are no CUSO volunteers in the Philippines. The above observations are based on private discussions with Filipino teachers and Peace Corps volunteers.

[5]Lewis, Arthur W. "Economic Development with Unlimited Supplies of Labour", in The Economics of Underdevelopment, edited by A. N. Agarwala, and S. P. Singh, Oxford Univ. Press, 1958.

colleagues are familiar. They have an additional advantage in age which cannot be overlooked when giving advice in many less-developed countries. Another grant was made to the United Church Missions of Canada for manufacturing portable drill rigs and for training well diggers in India. This program is one of the most important efforts in development in recent years and was undertaken at a very small cost.[6] Finally, the Canadian Teachers' Federation received $75,000 for their programs abroad.[7]

Spicer also made a case largely based on internal Canadian political realities for increased aid to Francophone Africa.[8] CIDA has responded to this recommendation by the significant increases in aid allocations to Francophone Africa in recent years as indicated in Chapter 4 of this thesis.

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[6] A conversation with David Hopper, an administrator with the Rockefeller Foundation in India, vividly emphasized for me the benefits of the well drilling program, particularly in the state of Bihar.

[7] My wife will be teaching new methods in the teaching of social sciences to Philippine teachers in a six-week course in Baguio this summer. To get a teacher who has used these methods for many years will thus cost about $10.00 for plane fare and a small book allowance.

[8] Spicer, op. cit. p. 56-61.

Spicer has also pointed to the inadequacy of Canada's field administration, and recommends postings of aid officials in recipient countries of engineering and technical assistance representatives. "Plainly this lamentable gap [in administration] invites some scheme of alternating postings between Ottawa and recipient countries, in the manner of the diplomatic and trade services. Administrative and technical judgements cannot be made in isolation from the peculiar economic, political and social realities of underdeveloped nations; and only a professional career service could affort to train officers abroad in the unique problems on a systematic basis."[9] My own observations abroad confirm this need. In the past, External Affairs officers have handled aid work and at some posts this utilizes most of their working time. Though some officers do a commendable job, many are uninterested, uninformed and untrained in aid administration because their long-term career prospects require a different interest, orientation and training. CIDA has taken some initial steps in this direction during 1969 by attaching CIDA staff to Canadian diplomatic missions abroad.[10]

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[9] Ibid. p. 83 and 116-117.

[10] Strong, op. cit. p. 34.

Another point emphasized by Spicer is the need for all responsibilities for the official flow of resources to less-developed countries to be grouped under one head, presumably CIDA.[11] One step in that direction was taken by the establishment of a division in the Economics and Planning Branch of CIDA, with responsibilities for multilateral programs[12] though the ultimate responsibility still rests with the Department of Finance. There has been no integration of the export financing program with CIDA's activities. In fact these activities have been further divorced by the reorganization of ECIC as the Export Development Corporation. This new organization is discussed in Chapter 7, and the need for better coordination arising out of the need for a coordinated approach to the debt problems of the less-developed countries is also discussed in that Chapter.

Finally, Spicer points to the need for better follow-up. "The absence of serious Canadian evaluation and in many cases of sustained Canadian interest makes it impossible to conclude that they [resources] were used effectively. Doubtless their

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[11] Spicer, op. cit. p. 110.

[12] Strong, op. cit. p. 23.

immediate economic benefit to Canada is demonstrable; several of them brought short-term employment to skilled Canadian workers in times of recession. But their contribution to the recipient's economies generally escapes measurement because Ottawa lacks the human resources to verify their use."[13] The problem goes even farther than this. Not only should CIDA ensure that the resources are put to the use intended but it needs to know if the projects, equipment, commodities (or at least the counter-part funds) and technical assistance have developed the economic and social potential of the less-developed countries for the benefit of their own people which Strong has stated to be the objective of CIDA.[14] With the increasing use of cost/benefit techniques by CIDA[15] it is necessary to know whether the built-in assumptions and judgements on everything from cost estimates to yield projections are correct so future projects can be better prepared and analyzed. Also there are indirect benefits which are often overlooked in the initial analysis or can only be guessed on the basis of experience. This problem does

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[13]Spicer, op. cit. p. 151-152.

[14]Strong, op. cit. p. 7.

[15]Ibid. p. 34.

not occur with CIDA's programs alone, this sort of work also needs to be done for the suppliers' credit program and for the multilateral agencies as pointed out in Chapters 6 and 9. CIDA's organization chart[16] shows a Liaison and Evaluation Division but a perusal of CIDA's telephone directory shows the division to be sparsely staffed and I understand that the work of the division largely relates to technical evaluation of proposed projects. At the end of this Chapter some sparse evidence of evaluation will be discussed which should place more emphasis on the need for increased evaluation.

CIDA's bilateral program (the multilateral program is discussed in Chapter 9) consists of three major facets, the capital programs, the commodity programs and the technical assistance programs. Capital projects run from large scale hydro dams to single cobalt therapy units for hospitals. Normally, the goods must be imported from Canada and, currently, must meet a Canadian content requirement of 66 2/3%. Insurance and shipping costs of these goods must normally be met by the recipient. Local costs can be paid up to an amount of 25% of the project's cost in special cases.[17] Basically, therefore, the

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[16]CIDA Annual Report 1969. p. 54

[17]Strong, op. cit. p. 12.

Canadian bilateral aid is tied. The advantages and disadvantages of tied aid will remain a contentious issue for a long time. Since this issue is so important it is given separate treatment in Chapter 8. Local cost financing is a related issue but can be treated briefly here.

Canadian aid has always been regarded as a transfer of physical resources, though the DAC measures the financial equivalent of these resources. In Strong's recent presentation he stated that "As you are aware, our aid program is concentrated in those areas in which we feel Canada has special interests and where Canadian resources can best contribute to development".[18] However, most projects cannot be accomplished without a local cost contribution by the recipient government. Many of these less-developed countries suffer from a shortage of internal development resources to finance development. This may be because there is a real shortage of capital or an imagined one,due to heavier expenditures on armaments than even Canada spends,or taxation policies which leave certain classes better off than equivalent Canadians whose taxes pay for aid. In most cases, however, there is a real shortage of internal

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[18]Ibid. p. 12.

development resources--but an economic judgement in the case of each recipient has to be made because the shortage of local financing resources does not apply to all LDCs. If Canada or any other developed country provides local costs it does not really provide local funds it merely makes a payment to the LDCs central bank foreign exchange fund. The developing country then creates local currency and meets the foreign exchange demand created by this essentially inflationary process out of the foreign exchange reserves of the central bank. If a country has ample foreign exchange reserves or if the marginal propensity to import is minimal or for that matter if the exchange rate is artificially high, the real need for local cost financing by the donor may be non-existent. If strain on the balance of payments is real, and such cases get less as the above caveats are taken into consideration, there is a legitimate case for paying local costs. The easiest way for solving this problem is through commodity aid which can be used for the creation of counterpart funds to finance the local costs of development and meet the increased demand for imports. Commodity assistance will be discussed further below. After all this has been said there may still be cases where commodity assistance from Canada cannot solve the need for local costs such as in a rice-eating country whose marginal propensity to import is reflected in increased rice imports. Canada then has to make the hard decision to either pay for local costs through a financial transfer or to eliminate its aid program. Such a decision enters the realm of politics and I can only offer the personal opinion that if the project has high economic benefits to the recipient and offers either political advantages to Canada or particular economic benefits to the Canadian exporters then local costs should be paid.

The question of payment for freight and insurance is a different matter. If the aid program transfers physical resources to the less-developed countries then the goods are not transferred by sitting at a dock in Montreal. Though Canada does not have a merchant fleet, insurance facilities are available in Canada and a large portion of shipping costs return directly to Canada in the form of seamen's spending in Canada, fuel sold to ships, loading charges accruing in the form of salaries to dock workers and port charges.[19] Elimination of the prohibition on the payment of insurance and shipping costs would also simplify administrative problems of capital projects which can be held up

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[19]A Canadian shipping executive has estimated for me that easily 40% of shipping expenses return directly to the exporting country.

awaiting payment for shipping expenses by the less-developed country and the danger of delay arising from using substandard or undependable shippers.

Capital projects are financed either on a grant basis or with development loans. Development loans are made currently at either zero per cent over 50 years including 10 years grace or 3% over 30 years including 7 years grace. Determination of how capital goods are financed is made on the basis of the less-developed country's economic situation. Except for the wheat loans to India and Ceylon in the late 1950's, Canada did not begin a development loan program until the fiscal year 1964-65. In that year $50 million was allocated for development loans and remained at that annual level until 1967-68 when the annual loan allocation was increased to $90 million and 1968-69 when the allocation reached $100.6 million.[20] Thus in 1968-69 development loans accounted for 44.2% of total allocations for bilateral programs. Since 1951 allocations for development loans have made up 26% of total allocations under the bilateral program.

The introduction of the soft loan program was motivated by a number of factors. First loans, no matter how soft, do

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[20] CIDA Annual Report 1969.

not bear the psychologically debilitating effects for the recipient country such as those grants are supposed to create. Thus a zero per cent loan over fifty years with ten years grace may have a grant element as defined by DAC well in excess of 90% but its psychological impact on the donor is better. Secondly, there may have been a need seen for assistance falling somewhere between 6% ECIC loans and pure grants. This "third window" concept, particularly in the case of the 3% loans over 30 years with 7 years grace may have been attractive to exporters who could visualize it as support for exports of capital goods which could not compete at ECIC terms and we being undercut in the credit race by other countries granting supplier credits. The Export Credits Guarantee Department (ECGD) of the United Kingdom was making suppliers' credits available at 5.5% in 1966 and the interest rate on suppliers' credits from the Export-Import Bank of Japan were as low as 4%.[21] However, the most important factor may have been that loans do not appear as expenditures in Canada's federal budget but are reflected in

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[21] Export Credits and Development Financing, Part II, National Export Credit Systems, United Nations, New York, 1961, p. 41 and 65.

non-budgetary transactions under the heading loans to national governments.[22] This type of accounting makes it easier to expand the soft loan portion of the aid program without directly affecting the federal government's budget as it is generally understood.

Commodity aid takes the form of both food aid and the provision of industrial commodities, such as copper, aluminum and asbestos. By the end of the fiscal year 1967-68, disbursements of aid in the form of industrial commodities totalling more than $187 million was disbursed to India, Pakistan and Ceylon. By the end of the same fiscal year disbursements of food aid totalled $375 million most of which went to the same three countries though small amounts went to Ghana, Tunisia, Morocco, Algeria, and Senegal.[23] During the early stages of aid to India a great deal of commodity aid was poured into India for which counterpart funds built up. These funds were not spent immediately

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[22]See Budget Speech delivered by Hon. E. J. Benson in the House of Commons, June 3, 1969, Queen's Printer, Ottawa, 1969.

[23]CIDA Annual Review 1967/68. The most recent CIDA annual review does not report disbursements of commodity aid but shows the allocations for 1968-69. Since allocations and disbursements cannot be added, no up-to-date cumulative figures are available for disbursements.

and created what was alleged to be a potentially large inflationary problem if the funds were utilized.[24] Clearly the buildup of counterpart funds was due to the necessity of meeting an immediate problem before sufficient development projects were available or before sufficient priority was attached to development over welfare to justify using these funds for development purposes.

However, there is no reason today, with the demonstrated need for local cost financing in some countries, why the rather discredited technique of commodity assistance and counterpart funds could not be reviewed. To use this technique effectively commodity assistance should be carefully coordinated with any justifiable requests for local cost assistance on a capital project. Nonetheless, emergency requirements such as food shortages should not be held up awaiting the identification of capital projects requiring local cost financing. In these emergency situations it would be advisable to forego establishing counterpart funds due to the future inflationary overhang and the accounting difficulties which can arise due to any existing inflationary conditions in the

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[24]Lewis, John P., Quiet Crises in India, Doubleday and Company Inc., Garden City, New York, 1964, p. 345.

less-developed country. Close coordination through consultative groups and aid consortia would be necessary to ensure that one country's bilateral activity does not conflict with another country's bilateral activity in this field or make its efforts redundant. From the point of view of Canada, advice from Trade and Commerce representatives should be sought to ensure, as far as possible, that commodity assistance does not replace existing markets unless the balance of payments of the recipient has deteriorated significantly due to a decline in export earnings in which case financing of existing rather than new imports makes additionality impossible. It should, however, be possible when imports are increasing in the recipient country to allocate commodity assistance in such a way that it is additive to the donor's exports without relying on specific additive clauses which are alleged to have been problem in the past.

Canada's technical assistance program has three aspects which are handled by three separate divisions in Canada. The Education Division recruits and administers Canadian teachers abroad. During the calendar year 1968, Canadian teachers sponsored by CIDA in LDCs totalled 918.[25] Of these, 309 were

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[25]Figures on all aspects of technical assistance are taken from CIDA Annual Review '69, p. 34.

sent to Commonwealth Africa and 372 were sent to Francophone Africa. This concentration in Africa indicates that Canada is making a reasonable choice as to where Canadian teachers are most needed. Galbraith has pointed out, as elaborated in the Introduction of this thesis, that the needs of developing countries are different and that Africa generally requires a much higher degree of technical assistance. CIDA's Advisers' Division recruits and administers Canadian advisers abroad in fields other than education. Canadian advisers can run the gamut from an economic adviser in Zambia, to an hydrologist in Trinidad, or a doctor in Viet Nam. In any case the benefit of their services can vary greatly and the decision as to whether an adviser is necessary or not will be very difficult. During the calendar year 1968, 370 advisers were sponsored by CIDA. Again the concentration was, as it should be, in Africa with 161 being posted in Commonwealth Africa and 113 in Francophone Africa. The third division is the Training Division, which handles the placement of trainees from less-developed countries in various institutions in Canada. Trainees are sent to Canada for short courses in cooperatives and nursing or to seemingly interminable courses starting at the BA level and finishing with medical degrees or doctorates in geography. In the calendar year 1968, 1,795 trainees were placed in Canada. Of this number, 1,280 came from the Colombo Plan region and a further 529 came from the Commonwealth Caribbean. Certainly, neither of these two regions are short of college level graduates and if the students are on short courses it might be much cheaper to train them within the region or their home countries. There are no published figures available either on the type of trainees sent to Canada and the number which actually return to their home countries to make full use of their talents for prolonged periods. It is not uncommon to meet Asian or West Indian immigrants in Canada, the United States or the United Kingdom who have received the college level training under our aid program enabling them to find jobs outside their home countries. It can thus be questioned whether a college level training program is really aid or part of the donor country's immigration program. It can even be considered negative aid because these young immigrants are often among the brightest and best educated students that a less-developed country has produced. Increased third country training programs such as are undertaken in the Caribbean is one possible solution. Another might be transferring the schools and universities to the less-developed countries. The problems are many and CIDA is just beginning to face them.

