

45454.

AC0000

E

Conference Paper No. 3.

ECONOMIC COMMISSION FOR AFRICA/
ORGANIZATION OF AFRICAN UNITY
Preparatory Meeting for UNCTAD II
Algiers, 6-7 October 1967

INTERNATIONAL CO-OPERATION IN FINANCING OF
TRADE AND DEVELOPMENT

1.67-1222

TABLE OF CONTENTS

INTERNATIONAL CO-OPERATION IN FINANCING OF TRADE AND DEVELOPMENT

	<u>Paragraphs</u>
I. BACKGROUND	1 - 4
II. THE VOLUME OF AID	5 - 18
III. THE TERMS OF AID	19 - 27
IV. THE DEBT-SERVICING PROBLEM	28 - 32
V. SUPPLEMENTARY FINANCIAL MEASURES	33 - 41
VI. THE QUESTION OF INTERNATIONAL LIQUIDITY AND AID	42 - 49
ANNEX: ASSISTANCE RECEIVED BY AFRICAN COUNTRIES FROM DEVELOPED COUNTRIES AND MULTILATERAL AGENCIES	

INTERNATIONAL COOPERATION IN FINANCING OF TRADE AND DEVELOPMENT

I. BACKGROUND

1. It has become evident half way through the Development Decade, that the achievement of even those modest targets set by the United Nations General Assembly for the growth of developing countries in Africa and elsewhere over the 1960's is not to be expected.^{1/} The average annual growth rate of the combined gross domestic product of developing African countries over the first five years of the current decade has been of the order of 3.7 per cent. On a per capital basis, the rate has hardly exceeded 1 per cent.^{2/} Such frustrations of the development efforts of African countries have occurred at a time when the developed industrialized economies have continued to make an impressive and steady progress.

2. The same period has also witnessed widespread and mounting balance of payments difficulties in a good many African countries. Although the combined trade gap of the developing African countries has narrowed significantly since 1964, many individual countries have continued to be plagued by the problems of trade deficits. Most countries have in addition sustained growing deficits on account of invisible transactions. The result is that foreign exchange reserves have frequently been dipped into to finance these deficits. It has not been possible to avoid such recourse, as the flow of foreign financial resources - loans and unrequited transfers - proved inadequate, and moreover the terms on which it has been made available have continued to deteriorate. Although some cases of reserve build-up by African countries have occurred over the last two years, these have been marginal and furthermore unevenly distributed. With the recent trend in the levels of inflow of financial resources,

1/ The United Nations Development Decade at mid-point: An appraisal by the Secretary General. (United Nations Publication, Sales No.65.I.26).

2/ A Survey of Economic Conditions in Africa 1960-1964, (E/CN.14/397).

and with foreign exchange reserves usually at a barely safe minimum level, many African countries have had to adopt the only way open to them for coping with balance of payments difficulties - namely, to cut back the flow of imports. Such measure has in turn led inevitably to a deceleration of the growth rates of their economies. This dilemma was the main theme of the study entitled Balance of Payments Problems of African Countries issued by the United Nations Economic Commission for Africa in December 1965.^{1/}

3. Evidence emerging since then has confirmed the persistence of this situation not only with respect to the developing African countries but also a great number of developing countries elsewhere.^{2/} The study by ECA concluded that Africa's balance of payments problems stem in the majority of cases from economic growth, emphasizing the crucial importance of foreign capital for the development of the African economies. It recommended that "in order to redress their balance of payments problems while maintaining the growth rate of their economies at the desired level