Finally, the whole role of technical assistance should be analyzed more thoroughly. Sir Robert S. Jackson has pointed out in his study of the United Nations Development System that "It appears in the nature of technical assistance to fall short of the ideal of a single, rapid and efficient transfer of skills. In other words, too much has been expected of the method".[26] In looking for solutions he points to the need for a transfer gradient that is less steep, i.e., an intermediate technology, and to the need for greater attention to be devoted to fitting new technology to the indigenous culture. There is no way yet to judge the impact of these ideas on CIDA and its administrators. A final observation should be made. Technical assistance seems to take an extremely large amount of administration on the basis of CIDA's telephone list. In the Operations Branch, the Engineering and Capital Assistance Divisions have about 33 professional staff members to administer capital projects and commodity assistance while the three technical assistance divisions have about 65 professional staff members. In the fiscal year 1967-68, technical assistance disbursements totalled $26.8

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[26] Jackson, Sir Robert S., A Study of the Capacity of the United Nations Development System, Vol. II, United Nations, Geneva, 1969, p. 64.

million out of total bilateral disbursements of $140.4 million or 19.1% of CIDA's bilateral program.[27] The high administrative cost of technical assistance, and Jackson's comments, indicate that a very serious examination of the benefits of technical assistance is in order. Keith Spicer has pointed out that "As in most other sectors of the aid program Canadian administration of advisers and teachers have been too busy sustaining current operations to review earlier work in depth".[28] This comment probably still holds true today.

As far as CIDA's performance on capital projects is concerned very little information is available. Both Russell Elman and Keith Spicer have written books on the Canadian aid program but have concentrated their evaluation on political and at best, on operational aspects of a few projects. To my knowledge no comprehensive economic evaluation has been undertaken of the impact Canadian aid has had on development. Nonetheless, a comment can be made on some of the projects CIDA has undertaken. A story which may be apocryphal is told of Nik Cavell when he first saw the Gal Oya project in Ceylon. He is

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[27] CIDA Annual Review 1967-68, p. 36-58.

[28] Spicer, op. cit. p. 229.

said to have remarked on seeing the power generators that Gal Oya had the most unique hydro system in the world--a power plant with no delivery system. Thus was born Canada's participation in this project which included power transmission lines using creosoted wooden poles and aluminum conductors, a Canadian suggestion which cut costs considerably. Elman pointed out this innovation (though not the Cavell story) in his book An Asian Experiment, and went on to point out some of the problems encountered at Gal Oya including poor settler selection and lack of provision for employment of the children of the settlers.[29]

Elman also describes the purposes for which the Canadian fishing boats were being used. The boats were sent to Ceylon in the early 1950's to demonstrate the use of modern fishing techniques such as the use of nylon drift nets in an effort to help rehabilitate the fishing industry. There was considerable opposition to the new techniques because they reduced the catch of small fisherman who used rod and line techniques. By the

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[29] Elman, op. cit. p. 6-18. The experiences which bilateral institutions had with Gal Oya no doubt helped the Asian Development Bank in designing a similar project in Ceylon during 1969--the Walawe project. This is a further indication that evaluation of projects after the event can be beneficial in designing new projects.

time Elman visited Ceylon the Canadian boats were being used as training vessels, coastal surveyors and for dynamiting reefs.[30] Though Elman saw these new duties as useful activities it is questionable whether they were economically justified. As far as rehabilitation of the fishing industry was concerned no success can be recorded. In 1969, the Asian Development Bank approved a technical assistance agreement with Ceylon to provide a seven-man technical assistance mission to give advice and assistance to the Ceylon Fisheries Corporation in respect to its organizational structure, finances, fishing operations, marketing, workshop facilities and fishing techniques. It would also draw up a test fishing program in coastal areas after reviewing available data on fish resources.[31] Clearly the Canadian efforts were ill-conceived in the first place, unsuccessful in achieving their objective and not followed up in any significant degree though some alternative uses were found for the fishing boats. Fortunately for the Ceylon fishing industry another organization has finally decided to become involved.

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[30]Elman, op. cit. p. 21-27.

[31]Asian Development Bank News Release, Oct. 3, 1969.

Spicer has examined projects in five fields: aerial survey, communications and transport, power and irrigation, health education and welfare, and finally, industry. In the case of the aerial surveys, he found that very little use was being made of the results,[32] however, the benefits of these surveys can only be measured in terms of projects arising out of them rather than published maps available to the public. Spicer also examined the experience with building the St. Vincent dock. He generally felt the project was a success but since it had opened in July 1964, its economic value could not be fully appreciated by the time his book was published in 1965.[33] I spent two days in St. Vincent in 1969 and saw very little activity at the dock at the time of my visit indicating that an economic assessment might be overdue. Certainly the dock is now built and the investment is now a sunk cost but some guidance on the advisability of building future docks on such an elaborate scale in such small islands might be forthcoming from such a study. Spicer regarded the Warsak Dam as a qualified success. Qualified because of the slow training of counterparts and delays in supplying spare

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[32]Spicer, op. cit. p. 160.

[33]Ibid. p. 149.

parts. A success because it doubled West Pakistan's 1954 installed capacity for electrical generation and providing irrigation for 100,000 acres.[34] However, he does not tell us whether so much power was necessary at that stage, whether it was the most economic means of producing the power and whether concommitant agricultural technical assistance and development was forthcoming to take full advantage of the irrigation potential. In my experience most hydro schemes, unless they are very large, have to take full advantage of downstream irrigation benefits to economically justify the initial investment. In the case of the Maple Leaf Cement Plant in Pakistan, Spicer is critical of Canada for not following up by financing the expansion of the plant. Since the Czech's were able to benefit from the externalities of the initial plant the expansion was much cheaper than the first stage making Canada's work appear expensive by comparison.[35] The above examples all indicate need for more follow-up by CIDA and other organizations as well as a need for more public information.

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[34] Ibid. p. 138-139.

[35] Ibid. p. 173

Some final comments should be made on CIDA's disbursements performance. On the basis of information contained in the 1968 annual review[36] I calculate allocations to be $1, 177 million by the end of the fiscal year 1967-68 and disbursements to be $964 million. Appropriations by Parliament for bilateral aid totalled $1, 217 million. The lag between appropriation by Parliament and allocation to a country is not particularly significant. The time lag between allocation and disbursement was about one year since allocations for the fiscal year 1967-68 totalled $194 million and the difference between allocations and disbursements in 1967-68 was $213 million. When compared with the performance of the multilateral institutions (see Chapter 9), CIDA's disbursement performance is creditable. It is even better than the performance of the World Bank group. Using a similar method of calculation the time lag,for World Bank projects is more than 1 1/2 years.[37]

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[36]Disbursement figures do not appear in the 1969 Annual Review.

[37]The IBRD/IDA Annual Report for 1969 shows loans totalling $1, 784 million during their 1968-69 financial year and undisbursed amounts on outstanding loans of $2, 782 million. This does not include loans signed but not yet effective totalling $797 million which would increase the time lag to two years between commitment and disbursement for the World Bank group.

CHAPTER 6

TIED PURCHASING

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One aspect of development assistance which has received a great deal of attention is the tying of aid. This means that the use of grants and loans to the LDCs is limited to the purchase of goods and services in the donor country. Most of Canada's development assistance is tied. All of ECIC's loans are tied and most of External Aid's grants and loans are tied. In 1966, the External Aid Programme was extended to allow for a small amount of offshore purchasing, mostly in connection with local costs in the recipient country.

Many development economists oppose the use of tied assistance, and the DAC annually urges member nations to make efforts to reduce tied assistance while admitting that such a reduction would be difficult. Each year, the urging by the DAC for reduction of tied aid has become less strenuous till in 1966 the DAC concluded that "it now seems quite evident that aid tying can be reduced only if most of the countries providing assistance will take such action simultaneously."[1]

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[1] Development Assistance Efforts and Policies, 1966 Review, OECD, Paris, 1966, p. 119.

Tied purchasing is really one of the great non-issues of economic development.[2] The most important argument against it is that it tends to distort the natural and normal flows of trade between developed and less-developed countries. This type of objection wrongly assumes that without tied purchasing the flows of trade would be natural and normal. Historical trade relations between countries play a large role in existing trade relations, and markets, once established by a competitor, are hard for a new company or country to break into. This is particularly true of new nations which have established commercial ties with a former mother country. These ties may be neither natural nor in the new nations' best interest. If countries such as Canada, Italy, Germany and Japan gave untied aid to new nations, the resulting trade would very likely to follow established commercial patterns--at what is, in many cases, higher prices and the benefits would not accrue to the donor nations--but rather to the country which has established trade links, often a former colonial power. Of course, in the theoretical world of free trade complete knowledge and floating exchange rates, the argument against tied purchasing has validity, but such a world does not yet exist.

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[2]DAC, op. cit., p. 159.

Another argument against tied purchasing is that it forces the less-developed country to buy at prices higher than it would otherwise pay and thus creates a burden for the less-developed country. Such an argument cannot apply to grant aid which in 1965 accounted for more than 60 per cent of DAC aid and 57.7 per cent of Canada's aid.[3] Grant aid is merely a resource transfer and has no direct burden on the less-developed country though it could make aid flows seem larger than they really are. In the case of loans, tied aid may be some burden. However, in Canada's case the creation of any such burden is difficult to prove. The 21A program to date has not created a burden because it finances contracts in which the domestic supplier has been the lowest bidder in international competition. In the present competitive world of international trade it is highly unlikely that the lowest bidder would find his government unwilling to support a viable project with commercial financing. It is in the area of low interest loans where the problem may arise. Canada's low interest loan program is still

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[3]Goran Ohlin, in Foreign Aid Policies Reconsidered Development Centre Studies, OECD, Paris, 1966, points out that "the inconveniences attaching to aid tying are very hard to estimate and are clearly exaggerated when reference is made only to the proportion of aid funds subject to procurement restrictions, for the effect of these restrictions is more marginal than it indicates." p. 96.

too new to be judged, but it is conceivable that concessional interest rates could induce an LDC to purchase a higher cost piece of equipment rather than one offered by a competitor whose government offers only commercial financing. However, the interest rate can be justly regarded as part of the cost of the product, such as domestic taxes on production, etc. Therefore, the price that counts is the cost of the product plus interest, discounted in any way that the less-developed country sees fit; this cost should be the determining factor in deciding whether the product is cheaper. Finally if the aid donor makes a conscious effort to provide low interest loans for products in which it is internationally competitive it is difficult to see how tied aid adds to the cost.

Arguments in favour of tied purchasing are more convincing though just as hard to prove empirically. The most important argument concerns balance of payments difficulties in the donor countries. These difficulties may be either real or imaginary but, whichever they are, they may be real in the minds of people who influence the size of the foreign aid programs. One can easily imagine the even larger cuts in the U.S. foreign aid program that would have taken place in recent years if defendants of the program couldn't have pointed to the fact that outflows of aid money were offset by exports in the balance of payments and thus did not aggravate the drain on the U.S. gold supply.

Finally, much support for the foreign aid program is generated by businessmen and others who receive direct benefit from the program in the form of export orders, jobs, etc.[4] A recent DAC report admits that "the extent of aid tying appears closely related to an increasing need to satisfy domestic demands on this question in order to sustain public support for foreign aid in general."[5] Goran Ohlin feels that tied purchasing does create support for aid programs in donor countries and therefore "it must be recalled that there is little point in comparing tied aid with untied aid if it is unlikely that the aid would have been provided at all, or to the same extent, unless it were tied to exports."[6]

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[4]See, for example, "Canadian Machines Exported on Credit", The Financial Post, April 17, 1965, p. 50; "How Foreign Aid Men Can Help Exporters", The Financial Post, October 22, 1966, p. 3; Ronald Lebel, "Foreign Aid is Big Business", Canadian Business, September 1966, Vol. 39, No. 9, p. 94-100; and The Hon. Paul Martin, "Canada's Aid Programs and the Business Community", Foreign Trade, November 26, 1966, Vol. 126, No. 11, p. 27-31.

[5]DAC op. cit. p. 118

[6]Goran Ohlin, op. cit. p. 94

CHAPTER 7

THE EXPORT CREDIT INSURANCE CORPORATION

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THE EXPORT CREDIT INSURANCE CORPORATION

The Export Credit Insurance Corporation (ECIC)[1] was established in 1944 and began operations in 1945 as a proprietary Crown Corporation of the Canadian Government. Its primary function was to provide insurance for Canadian exports against both commercial risks and abnormal risks in the export markets which would not be encountered in the domestic market such as foreign exchange transfer risks and political risks such as war, civil distrubance, and any acts of government which prevent the exporters from receiving payment. No insurance was provided against devaluation as the exporter was expected to cover himself against such risks by denominating his exports in a stable currency or by hedging in the forward exchange market. The

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[1]Information on ECIC was obtained from the brochure Export Credits Insurance Corporation, What it is and How it Operates, Ottawa, Oct. 1965, Annual Reports by ECIC, and Export Credits and Development Financing, Part Two, National Export Credit Systems, United Nations, New York, 1967.

insurance operation covered short-term credits up to one year. In addition medium-term suppliers credits between one and five years were insured but the financing of medium-term suppliers' credits was left to the exporter. It was not till 1959 when a private corporation, the Export Finance Corporation of Canada, was set up that any specific mechanism existed for financing medium-term suppliers credits. By this time, however, the world export picture had changed considerably.

After the Second World War, exporters operated primarily in a sellers market and goods moved primarily on the basis of price, quality and availability.[2] With the recovery of Japan and the countries of Western Europe, a buyers market gradually developed with an emphasis on the provision of credit. In spite of the efforts to stem the credit race by the establishment of the Berne Union this emphasis increased. The failure to stem the credit race was due not only to exporters in the exporting countries but to pressure from developing countries whose position was greatly strengthened by the existence of the buyers market. The trend was further aggravated by the

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[2]See Export Credits and Development Financing Part One, Current Practices and Problems, United Nations, New York, 1966.

tendency on the part of bilateral aid suppliers to tie their development loans to procurement in the donor country. The United Kingdom and the United States led the way in departing from the five-year understanding on credit terms of the Berne Union and for the past decade an increasing number of long-term suppliers credits over five years have been granted.

Canada was, perhaps, rather late in responding to this change in market conditions probably due to the fact that capital goods composed such a small proportion of its total exports. Nevertheless, in 1959, Section 21A, was added to the Export Credits Insurance Act allowing ECIC to provide long-term export credits on the Canadian Government's account for sales of capital goods and related technical and engineering services. The first loan under this section of the Act was not made until mid-1961. Since that time, loans totalling more than $400 million have been granted. In essence the buyer expresses an interest in importing capital goods and related services from a Canadian exporter. The exporter then approaches ECIC who may after due analysis and approval both interdepartmentally and by the Governor in Council, extend a loan to the buyer. These loans normally require a government guarantee of foreign exchange convertibility from the government of the buyer and in fact the loans are often made directly to the government. Disbursements are made to the Canadian supplier as is the case under the bilateral aid program. To date all ECIC loans for long-term suppliers credits have been made at an interest rate of 6% with the grace period and repayment period varying, apparently, on the basis of the type of goods, economic conditions in the recipient country and competitive credit conditions. There does not appear to be any consistent pattern though India and Pakistan have generally received longer repayment periods and longer grace periods than, say, Mexico or other Latin American countries.

While 6% could not in the past have been regarded as anything but commercial terms, in recent years domestic interest rates in Canada and interest rates in the world in general have risen well above 6% and thus, to a certain extent, 6% can be considered non-commercial or even a concessional rate of interest. To date, however, the subsidized interest rate must be regarded as an export subsidy rather than aid to LDCs (with the one exception of a $756,976 loan to New Zealand all ECIC loans have been made to LDCs).

"The purpose of Section 21A long-term export financing is to give encouragement and assistance to enterprising Canadian exporters of capital equipment who develop business possibilities abroad. Through these facilities exporters who can meet international competition in terms of price, quality, and deliveries are afforded the opportunity of competing in terms of credit as well.

"Section 21A financing is a useful form of capital assistance for economic development in recipient countries, but it is not intended as an instrument of Canadian foreign aid. Accordingly, while the terms of Section 21A credits match international financing terms for viable projects, they are not intended to match aid-type financing facilities."[3]

While the intention as stated above is clear enough the actual operation has slowly over the years moved toward coordination with aid operations. With the ever-increasing debt burden of the less-developed countries[4] the need for coordination with various aid consortia and consultative groups has become readily apparent. India, Pakistan, Ceylon, and Turkey are all

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[3] Export Credits Insurance Corporation, What it is and How it Operates, op. cit., p. 15-16.

[4] A chapter on the debt burden of less-developed countries was originally intended to be part of this thesis but the subject has since been well explored in recent publications, such as Avramovic, Dragoslav, Economic Growth and External Debt, John Hopkins Press, Baltimore, 1964. In addition the question of the debt burden is now regularly reported in IBRD/IDA reports and DAC reports.

countries for which consultative groups or consortia have been set up and in which ECIC has made loans in excess of $10 million per country. In the case of India, ECIC contracts exceed $100 million, ECIC has taken cognizance of this fact and has been operating within the framework of the IBRD consortia for India and Pakistan for many years. It must be noted that consortia take into consideration all financial flows to the particular LDC and ECIC loans cannot be considered out of context with Canadian aid flows to these countries which are made on a grant basis or are loaned at zero per cent interest over 50 years. As the debt burden mounts in various less-developed countries, ECIC's operations will have to become more and more coordinated with the total flow of development resources to various LDC's and it would not be hard to predict in which countries this coordination will have to take place.[5]

During the late 1960's, criticism of ECIC by various exporters contributed toward a re-organization of ECIC as the Export Development Corporation (EDC). This criticism included

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[5]On the basis of IBRD figures in the 1969 Annual Report one might guess Mali, Tunisia, India, Pakistan, Argentina, Brazil and Uruguay. ECIC has made loans to four of these countries.

the rigidities imposed by the legislation making ECIC inflexible in responding to the needs of exporters and the length of time involved in negotiating ECIC's long-term loans.[6] The EDC was set up on October 1, 1969, and the changes were far reaching. The only changes relevant to this thesis are those relating to long-term suppliers credits. For the first time engineering and technical services may be financed, even when not related to the export of goods. In addition, when it is necessary to meet international competition a proportion of local costs may be financed in order to win a capital goods contract.[7] Instead of acting as an agent of the government, EDC will be able to finance long-term suppliers credits on its own account up to an amount of $600 million and an additional $200 million with Cabinet approval. These loans will be mostly financed by borrowings from the government's Consolidated Revenue Fund. If the present high interest rates for Canadian Government borrowing persist, EDC will no longer be able to afford financing loans to LDCs at 6% and it is easy enough to predict an increase in interest rates,

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[6]Bank of Montreal Business Review, The Export Development Corporation, June 27, 1969.

[7]Wexler, Michael S., "Export Development Corporation," Foreign Trade, Oct. 11, 1969. p. 35-36.

vocal protests from exporters and considerable pressure on the Canadian Government to directly subsidize EDC's interest rates.[8]

Repayments on ECIC loans make up the bulk of amortization received as shown us in the DAC tables (see Table 4) though repayments of soft loans should begin to make up a portion of amortization received within a few years. The discrepencies between the DAC in Table 4 and the repayments figures for ECIC in Table 5, are accounted for by the extension of wheat loansto India and Ceylon during 1958 and 1959 and the subsequent write-off of the loans in 1966. One distressing feature of the ECIC operation as far as the transfer of resources is concerned is the fact that within a few years repayments will equal or, in some years possibly exceed, the disbursements under ECIC loans. This factor is illustrated by Table 5 which shows repayments increasing from $481,000 in 1961 to $21,896,000 in 1968. Disbursements on the other hand have fluctuated somewhat but have never exceeded $60 million in any given year up to 1968. Commitments on the

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[8]Of little relevance to this thesis, which has ruled out private flows as an area of concentration but of interest to LDCs is a provision in the new Act allowing for foreign investment insurance up to an amount of $50 million.

other hand have reached higher peaks, over $94 million in 1967, but have fluctuated significantly. In 1966 and 1968, commitments did not exceed $25 million in either year.[9] This performance would indicate that there is a definite limit to the amount of resource transfer which can take place over the next few years through the extension of long-term suppliers credits.

The reasons for the inability of long-term supplier credits from Canada to exceed $100 million may hinge on a number of factors. One of these may be the increased willingness of CIDA and other bilateral agencies in other countries to finance capital goods, which would normally be sold under supplier credits, on aid terms when they contribute to economically viable projects. Another factor may be the economic conditions in many less-developed countries which make repayments of supplier credits an increasingly risky proposition. Finally, the limited capacity of the Canadian economy to produce the type of capital goods which are financed by long-term suppliers credits may be a factor.

This last factor is borne out by Tables 8 and 9. Table 8 indicates that 11 companies have secured 43 of the contracts for

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[9]Up to Sept. 10, 1969, nine loan commitments totalling $47.8 million had been signed during 1969 according to the Financial Post, October 4, 1969, p. 3, column 1-4.

Table 8. -- E.C.I.C. contracts by exporter*
(as of Dec. 31, 1968)

Company	Number of Contracts	in thousands of Canadian $
Montreal Engineering Co. Ltd.	6	100,500
Dominion Steel & Coal Corp. Ltd.	7	70,277
Canadian General Electric Co. Ltd.	3	41,711
Montreal Locomotive Works Ltd.	4	34,205
Northern Electric Co. Ltd.	4	28,852
Automatic Electric (Canada) Ltd.	3	26,725
Pelletier Engineering (International) Ltd.	2	11,300
R.C.A. Victor Co. Ltd.	5	11,296
General Motors Diesel Ltd.	2	8,123
Aluminum Co. of Canada Ltd.	3	7,400
The Dominion Road Machinery Co. Ltd.	4	6,338
Others	13	56,238

*Does not include loan to New Zealand

Note: 3 of Montreal Engineering Co. Ltd.'s contracts totaling $82,000,000 were signed in conjunction with Atomic Energy of Canada Ltd.

Source: E.C.I.C. Annual Report, 1968

Table 9. -- E.C.I.C. loan commitments to L.D.C.'s by end use
(as of Dec. 31, 1968)

Type of Product	No. of Contracts	Thousands of Canadian $
Nuclear Power Reactors	4	105,678
Rails and Tie Plates	7	70,277
Telecommunications Equipment	11	66,397
Locomotives	6	46,927
Other Electric Power Generation and Distribution	7	44,001
Pulp and Paper Mills	6	31,919
Road Graders	4	6,338
Others	11	33,026

Source: E.C.I.C. Annual Report 1968

Note: Does not include loan to New Zealand their exports representing about 85% of the dollar value of all contracts. Table 9 indicates that nuclear power reactors, rails and tie plates, telecommunications equipment, locomotives, power generation and distribution systems, pulp and paper mills and road graders are the most important fields in which Canadian equipment is competitive. Of these telecommunications equipment is the field in which most recent competitiveness can be noted.

One aspect of the ECIC program which should be mentioned is that it extends the geographic scope of the transfer of official resources. It has already been pointed out that the bilateral aid program is minimal in Latin America. However, Table 5 and 10 indicate that 28 ECIC loans totalling more than $150 million have been made to countries in Latin America of which Mexico is by far the most important recipient. In addition, the ECIC program offers further balance to the bilateral program in that it has extended loans to the Philippines ($27 million), Turkey ($20 million), Greece ($5.8 million), and Taiwan ($5 million), which do not receive capital assistance under the bilateral program.

Performance in terms of development results is very difficult to weigh. However, a study of ECIC press releases in Appendix A indicates that the projects seem, generally, fairly

Table 10. -- E.C.I.C. loans to L.D.C.'s up to Dec. 31, 1968

	No. of Contracts	Commitments (millions of Can.$)	Disbursements (millions of Can.$)	Repayments (millions Can.$)
South America & Caribbean				
Argentina	5	18.7	18.7	10.7
Bahamas	1	3.8	3.1	-
Bolivia	1	2.5	-	-
Brazil	4	11.2	10.9	5.6
Chile	4	22.7	22.7	6.8
Colombia	1	.8	.6	-
Mexico	12	100.3	91.3	41.7
South Asia				
Ceylon	1	10.8	8.1	2.6
India	12	103.3	65.7	2.0
Malaysia	1	7.7	4.9	-
Pakistan	4	42.2	33.2	2.5
Far East				
Philippines	3	27.2	24.3	3.7
Taiwan (China)	1	5.0	3.9	0.8
Middle East				
Israel	1	2.2	2.2	0.7
United Arab Republic	1	4.1	4.0	-
Europe				
Greece	2	5.8	1.1	-
Turkey	1	20.4	4.1	-
Africa				
Liberia	1	1.5	1.5	0.3

Source: E.C.I.C. Annual Report, 1968

Note: Loan to New Zealand not included

sound though a study of the economic viability of nuclear power electricity plants in less-developed countries might prove very revealing. Such a study would have to take into account the shadow prices of foreign exchange discounted at an appropriate opportunity cost of capital when comparing the high initial capital cost in foreign exchange of a nuclear power plant and its lower operating costs with the lower initial capital costs in foreign exchange of thermal units which have higher operating costs but are, in some cases, accrued in local currency for such inputs as fuel. Unfortunately, for the development economist, the ECIC press releases often stress benefits to Canada in terms of job creation and export promotion rather than benefits to the less-developed economies. It is apparent from the emphasis placed in the press releases on benefits to Canada that ECIC and other government departments are aware of the need to stress donor benefits when promoting resource transfer and this lends further credence to the arguments developed in Chapters 3 and 6 of this thesis.

One important factor in analyzing the performance of ECIC is the disbursement rate. In spite of the criticisms by exporters mentioned earlier in this Chapter, ECIC seems to move fairly rapidly in disbursements. By the end of 1968 commitments totalled slightly more than $400 million while disbursements totalled $300 million. This is a better performance than the performance of the Inter-American Development Bank described in Chapter 9 and may be due to the fact that in multilateral institutions competitive bidding on the basis of tenders is undertaken after the loan is made whereas in the case of supplier credits tendering is presumably undertaken by the recipient country before the loan contract is signed.

Finally, it should be noted that the professional staff of ECIC required to undertake the long-term supplier credit operation is extremely small. A perusal of government telephone directories indicates that ECIC's Export Finance Division has always employed less than ten loan officers at any given time. Even if the staff of the economics department and the time of a couple of accountants is added to the export financing operation the total professional staff would not exceed 15. This is partially attributable to the fact that the individual loans are large and their number small at least in comparison with CIDA. However, if comparisons with multilateral institutions are made where loans of comparable sizes to those of ECIC are made, one is forced to suspect that ECIC undertakes a somewhat brief and shallow analysis and that little time is available for supervising implementation and follow-up. Perhaps such activities can be considered as irrelevant to the major objective of financing Canadian exports and the criticisms concerning analysis and follow-up can be overridden by arguments that the less-developed countries themselves know best what projects are economically viable in their countries. This latter argument is debatable and runs counter to most experience to date which has dictated that multilateral institutions and most bilateral aid institutions undertake thorough analysis, at least during the decision-making process, of the economic implications of their projects in the LDCs. It would be very useful, however, to do a follow-up study of the economic impact of projects in various countries comparing the results of projects that are analyzed by the recipient with those analyzed by the donor. Such a study would probably show that some countries have been driven to the brink of economic bankruptcy by utilizing suppliers credits to finance badly conceived projects whereas others have done remarkably well and there is no need to thoroughly analyze proposals from the LDC. But, the questions would then be, which countries are capable of doing their own economic analysis and for how long does the capability last before political considerations become paramount. Constant analysis by the donor would thus remain imperative if only to determine the answer to these questions.

CHAPTER 8

ECONOMIC BENEFITS TO CANADA OF THE EXPORT FINANCING PROGRAM

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ECONOMIC BENEFITS TO CANADA OF THE EXPORT FINANCING PROGRAM

One of the most contentious issues of development economics is whether exports can be increased with the help of foreign aid. Keith Spicer echoing G. L. Reuber feels that it will not. "A product superior in every way to its rivals will sell itself; if uncompetitive, it will not."[1] From the point of view of total world trade, exports from the developed countries will increase to the extent that external aid helps develop the economies of the LDCs and to the extent that this development increases the demand for exports from developed countries. For the individual country, the relationship between aid and trade is more clearcut. If other countries are giving tied aid to the LDCs, a country not giving aid is essentially excluded from potential export sales unless its exports can also be backed by some form of governmental support. This is particularly true of capital goods. Without extended credit terms, Canadian exporters could not possibly sell

[1]Keith Spicer, op. cit., p. 46

capital goods that are "superior in every way" unless the price is a great deal lower than that of the nearest competitor offering extended credit. It would be safe to conclude that nearly all sales of capital goods to LDCs under Section 21A of the ECI Act would not have been made if the program had not existed.

Once an export market is established it is easier to maintain it than to break into a new market. Certainly, an aid supported exporter can occasionally hurt his chances for repeat sales by delivering a poor product or performing a poor consulting job as Spicer has pointed out. However, no government can work on this premise without negating the whole purpose of exporting any product with or without government support.

Short-run economic effects of foreign aid are more difficult to determine. It must be agreed with Reuber and Spicer that a domestic countercyclical policy cannot be bolstered by the use of foreign aid. Foreign aid projects take too long to materialize to influence the total domestic economy and even if this process could be speeded up the effects on the LDCs of assistance programs motivated by a donor's countercyclical policies would be disastrous. There are instances, however, where the domestic short-run economic effects of foreign aid are substantial. In the case of the Montreal Locomotive Works Ltd., the 21A program helped counteract a temporary weakness in the domestic demand for locomotives and in the case of Dominion Steel and Coal's rail plant in Sydney, Nova Scotia, the 21A program maintained production and employment in an area of Canada which required some form of economic assistance.

The following three cases based on limited information should help substantiate the above points.

I. The Northern Electric Company Ltd.

Northern Electric has traditionally supplied a limited domestic market.[2] Recently, intensive efforts have been made to enter the highly competitive international market. Since telecommunication systems exist in most countries and existing suppliers are firmly entrenched for many reasons, not the least of which is technological, an outside supplier can enter these markets in only four ways. (a) It can supply identical component parts at a reduced price for a system developed by another supplier. This is an uneconomic proposition if the Canadian supplier normally produces components for a different type of system. (b) It can attempt to sell a complete new system in

[2]Much of the background information in this section comes from "Gut-Nerve, Money, Diplomacy", Monetary Times, March, 1967, Vol. 135, No. 3, p. 17-20.

situations where the expansion in the LDC is particularly large or where the existing system is obsolete and is being replaced. (c) It can enter the market in a very poor country where the telecommunication system is virtually non-existent; and, finally, (d) it can sell components and extensions to a system similar to its own that is already supplied by a foreign competitor. The last three possibilities are all economic propositions and presumably Northern Electric has considered all three. Clearly, it is advantageous to have the company's own system installed so the position of existing supplier under possibility (a) can be achieved.

During 1966, Northern Electric negotiated major contracts in Turkey, Greece, Nigeria, Kenya and Costa Rica. In Greece an ECIC loan of $4,836,000 was signed with the Organization of Telecommunications of Greece, Ltd. to finance purchases from Northern Electric in 1966. During 1967 an additional loan of one million dollars was signed. In Turkey, the sale of $30 million of telecommunication equipment, more than twice the existing sales of Northern Electric's international division, was negotiated. Northern Electric will displace the former American supplier and gain a substantial base for expanding sales in the Middle East. As part of the agreement, Northern Electric will set up a jointly-owned manufacturing subsidiary with the Post, Telegraph and Telephone Directorate of Turkey. The financing had not been completed by the end of 1966, but it appeared that a loan of $24.5 million under Section 21A would be signed for at least twenty years at a minimum of 6 per cent interest.[3] Finally, External Aid's loan of $3.5 million to Nigeria for the purchase of cable for a telecommunications project may have had some influence on Northern Electric's sales to Nigeria.

II. The Montreal Locomotive Works Ltd.[4]

This company is the fifth largest supplier of diesel locomotives in the free world and supplies 40 per cent of the Canadian market. The company is a licensee of a U.S. company, ALCO (formally American Locomotive Co.), but is permitted access to worldwide markets. In recent years the company has been reducing its dependence on locomotive sales and is presently the largest

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[3]The information on the Turkish contract comes from "Northern Beats Big Field in Turkey," Financial Times of Canada, November 28, 1966, Vol. 55, No. 27, p. 16. The loan agreement was signed on June 28, 1967 according to ECIC's 1967 Annual Report.

[4]The information on Montreal Locomotive Works Ltd. was obtained from the Financial Post Corporation Service and from a published speech, by H. Valle, President of Montreal Locomotive Works Ltd. entitled A Team Effort, to the Canadian Export Association in Toronto on Tuesday, March 16, 1965. The speech was printed by C.E.A.

supplier of heat transfer equipment in Canada serving the process, thermal generating and nuclear industries. In 1965 the company had 782 employees.

The Canadian railroads went through a period of rapid dieselization during the 1950's when virtually all steam engines were replaced with diesel-electric engines. The second phase of dieselization, that of replacing existing diesels with new diesels, is now under way. However, in the intervening period it was necessary to utilize excess capacity by exporting locomotives. Between 1961 and 1964 export sales of nearly $40 million had been made and nearly all of these sales were financed through Section 21A of the ECI Act.

During 1961 and 1962 Montreal Locomotive sustained financial losses, but in 1963 the company returned to profitable operation. Unfortunately, figures for total sales are not available before 1964.[5] From 1964 to 1966 sales were as follows:

1964	$28,479,000
1965	$24,921,000
1966	$30,923,127

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[5]The company was approached by mail but was unwilling to supply total sales figures before 1964 or figures for locomotive sales in any year.

Montreal Locomotive made four sales under Section 21A of the ECI Act for which the financing agreements were signed as follows:

November 6, 1961	$12,325,005	to Argentina
December 20, 1961	$ 2,557,800	to Brazil
January 23, 1963	$16,222,065	to Mexico
December 4, 1963	$ 7,700,000	to India

Disbursements to Montreal Locomotive were made as follows:[6]

During	1962	$ 2,387,460
	1963	$19,511,245
	1964	$16,852,761

The only comparable year is 1964 when disbursements to Montreal Locomotive accounted for nearly 60 per cent of total sales. A new contract for thirty locomotives for India in 1967 financed by External Aid (CIDA) was announced in Montreal Locomotive's 1966 Annual Report.

III. The Dominion Steel and Coal Corporation

This company is a fully integrated steel and, until recently, coal company with total sales as follows:[7]

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[6]ECIC Annual Reports

[7]Information on Dominion Steel and Coal Corporation was obtained from the Financial Post Corporation Service.

1966	$176,225,083
1965	$174,621,000
1964	$157,092,000
1963	$142,453,000
1962	$139,832,000

Among its many plants it operates a 300,000 ton per year rail and tie plate mill in Sydney, Nova Scotia. The figures below show disbursements under Section 21A of the ECI Act,[8] tons of steel rails and tie plates represented by the disbursements,[9] and the percentage capacity of the Sydney plant represented by these sales.

1966	$ 9,842,680	=	72,500 tons	=	24.1%	capacity
1965	$11,369,402	=	83,600 tons	=	27.9%	"
1964	$16,933,196	=	124,500 tons	=	41.5%	"
1963	$ 9,275,362	=	68,200 tons	=	22.4%	"
1962	$12,553,003	=	92,300 tons	=	30.8%	"

It is clear from the above information that the five sales under Section 21A to two railroads in Mexico were an important factor in keeping the Sydney rail and tie plate mill in operation. If figures for the company's total sales of rails and tie plates in a given year could be obtained, these ECIC-financed sales might

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[8]ECIC Annual Reports

[9]The figure 1,000 tons = $136,000 of sales was calculated from information appearing in Trade and Commerce News Release, No. 64/64, dated August 31, 1964.

prove even more important.[10]

The three examples above were selected on the basis of information available in published sources. If additional information were made public, a further study would probably reveal even more of the economic benefits to Canada and particular Canadian companies from the aid program.

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[10]The company was approached by mail but was unwilling to supply the requested information.

CHAPTER 9

MULTILATERAL FLOWS

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MULTILATERAL FLOWS

A multilateral flow can normally be defined as a contribution to an international organization which will then proceed to make loans and grants to less-developed countries without taking into account the source of its funds when making disbursements, i.e., the international organization will theoretically let contracts on the basis of international tenders among all participating contributors to the multilateral organization. This definition does not hold true in all cases because (1) some contributions to international organizations are tied to purchases in the donor country; for instance, Canada's contribution of US $25 million over 5 years to the Special Funds of the Asian Development Bank (ADB) is tied to purchases in Canada and (2) some contributions like those to the World Food Program (WFP) are made in the form of commodities rather than cash. In addition one cannot be sure that competitive bidding is strictly adhered to particularly in the field of consulting services where the idea of competitive bidding is rather nebulous.

Most people with experience in some international organizations will admit that the largest donor countries often have an undue influence on the selection of consultants. The design of a capital project by a consultant normally has a great deal of influence on the sourcing of purchases for the equipment for a capital project. With the above caveats the definition of a multilateral organization given at the beginning of the Chapter can still stand.

The Pearson Commission has rather arbitrarily recommended that the share of multilateral aid should be raised to a minimum of 20% of total official development assistance by 1975.[1] Pearson's tables indicate that for the years 1966-68 the percentage of grants and capital subscriptions by Canada to multilateral organizations averaged 19.6% compared to an average of 9.6% by all donor countries.[2] Whether such a target is legitimate in the case of maximizing economic development should depend primarily on the performance of multilateral agencies compared with the performance of bilateral agencies. From the point of view of the donor country Canada should weigh, in addition to performance, the benefits of multilateral aid to

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[1] Pearson, op. cit., p. 21.

[2] Pearson, op. cit., p. 391

the donor in terms of goods and services purchased by the multilateral agency in the donor country. These are difficult criteria largely due to the fact that very little published evidence is available either on performance or on purchasing patterns of multilateral agencies. Comparison with bilateral agencies is also difficult due to the fact that the performance of bilateral agencies has also not been measured effectively in published documents. Nonetheless, some tentative conclusions can be drawn on the basis of the scarce information that is available.

The flow of Canadian financial resources to multilateral organizations has been increasing rapidly in the last few years (see Table 2) to virtually reach in the period 1966-68 the Pearson target of 20%. Canadian contributions in recent years have gone mostly to United Nations organizations or to the World Bank group and regional development banks (see Table 11). In terms of allocations for the fiscal year April 1, 1968, to March 31, 1969, an allocation of $27,017,000 was made to IDA, $10,750,000 to the United Nations Development Program (UNDP), $10,397,800 to the WFP, and a total of $8,108,100 to the ADB for both the third portion of the paid-in capital subscription of $2,701,700 and the first tranche of the contribution to Special Funds of $5,405,400.

Table 11. -- Allocations to multilateral institutions
(in Can. $ millions for fiscal years ending March 31)

	1951 to 1960	1961 to 1965	1966	1967	1968	1969
Total Loans & Advances	4.7	50.3	15.0	22.3	17.7	35.1
IBRD	0.2	9.6	-	4.5	-	-
IFC	3.5	-	-	-	-	-
IDA	-	40.7	15.0	15.0	15.0	27.0
ADB capital advance	-	-	-	2.7	2.7	2.7
ADB special funds	-	-	-	-	-	5.4
Other	1.0	-	-	-	-	-
Total Grants	56.1	60.2	14.7	26.3	30.8	25.9
UNDP (EPTA & special fund)	14.8	25.6	7.3	9.5	10.8	10.8
W.F.P. (Cash & Food contrib.)	-	3.5	2.5	10.5	10.0	10.4
Indus Basin Fund	-	15.5	1.7	3.0	5.0	1.4
UNRWA (Cash & Food Contrib.)	8.4	8.0	1.2	1.2	3.0	1.5
UNICEF	5.7	3.7	1.0	1.1	1.0	1.0
Other	24.1	4.0	1.0	1.0	1.0	2.2
Total Loans, Advances & Grants	60.8	110.5	29.8	48.6	48.5	61.0

Source: CIDA Annual Reviews

IDA was created in 1960 as part of the World Bank group, in 1960 to extend low-interest loans to the LDCs. The term of these loans is fifty years and the only charge is a service charge of three-quarters of 1 per cent. Canada's initial subscription was US $37.83 million of which US $8.7 million was paid in during 1960. The remaining US $29.13 million was payable in equal instalments during the next four years. By 1963 IDA's resources was seen to need replenishment, and the Executive Directors of the World Bank proposed that IDA's resources be increased by US $750 million from seventeen governments. Canada's share was set at US $41.7 million payable in three equal instalments of US $13.9 million per year from 1965 to 1967. In 1968 a further replenishment was proposed which included a Canadian contribution of US $75 million payable over three years.[3] Capital subscriptions for the IBRD were also increased in 1960. Canada's contributions amounted to US $10.4 million which, in addition to the initial subscription to IDA, accounts for the abnormally large increase in the flow of financial resources to multilateral organizations in 1960 (see Table 2).

The United Nations organizations fall into two categories:

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[3]The information on IDA was obtained from IBRD/IDA annual reports.

those to which Canada's contribution is assessed and those to which Canada's contributions are voluntary. It is some of the UN voluntary programs which are included in the DAC classification of official flows to multilateral organizations; the Council of Administration for the UN Development Programs (UNDP) which is a merger of the UN Special Fund and the UN Expanded Program for Technical Assistance to Under-developed Countries; the Children's Fund (UNICEF); the UN High Commission for Refugees in the Near East. In 1963 the World Food Program, UN/FAO, was set up. Canada made a three-year commitment to the WFP, 1963-1965, of US $6.85 million of which US $1.68 million was in cash. For the three-year period 1966-68, Canada increased its commitment to US $17.50 million of which US $6.88 million was in cash and the rest is in commodities and services. Not all of these amounts necessarily appear in the DAC figures at the time of commitment or allocation. They only appear when disbursements are made by the donor country. Perusal of Table 11 indicates that the major portion of the increase in Canada's multilateral contributions to UN agencies is accounted for by the increases in contributions to UNDP and the World Food Program. In 1966, Canada was the fourth-largest contributor (6.5 per cent of total contributions in 1966) to UNDP after the United States (46.8 per cent), Sweden (10.0 per cent), and the United Kingdom (8.8 per cent) and the second-largest contributor to the World Food Program (12.9 per cent of 1966-1968 commitments) after the United States (61.2 per cent).[4]

The Asian Development Bank emerged from discussions at the Economic Commission for Asia and the Far East (ECAFE)'s First Ministerial Conference on Asian Economic Cooperation held in Manila in December 1963 and established on December 19, 1966. The ADB is unique among regional development banks in that membership was open to all non-regional developed nations and they were given appropriate voting powers. The African Development Bank (AFDB) is only open to African States and the Infer-American Development Bank (IDB) is open only to North and South American states though the IDB administers bilateral funds for a number of developed nations and follows a form of international competitive bidding. The new Caribbean Development Bank (CDB) includes some non-regional member such as Canada and the United Kingdom as well as regional members. Canada's equity contribution to the ADB totals US $25 million of which half

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[4]These figures were obtained from the Dept. of Finance of the Canadian Government but can also be derived from figures available from a variety of UN publications.

consists of paid-in capital. In addition, Canada has made a tied contribution of US $25 million to the ADB's Multipurpose Special Funds which makes loans on concessional terms to regional developing member countries and a tied grant contribution of $100,000 to the ADB's Technical Assistance Special Fund which finances technical assistance of a pre-investment nature on a grant basis to regional developing member countries.[5]

Very little work has been done on analyzing the performance of the World Bank group, i.e., IBRD, IDA, and the International Finance Corporation (IFC). Albert O. Hirschman was given the opportunity of analyzing a number of projects financed by the IBRD. The results of his study, published as Development Projects Observed, were disappointing for the empirically oriented student.[6] Hirshman concludes that though many of the projects were a failure in a narrow economic sense they could be considered successes from a development sense in that they stimulated initiative and imagination during the rescue operation. He does not attempt to ascertain if the funds invested could have

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[5]Asian Development Bank, Basic Facts, March 1969 and ADB Annual Reports.

[6]Hirschman, Albert O., Development Projects Observed. The Brookings Institution, Washington, D.C., Oct. 1967.

been better invested on other projects to obtain higher returns in the developmental sense. Nonetheless, the World Bank group has achieved a remarkable reputation in the field of development. Even Sir Robert Jackson, who thoroughly castigated the United Nations development oriented agencies, carefully pointed out that his criticisms did not apply to the World Bank group.[7] He did, however, point out the major criticism of the World Bank group. "Evidence presented to the study indicates that the Third World would prefer to remain in effective partnership with UNDP as far as development cooperation is concerned for, much as it respects the World Bank group (and rightly so), there are misgivings about its weighted voting and limited membership."[8] If a comparison of the World Bank group's performance was made with any bilateral development agency it is fairly safe to assume that the latter would come out second best. Nonetheless, the IBRD and IDA have been making loans at a rate in excess of US $1 billion per year since 1964 and it is questionable how much development one organization can undertake before it becomes overwhelmed by

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[7]Jackson, Robert S. A., A Study of the Capacity of the United Nations Development System, United Nations, Geneva, 1969.

[8]Jackson, ibid., Vol. 1, p. VII.

the diminishing returns attributable to a large-scale bureaucracy. A Capacity Study of the World Bank Group might be useful.

Jackson's "Capacity of the United Nations Development System" is very revealing. Though Jackson has faith in the UN system he shows that it will have to be drastically overhauled to enable it to persue its major function in the field of pre-investment. He feels that the present system, referred to in such graphic terms as a "prehistoric monster" and an "administrative jungle", is "over-extended in certain critical areas"[9] and is limited even with tinkering to about US $200 - $250 million annually. The most telling criticism is the amount of time it takes to develop a project. His figures estimate that the genesis of a special fund project takes three or four years, the project can be expected to run six to eight months behind schedule and the final report to take nearly two years after completion of the project for a report to be published.[10] In spite of the time spent, Jackson estimates that 20% of the projects are "deadwood" in that they are not essential to a country's development.[11] Unless major changes are brought about in the UN

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[9]Jackson, ibid., Vol. 1, p. 12.

[10]Jackson, ibid., Vol. 1, p. 9.

[11]Jackson, ibid., Vol. 1, p. 10.

development system, particularly in the UNDP and in the specialized agencies it can be concluded that additional multilateral assistance by this means would achieve a very poor level of performance.

The regional development banks are all fairly new but some comments can be made on their performance to date. The African Development Bank[12] held its first meeting in 1964 and began operation in 1966 but according to the 1968 Annual Report, had made only three loans totalling US $5.18 million by the end of 1968. Disbursements on loans totalled less than US $150,000 by the end of 1968 and administrative expenses exceeded US $1 million in 1967 and exceeded US $1.5 million in 1968. Only ten of the 31 members had fully paid up their subscriptions which totalled over US $100 million. Of the subscriptions due about US $40 million was in arrears. These figures speak for themselves.

The Caribbean Development Bank finally came into existence this year and it is too early to speak of performance

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[12]Information on the African Development Bank was obtained from the 1968 Annual Report, Rapport du Conseil d'Administration de la Banque Africaine de Development pour la periode du 1er Janvier au 31 Decembre 1968.

but it is questionable whether the overhead expenses of setting up a US $50 million regional development bank are justified for an area of such a small size even if a considerable amount of special funds from the United Kingdom, Canada and the United States are administered as well. The Inter-American Development[13] Bank has been functioning since 1960 and it is time to have some published evaluation of its performance from a neutral source. I am aware of no such evaluation, however, on the basis of information in the annual report, loans have totalled more than US $2,750 million by the end of 1968 from ordinary resources, the fund for special operations and the social progress trust fund. Of this amount nearly US $1,330 million had been disbursed by the end of 1968. On the basis of these figures one is forced to conclude that promoting development is a very slow process through the IDB.

The Asian Development Bank[14] made its first seven loans in 1968, totalling US $41.6 million. In 1969, nineteen loans for a total of US $98.1 million were approved. In addition, technical

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[13]Information on loans and disbursements was obtained from the 1968 Inter-American Development Bank Annual Report.

[14]Information on the ADB is based on the 1969 Annual Report.

assistance of US $3.44 million was granted to twelve countries. Since the ADB has been making loans for only two years it is hard to fault this type of performance. In addition, the ADB has entered at an early stage into the type of projects which the World Bank Group avoided until recently. Six loans totalling US $50 million have been made to national development banks and four loans totalling US $14.48 million have been made to agricultural projects and another two loans totalling US $4.8 million to agro-industry. This indicates a more imaginative approach to development than was taken by other development banks in their formative years. On the debit side loans have so far been made to only 11 of the 17 regional developing member countries and the bulk of the loans, nearly US $90 million have been made to four countries, i.e., Korea, US $32.3 million, China (Taiwan), US $25.41 million, Malaysia US $18.1 million, and Thailand US $15 million. This may indicate an inordinate political interest in three of these countries by the major shareholders in the ADB, i.e., Japan and the United States which have each contributed 20% of the capital to the ADB, or it may indicate better project preparation by the recipients. Also on the debit side is the ADB's slow disbursement rate. Disbursements by the end of 1969 totalled US $9.1 million and the only project completed appears to be the Seoul-Inchon Highway. If one can judge by newspaper reports this highway marks an ominous beginning for any development organization. A few weeks after opening, 800 meters of one side of the highway collapsed during a heavy rainstorm and within a few months the surface of the road deteriorated so badly that the speeds needed to be reduced to prevent excessive accidents.[15]

Canada's role in the ADB is somewhat puzzling. Canada's capital subscription of US $25 million, was exceeded only by the United States US $200 million, Germany US $34 million, and the United Kingdom US $30 million among non-regional members. In addition, Canada made a contribution of US $25 million to the Special Funds to be spread over five years compared with two contributions of US $20 million each from Japan, US $2 million from Denmark, and US $1.1 million from the Netherlands. This financial participation in the ADB is inordinate when compared to the participation of other non-regional members. It is also questionable whether such a large commitment should have been made to the Special Funds over a five-year period before there was any indication of the ADB's performance, or whether the

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[15] Korea Herald, Aug. 8, 1969, and Coating Requested for "Apollo Highway" in Korea Times of Sept. 1, 1969, p. 4

money could be used effectively. The explanation probably lies in the traditional interest Canada has in Asia's development and the general support Canada gives to multilateral organizations. Canada is clearly committed to the concept of multilateral aid as indicated by the fact that Canada has virtually already reached the Pearson target that 20% of total official development assistance should be made through multilateral channels. The reason for this commitment probably has its roots in Canada's traditional interest in strengthening the United Nations and similar multilateral political institutions. Another contributing factor may be the strains rapidly increasing bilateral programs put on the government's administrative resources. It is interesting to note in the Pearson Report that countries with aid programs that have increased rapidly in size since 1956 and were not colonial powers, such as Canada, Denmark, Sweden, Norway, Switzerland, and Austria, have made a much larger proportion of their aid resources available through multilateral channels than countries such as France and the United Kingdom.[16]

However, the economic benefits to Canada of multilateral aid are apparently not concomitant with the effort extended. Table 12

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[16] Pearson, op. cit., p. 391.

compares the benefits to major developed countries, in terms of increased exports, with the contributions to the IBRD for the period up to mid-1963. In all cases except that of the Netherlands, expenditures in various developed countries exceeded their initial paid-in contributions to the IBRD. However, this type of comparison is not valid because the IBRD is a revolving fund in which amounts repaid by developing countries are reloaned. In addition, the IBRD issues bonds which are backed by the callable portion of the subscription of member countries. A more valid approach is to compare the individual country's percentage of total contributions with the percentage of total IBRD purchases from that country. Table 12 makes two such comparisons. Comparison A compares percentage contributions (column 2) with cumulative expenditures up to mid-1963 (colums 3-5). Comparison B compares percentage contributions (column 2) with expenditures during the period mid-1961 to mid-1963 (column 6-8) in an effort to indicate any trend. Percentage comparisons under both A and B are made against two columns (percentage of identifiable and percentage of total). The percentage of total columns include unidentifiable expenditures most of which were local costs in recipient LDCs. Comparison A in the Table indicates that Canada, Japan, and the Netherlands did not benefit

Table 12. -- Expenditures of IBRD funds in selected countries

(Subscriptions and expenditures in millions of U.S. dollars)

	(1)	(2)	A (3)	A (4)	A (5)	B (6)	B (7)	B (8)
	Subscriptions Paid In	% of Total	Cumulative Expenditures to 1963	% of Identifiable	% of Total	Expenditures June 30/61 to June 30/63	% of Identifiable	% of Total
	45.0	2.17	126.2	3.05	2.33	15.1	2.03	1.37
	75.0	3.62	147.4	3.57	2.72	9.4	1.26	0.85
	105.0	5.07	210.3	5.09	3.88	90.9	12.19	8.22
	105.0	5.07	456.5	11.04	8.43	90.3	12.11	8.17
	36.0	1.74	165.6	4.01	3.05	56.1	7.52	5.07
	66.6	3.21	121.8	2.95	2.24	41.0	5.50	3.71
s	55.0	2.65	52.5	1.27	0.97	9.8*	2.45	1.26
	20.0	0.97	68.2	1.65	1.26	21.0	2.81	1.90
d	nil	nil	107.8	2.63	1.99	29.8	4.00	2.70
gdom	260.0	12.54	605.2	14.88	11.14	102.1	13.69	9.23
tes	635.0	30.63	1,884.6	45.54	34.74	235.0	31.71	21.25
	N/A	N/A	187.7	N/A	N/A	45.3	N/A	N/A
tifiable	N/A	N/A	4,133.8	N/A	N/A	745.8	N/A	N/A
fied	N/A	N/A	1,291.6	N/A	N/A	359.9	N/A	N/A
	N/A	N/A	5,425.4	N/A	N/A	1,105.7	N/A	N/A

or the Netherlands available for 1962/62 only; therefore, "Other" classification includes figures therlands for 1961/62. Percentage for the Netherlands (B) is calculated on the basis of 1962/63 .

alculated from IBRD Annual Reports for 1961/62 and 1962/63.

Table 12. -- Expenditures of IBRD funds in selected countries

(Subscriptions and expenditures in millions of U.S. dollars)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			A			B		
	Subscriptions Paid In	% of Total	Cumulative Expenditures to 1963	% of Identifiable	% of Total	Expenditures June 30/61 to June 30/63	% of Identifiable	% of Tota
Belgium	45.0	2.17	126.2	3.05	2.33	15.1	2.03	1.3
Canada	75.0	3.62	147.4	3.57	2.72	9.4	1.26	0.8
France	105.0	5.07	210.3	5.09	3.88	90.9	12.19	8.2
Germany	105.0	5.07	456.5	11.04	8.43	90.3	12.11	8.1
Italy	36.0	1.74	165.6	4.01	3.05	56.1	7.52	5.0
Japan	66.6	3.21	121.8	2.95	2.24	41.0	5.50	3.7
Netherlands	55.0	2.65	52.5	1.27	0.97	9.8*	2.45	1.2
Sweden	20.0	0.97	68.2	1.65	1.26	21.0	2.81	1.9
Switzerland	nil	nil	107.8	2.63	1.99	29.8	4.00	2.7
United Kingdom	260.0	12.54	605.2	14.88	11.14	102.1	13.69	9.2
United States	635.0	30.63	1,884.6	45.54	34.74	235.0	31.71	21.2
Other	N/A	N/A	187.7	N/A	N/A	45.3	N/A	N/A
Total Identifiable	N/A	N/A	4,133.8	N/A	N/A	745.8	N/A	N/A
Not Identified	N/A	N/A	1,291.6	N/A	N/A	359.9	N/A	N/A
TOTAL	N/A	N/A	5,425.4	N/A	N/A	1,105.7	N/A	N/A

*Figures for the Netherlands available for 1962/62 only; therefore, "Other" classification includes figures for the Netherlands for 1961/62. Percentage for the Netherlands (B) is calculated on the basis of 1962/63 total only.

Source: Calculated from IBRD Annual Reports for 1961/62 and 1962/63.

in proportion to their contributions when using identifiable expenditures. When all expenditures are included (percentage of total column), the benefits to these three countries are even less, and France and the United Kingdom are added to the list. Comparison B indicates that Belgium, Canada, the United Kingdom and the United States have been benefitting less in recent years than previously. The decreasing advantage to the two most important contributors to the IBRD, the United Kingdom and the United States, may account for the failure of the IBRD to include statistics on expenditures in its Annual Reports after 1962-63.

This picture has not improved since 1962-63. The Canadian Department of Finance reports that disbursements by the IBRD and IDA to borrowers for imports from Canada totalled US $231.9 million up to December 31, 1968.[17] This can be compared to disbursements by the IBRD and IDA, calculated from the IBRD 1968 Annual Report, of US $10,651 million. This results in a percentage of 2.18% which is lower than 2.73% (column 5) in Table 12 for cumulative expenditures to 1963.

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[17] Report on Operations under the Bretton Woods Agreements Act and International Development Association Act during the Calendar Year 1968, Dept. of Finance, Ottawa, p. 21.

These results indicate that Canada would not stand to benefit from the point of view of exports, by any further milti-laterialization of international aid. It has already been pointed out that increased aid from Canada is most probable when accompanied by increased economic benefits to Canada. Therefore, it can be concluded from the above study that it is to Canada's economic advantage to increase its bilateral tied aid program rather than to increase multilateral aid. The obvious exception to this is the "multilateral" aid given under the World Food Program. A large portion of this aid is given in the form of commodities and services and is not really multilateral aid at all but rather bilateral aid administered by a multilateral organization.

From the point of view of policy it can be argued on the basis of the information in this Chapter that Canada should not participate in further efforts toward multilateralization of aid unless the vehicle utilized can clearly demonstrate a better performance than the Canadian bilateral program.

CHAPTER 10

CONCLUSIONS

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CONCLUSIONS

Though this thesis covers a rather limited scope by analyzing empirically the flow of official resources from Canada to the less-developed countries it has been difficult at times to refrain from touching on broader development issues. When such digressions seemed to have a bearing on the flow of official Canadian resources they were considered in some detail but many aspects were consciously overlooked.

The statistics produced by the Development Assistance Committee covering the total flow financial resources were used as a starting point for the analysis. The major conclusion emerging from Chapter I was the advisability of deleting private flows from the analysis of resource flows to the LDCs. It was pointed out that private flows are difficult to estimate at best, and were thus highly inaccurate. In addition private flows were normally motivated by considerations divorced from the motivation relating to the official flows and were highly dependent upon the position of the DAC member as a net importer or net exporter of capital. Finally it was pointed out that the backflows from private investment in the form of dividends and interest payments were not counted and could conceivably create a negative transfer effect to the detriment of the less-developed countries. Consequently, it was recommended that the Pearson target of 0.7% of GNP for net official flows be adopted as a target for the DAC members rather than a1% of GNP target for total flows.

During the second Chapter where the development of DAC's performance goals were discussed it was pointed out that to achieve a true net transfer effect of official resources, interest on official loans should be included in the calculations and should not be relegated to the status of a memo item. As far as DAC's goals on terms and conditions of aid are concerned, the grant element approach was considered the mose useful technique developed to date in determining the quality of a DAC member's performance. In relation to quality it was pointed out that Canada could be expected to turn in a creditable performance in the future. Finally in a rather complex discussion it was indicated that the apparent levelling off of the net official flow of resources from Canada to the LDCs during 1967 and 1968 was probably caused by unforeseen and unusual circumstances and enough evidence was produced to show that a substantial improvement would occur in the Canadian performance for 1969 indicating that the Canadian will to participate in development efforts was not failing.

The reasons for Canada's desire to participate in and increase the flow of development resources to the LDCs were unclear and it was hoped that the upcoming white paper on this subject would both clarify the reasons for the interest and encourage the popular support for continued increases. It was argued that though the international political benefits to aid programs may not be significant the economic benefit to the donor might be considerable.

Following a description of the development of Canada's bilateral aid program in Chapter 4, tracing the expansion of the Canadian program to a point where it offered a wider geographical coverage and an increased flexibility in the type of aid offered, the operations of CIDA's bilateral program were analyzed in considerable detail. In this analysis the reluctance to pay for local costs was defended but it was pointed out that a judicious use of commodity assistance could cover most of the problems such a reluctance imposed on undertaking sound development projects. It was hoped that CIDA's general reluctance to pay for freight and insurance under the aid program would be altered in the knowledge that such payments did in fact contain a considerable element of Canadian content to say nothing of the fact that the reluctance not only negated the basic concept of resource transfer and created administrative problems as well. The Chapter went on to describe many weaknesses of the Canadian program which had been overcome or were being overcome in recent years but highlighted a still lamentable lack of follow-up on projects to determine whether these projects in fact produced the benefits to the LDC originally contemplated. This lack was illustrated with a few of the available examples which indicated that a great deal could be learned from adequate follow-up.

Finally the Chapter pointed out the need for an analysis of the true value of technical assistance indicating that third country training programs or training within the LDC might be an approach preferable to training students in Canada.

The question of tied purchasing was examined in a separate chapter and it was defended on the grounds that tied purchasing resulted in considerable internal political support for aid programs due to domestic job creation, the development of export opportunities and the positive effect tying has on balance of payments problems, whether these problems are real or imagined.

There were two objections to tied aid. The first objection was written off because it could by no means be clear that tied purchasing distorted international trade patterns to any greater extent than they were already distorted and could in some cases reduce existing distortions. On the second point while admitting that tied purchasing could raise the prices of goods to LDCs, in the case of loans an intelligently structured aid program could minimize and even eliminate these extra costs by concentrating in fields where the donor country was particularly competitive or had particular abilities. This argument was reinforced by CIDA's willingness, as pointed out in our earlier chapter, to favourably consider financing, on soft terms, sound development projects won by Canadian suppliers under international competitive bidding.

The operations of ECIC described in Chapter 7 indicated that there were several fields in which Canada had shown that its prices were internationally competitive. Nonetheless, given CIDA's willingness to offer better financing terms for development projects combined with the increasing debt problems of the LDCs a limited scope for ECIC's long-term supplier credit operations was postulated. In addition to the debt problems of the LDCs, the increasing reliance on consortium and consultative groups to channel mixes of grants, soft loans and suppliers' credits to particular LDCs indicated that ECIC's long-term supplier credit operations would have to be more closely co-ordinated with CIDA if not taken over by CIDA entirely.

Three examples in the next chapter, based on very limited information, were used to substantiate some of the previous conclusions, i. e., that there were economic benefits accruing to Canada arising out of the transfer of resources to LDCs both in the form of export promotion in the case of Northern Electric and in the form of alleviating shorter term internal economic problems in the cases of DOSCO and Montreal Locomotive. These economic benefits to Canada arising out of tied aid can be used to justify increased allocations to the Canadian aid program.

The last chapter dealt with multilateral institutions pointing out that the economic benefits to Canada may not be as great as in the case of bilateral aid. The basic and over-riding point however, was that the performance of multilateral institutions might not be as good as is generally assumed. Except in the case of the World Bank group the benefits to the less-developed countries may not be as large as in the case of a well run bilateral program. The caveat in this statement was, of course, that sufficient examination of completed projects has not been undertaken either by multilateral institutions or bilateral institutions to make hard and fast judgements and a plea for better follow-up and ex-post public information on specific projects was again reiterated. The policy recommendation arising from the discussion in the chapter was that Canada should not participate in further miltilateralization unless the vehicle utilized could clearly demonstrate a better performance than the Canadian bilateral program.

One final point which emerges from the totality of the thesis rather than from the arguments set forth in any particular chapter concerns the concentration of aid. As shown earlier, Canada has moved away from a policy of concentration in Commonwealth Asia to what is generally referred to as a policy of country concentration, i.e., by concentrating aid in particular countries.[1] This may produce advantages in terms of a better understanding of the development problems in a particular country and may have some political advantages. However, these

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[1]Strong, op. cit. p. 11, indicates that 75% of Canada's bilateral aid goes to India, Pakistan, Ceylon, Malaysia, Nigeria, Chana, Tunisia, Cameroon, Senegal and the Commonwealth Caribbean taken as a whole.

latter advantages if they exist would surely be cancelled out by the political disadvantages of not concentrating in other individual countries. Since it is apparent from this thesis that Canada offers a limited scope of sectors and products in which it can be considered expert and/or internationally competitive in terms of price, a policy of country concentration may place restrictions on the capacity of the Canadian program to expand unless Canada was willing to undertake projects in the country of concentration which are not economically viable or to change some of its basic policies in regard to tied purchasing and local cost financing, etc. It remains to be proved that a policy of country concentration will be more less advantageous on political grounds but scrapping other policies which create strong political support for the Canadian aid program to maintain a policy of country concentration would not be well advised. It is indeed a pity to see good projects, which Canada could undertake extremely well, in countries like Indonesia rejected because Indonesia is not a country of concentration, while in some countries of concentration Canada may have a great deal of difficulty finding good projects which fit Canadian capabilities.

Consequently, from the point of view of total policy Canada might be better advised to express its willingness to undertake economically viable projects which fit Canadian capabilities in any country where there is a need. As far as the need to understand the economic problems of the particular recipient is concerned, the voluminous macro research studies of multilateral institutions such as the IBRD, IMF and regional banks could be utilized. These organizations are better situated to acquire and process basic economic information on most less-developed countries than any individual donor country. This information is provided to all member governments of these multilateral organizations including Canada. It would also not be useful for any individual donor country to take up the time of top government officials in the LDCs to discuss their problems. The proliferation of multilateral institutions imposes a considerable burden on officials in LDCs already. Perhaps many LDCs have poor government administrations because the top officials have to spend so much time explaining their problems and discussing their needs not only with multilateral institutions but also major bilateral donors. Canada would be better advised to accept the macro analysis produced by multilateral organizations and concentrate on sound project analysis to ensure that Canadian projects produce the intended benefits to the recipient.

APPENDIX

PROJECTS FINANCED UNDER SECTION 21A OF THE ECI ACT

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This Appendix is a detailed description of the various long-term financing projects undertaken by the Export Credits Insurance Corporation. No comprehensive description of these projects has been published; therefore, a considerable amount of detail will be included. The largest source of information for the description of the projects is various press releases issued by the Trade Publicity Branch of the Department of Trade and Commerce. Press releases are used because many of the releases were not deemed important enough by news media to be printed, and sometimes when they were used as the basis for news articles the resulting articles were not entirely accurate or complete. Some projects were not even covered by press releases because the projects were redundant, or because it was not considered politically expedient to do so, or because someone merely forgot. In these cases, only the information available in ECIC annual reports has been used.

1961

1. On August 18, 1961 a $12 million financing agreement was signed with Industrias Forestales S. A. of Santiago, Chile for the supply of $11 million of pulp and papermaking machinery from John Inglis Co. Limited of Toronto and $1 million of consulting services from Sandwell and Company of Vancouver. The Toronto firm signed a contract with the Chiiean firm to supply all equipment for the $21 million pulp and paper mill to be constructed near Nacimiento on the Bio-Bio River. The mill will have a rated annual capacity of 60,000 tons of newsprint and was expected to be complete by October, 1963. The $12 million loan from ECIC was repayable in twenty-five semi-annual instalments commencing October 1, 1964. Most of the mill equipment was to be manufactured in the Inglis Company plants and the rest was to be purchased from other Canadian suppliers providing an estimated

total of one million man-hours of work for Canadians. The loan was guaranteed by Corporacion de Fomento de la Produccion--the industrial development corporation of Chile.[1]

2. On November 6, 1961 seventy diesel locomotives were sold to the Argentine railways for $14 million. Financing through ECIC was arranged for $12.5 million repayable in thirteen semi-annual instalments commencing October 11, 1964. The locomotives were supplied by Montreal Locomotive Works Ltd. which was tooling up for the special production necessary. Canadian General Electric and Dominion Engineering acted as the principal equipment suppliers but over one hundred other Canadian firms were to receive orders for parts. It was estimated that the order created 1,800,000 man-hours of work for Canadians. The financing agreement was guaranteed by the Government of Argentina. At the time, George Hees was quoted as saying:

> The need for long-term financing of capital goods from Canada arose from two interrelated causes. These involve the stimulation of employment through the provision of assistance to Canadian firms in that they now have access to longer term funds for creditworthy capital projects in the export field. Canadian firms are thus enabled to bid for sound business when they can compete in terms of price, quality, and delivery without being hampered by lack of adequate financing.[2]

3. On November 27, 1961, a loan of $12.5 million was made to finance the purchase of rails by Ferrocarriles Nacionales de Mexico. Dominion Steel and Coal Corp. Ltd., was the supplier

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[1]Trade Publicity Branch, Dept. of Trade and Commerce, No. 49/61. ECIC annual reports have carried this loan at $13.5 million of which $13,498,038 was actually disbursed.

[2]Trade Publicity Branch, Dept. of Trade and Commerce, Press Release No. 64/61. Complete disbursements amounted to $12,325,005, according to ECIC annual reports.

and the agreement was guaranteed by Nacional Financiera S.A. Twenty-eight quarterly repayments were to begin on September 1, 1962.[3]

4. On December 20, 1961 a loan of $2.6 million was signed with Companhia Siderurgica Nacional of Brazil for locomotives. Montreal Locomotive Works Ltd. was the supplier. Repayments in fifteen semi-annual instalments commenced on December 24, 1964. No guarantor was listed.[4] A later press release (see 1962, No. 6) reported that ten diesel-electric locomotives were sold under this agreement.

1962

5. On February 1, 1962 a loan of US $1.5 million was made to the Republic of Liberia for the purchase of equipment supplied by R.C.A. Victor Co. Ltd., for a telecommunications network. The loan was repayable in sixteen semi-annual instalments commencing August 1, 1964.[5]

6. On April 3, 1962 a loan was made to cover the purchase of fifty-six locomotives valued at US $5.6 million. The locomotives were purchased by the federal railways of Brazil--Rede

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[3] This project was not covered by a press release and information was obtained from ECIC annual reports. The loan was made in U.S. dollars which probably accounts for complete disbursements amounting to $12,810,259 occurring both before and after the 1962 devaluation of the Canadian dollar. Later ECIC annual reports had the date of contract listed as Nov. 17, 1961 while earlier annual reports listed the date as Dec. 14, 1961.

[4] This project was not covered by a press release and information was obtained from ECIC annual reports. Earlier annual reports listed the date of contract as Dec. 20, 1961. Disbursements for the completed project amounted to $2,557,800.

[5] This project was not covered by a press release and information was obtained from ECIC annual reports. Complete disbursements totalled Can$1,498,751.

Ferroviaria Federal S. A. and the financing was guaranteed by the National Treasury of Brazil. The loan covered the Canadian portion of a US $9.5 million order which was to be jointly filled by General Motors Diesel Limited of London, Ontario and the General Motors Corporation, of the United States. It was estimated that the order created 100,000 man-days of work, divided between General Motors Diesel Limited and their Canadian sub-suppliers. Repayments were to be made in fourteen semi-annual instalments commencing December 15, 1965.[6]

7. On April 11, 1962 an agreement was signed with the Province of La Pampa, Argentine to finance the sale of road graders. A press release dated May 31, 1962 announced that the agreement was a first instalment of a transaction expected to involve 260 road graders valued at $5 million and creating 850,000 man-hours of work for Canadians.[7] Apparently, only the first instalment was taken up during 1962 as ECIC annual reports specify an agreement covering only $944,857 of road graders during 1962. Later press releases (see 1963, No. 12) state that forty-five road graders were sold in the first instalment. Repayments in sixteen semi-annual instalments commenced on April 15, 1963. The contract was guaranteed by the Banco de la Provincia de Buenos Aires and the supplier was The Dominion Road Machinery Co. Ltd., of Goderich, Ontario.

8. On November 23, 1962 a loan was made to the East Pakistan Industrial Development Corporation for $6.3 million to finance the purchase of Canadian paper mill machinery. The project was an expansion at the Khulna Newsprint Mill Ltd. which has been operating since 1956 and was managed by Sandwell Consultants Ltd. This Canadian firm also did the technical and economic feasibility study which resulted in the decision to build the original plant. The expansion was the first project under the $15 million in Special Credits committed as financial assistance to Pakistan for the first two years of its then current five-year plan. Canadian General

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[6]Trade Publicity Branch, Dept. of Trade and Commerce, No. 21/62. ECIC annual reports record complete disbursements under their agreement as Can$5,923,441.

[7]Trade Publicity Branch, Dept. of Trade and Commerce, No. 40/62

Electric Co. Ltd., and Sandwell Consultants Ltd., acted as prime contractors with the former supplying the electrical apparatus. Dominion Engineering Company Ltd. was to build a complete 146-inch wide paper machine and a number of other firms were to manufacture about $2 million of auxilliary equipment. The loan was repayable in twenty-five semi-annual instalments from September 1, 1965 and was guaranteed by the Government of Pakistan.[8]

<u>1963</u>

9. Part of Mexico's long-range plan for the rehabilitation of its railways was the purchase of additional diesel-electric locomotives. On January 23, a loan to finance the $16.1 million sale of eighty locomotives to Ferrocarriles Nacionales de Mexico was signed. Montreal Locomotive Works Ltd. secured the sale and, as a result, was able to announce the expansion of its production facilities. Previously the company had produced only the locomotive body, but in future it would produce the diesel engines as well. It was estimated that the transaction would provide 1.5 million man-hours of work for Montreal Locomotive and their Canadian sub-suppliers such as Canadian Westinghouse Co., Hart Battery Co. (1957) Ltd., and Adanac Supplies Ltd. The ECIC loan was repayable in eighteen semi-annual instalments from April 30, 1965 and was guaranteed by Nacional Financiera S.A.[9]

10. Another part of the Mexican railway rehabilitation program was the purchase of steel rails. On January 30 a loan to finance the $26,875,000 sale of steel rails to Ferrocarriles Nacionales de Mexico was signed. The supplier, Dominion Steel and Coal Corporation Ltd., estimated that the sale represented more than four million man-hours of work for Canadians over a period of two years.

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[8]Trade Publicity Branch, Dept. of Trade and Commerce, No. 64/62. ECIC annual reports place complete disbursements at $6,232,449.

[9]Trade Publicity Branch, Dept. of Trade and Commerce, press release No. 7/63. ECIC annual reports place complete disbursements at $16,222,065.

Repayments of the ECIC loan, in thirteen semi-annual instalments, commenced on February 1, 1965. The loan was guaranteed by Nacional Financiers S. A. [10]

11. On March 15, the original loan to Industrias Forestales S. A. in Chile was increased by $700,000. The repayment terms coincided with those of the first loan (see 1961, No. 1). [11]

12. On March 26, 1963 a contract was signed with Direccion Provincial de Vialidad de Santa Fe financing the purchase of one hundred road graders from The Dominion Road Machinery Co. Ltd. This was the second instalment of the contract outlined above (1962, No. 7). The loan of $1,858,567 was repayable in twenty-four semi-annual instalments commencing January 15, 1964. The company estimated that the sale would provide over 200,000 man-hours of work and provide orders for component materials to sixty-five Canadian sub-suppliers. In addition, it was estimated that a market for spare parts of up to twenty years had been created. [12]

13. Another joint sale by General Motors Diesel Ltd. of Canada and the General Motors Corporation of the United States was completed on March 27 (see 1962, No. 6). In this case, ECIC loaned $2.4 million to Companhia Vale do Rio Docs S. A. for the purchase of fifteen locomotives. The American company's sales totalled an additional $1.3 million. It was estimated that the order provided 264,000 man-hours of work for Canadian workers. The loan was repayable in ten semi-annual instalments commencing December 1, 1966. The loan was guaranteed by the National Treasury of Brazil. [13]

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[10] Trade Publicity Branch, Dept. of Trade and Commerce, press release without a number. ECIC annual reports placed complete disbursements at $25,817,724.

[11] No press release was issued for this addition and reference to it appears only in the ECIC annual reports. It was fully disbursed.

[12] Trade Publicity Branch, Department of Trade and Commerce, press release No. 22/63. The loan was fully disbursed.

[13] Trade Publicity Branch, Dept. of Trade and Commerce, press release No. 21/63. ECIC annual reports state that complete disbursements of $2,199,106 were made.

14. Ceylon planned to develop the hydro-electric power potential of the Maskeliya Oya watershed in three stages. Eventually, this development would produce 190,000 kilowatts of power which would be instrumental in averting a serious power shortage in Ceylon until 1969. The first stage of the development was to be a storage dam and reservoir at Mousakelle and a 60,000 to 70,000 kilowatt hydro-electric powerhouse at Polipitiya. On April 26, ECIC made a loan of $10.8 million to the Department of Government Electrical Undertakings of Ceylon to finance the portion of stage one requiring Canadian financing. Canadian General Electric Co. Ltd., is the prime contractor ($9.3 million) and Ingledow, Kidd and Associates Ltd., of Vancouver are the consulting engineers ($1.5 million). The local costs amounting to $16.8 million are being financed by the Government of Ceylon. The first stage was scheduled for commissioning in early 1967, but unforeseen problems have evidently developed. By the end of 1966, less than half the loan had been disbursed. The ECIC loan is repayable in twenty-five semi-annual instalments commencing February 1, 1966. It was estimated that the project would require 70,000 man-hours of direct labour in Canada and have a Canadian labour and material content of more than 90 per cent for all mechanical and electrical equipment and engineering services.[14]

15. The Isolated Power Generation and Distribution Project was a two-stage project to supply electrical power to fourteen communities in East Pakistan, with populations ranging from 15,000 to 115,000 which could not be connected economically with existing power sources. The first part of the project involved the purchase of Canadian engineering services and capital equipment to construct four power generation and distribution systems which would serve nine of these isolated towns. The first part required two central generating plants of 5,000 kilowatts and 4,000 kilowatts each and serving four and three towns respectively. In addition, stage one included two individual units of 1,000 kilowatts each and serving one town each. The total cost of the first part was estimated

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[14]Trade Publicity Branch, Dept. of Trade and Commerce, press release No. 27/63. ECIC's 1966 annual report stated that only $4,889,977 had been disbursed by December 31, 1966.

as $15.4 million of which $6 million was foreign exchange costs. ECIC made a loan on June 12 covering the foreign exchange costs to the East Pakistan Water and Power Development Authority (EPWAPDA), repayable in thrity-two semi-annual payments commencing February 1, 1967. The loan was guaranteed by the Government of Pakistan. Pelletier Engineering (International) Ltd. of Montreal served as engineers and procurement agents for EPWAPDA. It was estimated that the project would provide 50,000 man-hours of work for Canadian engineers and the generation and distribution equipment would represent another 1,250,000 man-hours of work.[15] The first part of the project was scheduled to be complete by mid-1967.

16. On November 26, 1962 the Inter-American Development Bank (IADB) and the International Finance Corporation (IFC) announced that they would jointly assist in a US $31.5 million expansion of the Compania Manufacturera de Papeles y Cartones S. A. pulp mill in Chile to a capacity of 220,000 tons per year. At the time the company supplied all Chile's needs for newsprint, pulp and paper. Production of pulp in 1962 was 84,000 tons of which 24,000 was exported and 117,000 tons of newsprint and paper of which 30,200 was exported. The IADB extended a $16 million loan of which US $6.4 million was in U.S. dollars, US $8.0 million was in Italian lire, and US $1.6 million was in Chilean escudos. The IADB made two separate loans for fifteen years. The loan of Italian lire carred a rate of interest of 6 3/4 per cent and the loan of U.S. and Chilean currencies carried an interest rate of 5 3/4 per cent. The IFC invested US $3 million for a term of 9 1/2 years backed by a series of unsecured notes, US $2 million carried an interest rate of 7 3/4 per cent and US $1 million carried an interest rate of 6 1/2 per cent. The IFC also obtained an option to purchase up to 2,800,000 shares in Papeles y Cartones. The rest of the project was to be financed by the use of suppliers' credits and the company's own resources.[16]

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[15] Trade Publicity Branch, Dept. of Trade and Commerce, No. 43/63. The 1966 ECIC annual report indicates that disbursements of $4,986,518 had been made by the end of 1966.

[16] <u>International Financial News Survey</u>, Vol. XIV, No. 50, December 21, 1962, International Monetary Fund, Washington, D. C.

On August 30, 1963 ECIC extended a loan of Can$5.4 million to the same company in connection with the same project. It was expected that the loan would cover orders for equipment substantially in excess of $5.4 million placed in Canada. H. A. Simons (International) Ltd. was the consulting engineer for the whole project and by August 30, 1963, orders exceeding $3.0 million had already been placed in Canada. ECIC's loan was apparently not guaranteed and was repayable in twenty-five semi-annual instalments commencing July 23, 1966.[17]

17. On October 4, 1963 a loan of $2.3 million was made to the State of Israel to finance the purchase of telephone equipment from Automatic Electric (Canada) Ltd. The equipment was for the central office and associated equipment of the Strowger automatic type needed for the installation of 16,400 automatic telephones and 18,500 terminals for the Israeli Ministry of Posts. The project served to expand telephone facilities at Haifa, Ibn-Gevirol and Ahuza. The loan was repayable in twenty-one semi-annual instalments starting September 15, 1965. It was estimated that the project would create half a million man-hours of work for Canadians and would establish a market for replacement parts and new installations.[18]

18. The Rana Pratap Sagar project is the $40 million second stage of a three-stage irrigation and hydro-electric complex known as the Chambal Valley Development Scheme which envisages three dams (with associated power stations) on the Chambal River in the state of Rajasthan. On December 4, 1963 ECIC made a loan of $8 million to cover the purchase of Canadian power plant and substation equipment and the engineering services of Montreal Engineering Co. Ltd. Montreal Engineering was also to coordinate procurement of the equipment from ten prime suppliers. The loan was made to the

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[17] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 61/63. According to ECIC annual reports the loan is now fully disbursed.

[18] Trade Publicity Branch, Dept. of Trade and Commerce, News Release without a number, dated October 4, 1963. Complete disbursements amounted to $2,205,110 according to ECIC annual reports.

President of India and was repayable in thirty-one semi-annual instalments commencing August 1, 1968.[19]

19. On the same date a $1 million loan also to the President of India was made for the expansion of aluminum production facilities. The loan was part of a joint financing transaction to supply foreign exchange for a $12 million expansion of an aluminum smelter in Kerala State and the construction of a foil mill in the Bombay area. Both plants are owned by the Indian Aluminum Company Ltd. of Calcutta (INDALUCO). INDALUCO is a subsidiary of Alcan Aluminum Limited of Montreal[20] which provided an additional $2.7 million in foreign exchange. Alcan acted as general contractor to co-ordinate the purchase of equipment from various Canadian suppliers. The loan from ECIC is repayable in twenty-five semi-annual instalments commencing May 31, 1966.[21]

20. Also on December 4, 1963 a loan of $8 million was made to the President of India to finance the purchase of thirty-seven diesel-electric locomotives and spares. The supplier was Montreal Locomotive Works, Ltd. and it was estimated that the order created 700,000 man-hours of work at Montreal Locomotive. The loan is repayable in twenty-five semi-annual instalments commencing September 1, 1966.[22]

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[19]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 93/63. The 1966 ECIC annual report stated that disbursements had reached $7,615,983 by the end of 1966. The press release states that Rajasthan is in West Bengal indicating that even the original source material can include errors.

[20]Alcan Aluminum Ltd., 1966 Annual Report, p. 41

[21]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 93/63, the same news release that covered Rana Pratap Sagar. Both projects were included in the Indian Five-Year Plan.

[22]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 94/63. ECIC annual reports state that complete disbursements amounted to $7.7 million.

1964

21. ECIC's largest loan, for $37 million, was made on April 27, to cover the purchase of equipment, materials and services for a 200,000 kilowatt nuclear power station in Rajasthan. The station was to be similar to the one that Atomic Energy of Canada designed and was building at Douglas Point, Ontario. The design called for the use of heavy water as a nuclear moderator and coolant with natural uranium as the fuel. The total cost of the project was estimated at $74 million with the ECIC loan covering the foreign exchange portion. Indian Atomic Energy is acting as prime contractor and is responsible for erecting the station and Atomic Energy of Canada is providing engineering and consulting services for the nuclear portion of the plant. Montreal Engineering Co. Ltd. was appointed by Indian Atomic Energy as Canadian engineer for the project and procurement agent in Canada. The Canadian equipment includes the major nuclear components, the turbo generators, switch gear and substation equipment, and half the initial uranium fuel charge. The Rajasthan nuclear power station was part of the third five-year plan and was expected to commence operations in 1970. The loan is repayable in thirty-one semi-annual instalments commencing February 1, 1969. The loan was made to the President of India.[23]

22. In 1958 Sandwell and Company Limited of Vancouver performed engineering services for the construction of the paper mill of Fabricas de Papel Tuxtepec S.A. On May 12, 1964 ECIC made a loan to the Mexican Company for modification and diversification of existing newsprint and book paper facilities of the Tuxtepec mill. The prime contractors for the project were Parsons and Whittemore (Contractors) Ltd., Montreal, while engineering and erection services were supplied by Sandwell. It was estimated that the supply of goods and services would create employment in Canada totalling 400,000 man-hours and the main equipment supplier, Black, Clawson-Kennedy Limited, said the order would enable them to

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[23] Trade Publicity Branch Dept. of Trade and Commerce, News Release No. 36/64. The 1966 ECIC annual report places disbursements at $10,374,768 by the end of 1966.

create fifty new jobs in their plant. The loan is repayable in seventeen semi-annual instalments commencing May 1, 1966. The loan was guaranteed by Nacional Financiera S. A.[24]

23. Cominco Binani Zinc Ltd. of Calcutta is a joint company set up by the Consolidated Mining and Smelting Company of Canada Ltd. of Montreal (COMINCO) and Metal Distributors Ltd. of Calcutta. Cominco Binani Zinc was building a zinc smelter and an associated sulphuric acid plant near Cochin in the state of Kerala. The project had a high priority under the Indian five-year plan. When complete in mid-1966, Cominco Binani Zinc was to produce 20,000 tons of zinc per year and 125 tons of sulphuric acid per day. It was expected that the Indian market for zinc would reach 100,000 tons per year by 1967 and the sulphuric acid would find a ready market in large fertilizer plants. The $12 million project was to include foreign exchange costs of $3.6 million of which direct investment by COMINCO would account for $2 million. The rest was covered by a loan from ECIC on May 28, 1964 to Cominco Binani and guaranteed by the Industrial Finance Corporation of India. The local financing was provided by various Indian organizations including Metal Distributors Ltd. and the state of Kerala. Cominco supplied the technical knowledge and design. It was apparent that purchases in Canada would exceed $1.6 million. The ECIC loan was repayable in twenty semi-annual instalments commencing May 1, 1969.[25]

24. A revised estimate of India's aluminum requirements resulted in a $900,000 addition to the $1 million loan made in 1963 (see 1963, No. 19). This addition made on July 11, 1964 was for the expansion of INDALUCO's bauxite mine and alumina facilities

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[24]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 40/64. The news release stated that repayments began in March, 1966, but ECIC annual reports state May 1, 1966. The 1966 ECIC annual report records disbursements of 2,880,594 by the end of 1966.

[25]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 47/64. ECIC annual reports state that the loan was completely disbursed by the end of 1966.

at Loharga in the state of Bihar and its smelter at Alupuran, in the state of Kerala. Smelter production will be boosted from 11,000 tons to 16,000 tons of aluminum per year. It was agreed between INDALUCO and the Indian Government that the entire additional output would be of electrical conductor rod which would be placed at the disposal of the Indian Government to help meet high priority requirements of the rapidly developing electrical industry in India. The terms of the loan were the same as the previous loan and was also made to the President of India.[26]

25. On July 2, ECIC made a loan of $4.2 million to India to finance a Canadian-designed and manufactured aeronautical research wind tunnel. The 4' x 4' trisonic wind tunnel was to be installed in the National Aeronautical Laboratory at Belur and was to provide all the primary aerodynamic performance requirements for model testing. Canadian Vickers Ltd. of Montreal is building and testing the wind tunnel. Its design, provision of technical advice and engineering supervision are being provided by Dilworth, Secord, Meagher and Associates Ltd. of Toronto. These are the two companies which cooperated in designing and installing the 5' x 5' wind tunnel at the National Research Council's aeronautical establishment in Ottawa. It was estimated that the project would create 200,000 man-hours of employment in Canada. This loan was also made to the President of India and is repayable in twenty-three semi-annual instalments starting June 1, 1968.[27]

26. Another sale of rails to Mexico was financed by an ECIC loan of $3 million made on August 31. The sale covered 22,000 tons of steel rails and track accessories to Ferrocarril del Pacifico S.A. de C.V. The loan was guaranteed by Nacional Financiera S.A. and was repayable in twelve semi-annual instalments starting January 1, 1965. In announcing the loan, Mr. MacEachen said it would provide two hundred jobs for a year in

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[26]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 50/64. The 1966 ECIC annual report records disbursements under the two INDALUCO loans as $1,564,830 by the end of 1966.

[27]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 58/64. According to ECIC's 1966 annual report, disbursements of $3,266,766 had taken place by the end of 1966.

the Maritimes or 400,000 man-hours in Dominion Steel and Coal Corp., Ltd.'s Sydney plant, Wabana iron ore mines and Cape Breton coal mines.[28]

27. ECIC's first loan to the Philippines was made on September 22. The loan for $13.5 million was made to the Philippines Long Distance Telephone Company (PLDTC) of Manila, the major private telephone in the Philippines, and it was guaranteed by the National Industrial Development Corporation of the Philippines, a subsidiary of the Philippines National Bank. Automatic Electric (Canada) Limited of Brockville, Ontario, will supply a wide range of equipment for general telephone plant expansion and improvement including central office switching equipment, branch exchange equipment and radio carrier equipment for twelve central offices of the PLDTC. It was estimated that the sale would provide employment for three hundred workers for three years in Automatic Electric's Brockville and Lethbridge plants and the equivalent of one hundred and fifty jobs over three years for subsuppliers. The loan was repayable in twenty-one semi-annual instalments beginning July 15, 1966.[29]

28. The expansion program of Compania Manufacturera de Papeles y Cartones S.A.'s facilities called for the addition of a complete new line for cooking, washing and screening four hundred tons of pulp per day, a three-stage semi-bleachery of a two hundred tons per day capacity and two pulp dryers. The wood handling system was also being converted from a batch to a continuous operation (see 1963, No. 16). By the end of 1964 new credits were needed to enable the company to install a new boiler, increase the electric power output and replace old machinery in order to lower production costs and increase the plant's efficiency. These additional costs were financed by another loan from the IADB of US $1.4 million, another loan from ECIC of Can$2.82 million

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[28]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 64/64. ECIC annual reports state that complete disbursements amounted to $2,990,827.

[29]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 73/64. The 1966 ECIC annual report stated that $12,847,832 had been disbursed by the end of 1966.

(US $2.6 million) and funds totalling US $2.3 million from Papeles y Cartones. The IADB's loan of October 8, 1964 was for thirteen years at 6 per cent interest.[30] ECIC's loan was to be used for the purchase of capital equipment from a number of Canadian suppliers and for erection and engineering services from Beamer and Lathrop Ltd. of Niagara Falls. Continued expansion of Papeles y Cartones facilities was justified by the rising demand developing in the Latin American Free Trade Area. ECIC's loan was repayable in twenty-five semi-annual instalments beginning July 23, 1966.[31]

29. On October 16, a loan of $1.96 million was made to the President of India to finance the purchase of three electrical re-heating and heat treatment furnaces to be installed in a specialty alloy steel plant under construction at Durgapur in West Bengal. Amco Furnace Contractors Ltd. of Rexdale, Ontario, was to design, supply, erect and commission the furnaces. The basic components were to be manufactured by Canada Iron Foundries Ltd. of Montreal. It was estimated that the order would provide 460,000 man-hours of work in Canada. A spokesman for Amco said that it was the first time a Canadian firm had supplied this type of equipment for export and that Amco was developing new designs especially for the project. The loan was repayable in thirty-three semi-annual payments commencing November 1, 1968.[32]

1965

30. The Chambal Valley Development Scheme included three stages: the Ghandi Sagar Dam and the associated power station which

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[30]Inter-American Development Bank, Fifth Annual Report, 1964, p. 21.

[31]Trade Publicity Branch, Department of Trade and Commerce News Release No. 84/64. The 1966 ECIC annual report listed disbursements at $2,667,623 at the end of 1966.

[32]Trade Publicity Branch, Department of Trade and Commerce, News Release No. 80/64. The 1966 ECIC annual report listed disbursements at $1,420,078 by the end of 1966.

was already complete, the Rana Pratap Sagar Dam and power plant which was under construction (see 1963, No. 18), and the Kota Dam for which ECIC made a loan of $8 million on February 18, 1965 to cover the purchase of Canadian equipment. The loan was made to the President of India and the exporter was again Montreal Engineering Co. Ltd. which acted as procurement agent for the state of Rajasthan. Equipment purchased in Canada was to include hydraulic turbines, generators, transformers, switch gear and associated equipment. The project came within the scope of the Third Five-Year Plan and would enable India to meet the power requirements being created by the build-up of industry in Rajasthan and Madhya Pradesh. The Kota power station required three turbines and generators of 33,000 kilowatts each and provision was made for a fourth to be installed at a later date. The loan was repayable in thirty-one semi-annual instalments beginning March 15, 1970.[33]

31. On May 25, a $10 million loan was made to Ferrocarriles Nacionales de Mexico for steel rails and track accessories as part of Mexico's continuing rehabilitation of its railway system. It was estimated that the sale would provide 1.4 million man-hours of employment to 1,100 men in Dosco's rolling mills and Cape Breton coal mines. The loan was repayable in fourteen semi-annual instalments beginning March 15, 1966.[34]

32. A project to supply and erect television and radio broadcasting facilities in the Nile Valley and provide a long-range microwave chain linking Cairo with Aswan was started in 1965 and scheduled for completion within twenty-four months (in time for opening of the Aswan Dam?). ECIC's loan of $3.8 million on

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[33] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 14/65. The 1966 ECIC annual report stated that disbursements of $2,969,668 had been made by the end of 1966.

[34] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 40/65. ECIC annual reports record complete disbursements as $9,834,164.

June 30 was made to the General Egyptian Organization for Cinema and Broadcast Engineering of Cairo, an agency of the Government of the United Arab Republic. The loan was to be used to cover purchases of microwave, radio and other communications equipment from RCA Victor Company, Ltd., Montreal. It was estimated that more than one hundred Canadian subsuppliers would be involved in the project. The loan was repayable in seventeen semi-annual instalments beginning June 1, 1967.[35]

33. On August 9, a loan for the second phase of the Isolated Power Generation and Distribution Project in East Pakistan was signed. (Stage 1 is covered in project No. 15.) The second stage required a loan of $5.3 million to cover Canadian equipment for five more individual power generating units, one of 3,000 kilowatts, two of 2,000 kilowatts and two of 1,000 kilowatts to service the remaining five villages. The loan was repayable in thirty-two semi-annual instalments beginning July 15, 1969. Other particulars of this loan were the same as the previous loan.[36]

34. Taiwan experienced the interesting anomaly of a domestic lumber and plywood shortage while possessing sizeable untapped forest reserves. The Vocational Assistance Commission for Retired Servicemen planned to remove this anomaly by constructing a lumber, plywood and furniture component manufacturing complex. ECIC made a loan on September 29 to finance the purchase of equipment for the complex such as a sawmill, planer mill, dry kiln, plywood plant and furniture manufacturing machinery. Canadian Transoceanic Technical Services Ltd. of Vancouver was to procure the equipment in Canada and provide engineering, erection and

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[35]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 50/65. Disbursements on this loan totalled $3,307,664 by the end of 1966 according to the 1966 ECIC annual report. Apparently, the press release should have specified U.S. dollars since the 1965 ECIC annual report listed the loan as US $3.8 million and Can$4,098,915.

[36]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 58/65. No disbursements have been made on this loan according to ECIC annual reports.

installation services as well as training personnel to operate the project. The loan was guaranteed by the Bank of Taiwan and was repayable in twelve semi-annual instalments beginning February 1, 1968.[37]

35. A joint loan by ECIC and EAO was made to Pakistan on December 29, 1965 for a 137,000 kilowatt nuclear power station. The loan totalled $48.1 million of which the ECIC portion totalled $24,678,100. The EAO portion carried a fifty-year repayment period in which is included a grace period of ten years. Interest on the EAO portion of the loan was three-quarters of 1 per cent. The loan was pursuant to a government agreement between Canada and Pakistan pledging co-operation in the development of atomic energy for peaceful uses, and both countries undertook to make arrangements to apply the safeguards of the International Atomic Energy Agency. The reactor was to be a Canadian-developed heavy water moderated and cooled reactor using natural uranium as fuel. It was to be located fifteen miles from Karachi where most of the power would be used. The Canadian General Electric Co. Ltd. was the prime contractor. The loan was made to the President of Pakistan and the ECIC portion of the loan was repayable in thirty-one semi-annual instalments beginning December 15, 1970.[38]

1966

36. On March 16, 1966 another loan was made to La Provincia de la Pampa of Argentina to finance the purchase of road graders from The Dominion Road Machinery Co. Ltd. The loan of $335,880 was repayable in ten semi-annual payments beginning April 15, 1966.

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[37] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 77/65. The 1966 ECIC annual report stated that disbursements amounted to $2,353,789 by the end of 1966.

[38] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 94/65. The 1966 ECIC annual report stated that disbursements under its portion of the loan amounted to $4,577,620.

The loan was guaranteed by Banco de la Provincia de Beunos Aires.[39]

37. On June 1, 1966 another loan was made to Ferrocarriles Nacionales de Mexico to finance the purchase of steel rails from Dominion Steel and Coal Corp., Ltd. The loan of $9.8 million was repayable in ten semi-annual payments beginning January 1, 1969. The loan was guaranteed by Nacional Financiers S. A.[40]

38. The first loan to a European country was made on June 10, 1966 to Organization of Telecommunications of Greece Ltd., Athens, which controls the telecommunications network in Greece. The $4.8 million loan was to finance the sale of Canadian equipment and services to expand the telecommunications system. The order was won by the Northern Electric Company Ltd., Montreal, and was expected to benefit more than two hundred Canadian firms supplying raw materials and components. The loan was to be repaid in twenty-five semi-annual instalments beginning June 1, 1969.[41]

39. On July 8, 1966 another loan was made to Direccion Provincial de Vialidad de Santa Fe to finance the purchase of road graders from The Dominion Road Machinery Co. Ltd. The loan

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[39]This loan was not covered by a press release. Information was obtained from the 1966 ECIC annual report. The loan was fully disbursed.

[40]Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 48/66. Complete disbursements of $9,834,164 were made according to the 1966 ECIC annual report.

[41]Trade Publicity Branch, Department of Trade and Commerce, News Release No. 50/66. No disbursements had been made by the end of 1966 according to the 1966 ECIC annual report.

of $3, 199, 168 was repayable in twenty semi-annual instalments beginning August 3, 1967. The loan was guaranteed by Banco Provincial de Santa Fe.[42]

40. Mexico is embarking on a $324 million electrical power expansion program for which it is borrowing $156 million. Of this latter amount, $118 million has been loaned by the IBRD. The remainder was to be in the form of bilateral loans from a group of countries including Canada. ECIC appears to have negotiated an open-ended loan providing Canada with opportunities to sell electrical equipment valued at up to $16. 2 million. The ECIC loan would cover one-third, or $5. 4 million, and the IBRD loan would cover the remaining two-thirds. The loan will be made to the Nacional Financiera and will be used by Comision Federal de Electricidad responsible for development and distribution of electric power in Mexico. The ECIC loan is repayable in twenty-five semi-annual instalments beginning November 1, 1969.[43]

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[42] This loan was not covered by a press release. Information was obtained from the 1966 ECIC annual report. Disbursements of $1, 909, 861 had been made by the end of the year.

[43] Trade Publicity Branch, Dept. of Trade and Commerce, News Release No. 83/66. No disbursements had been made by the end of 1966.

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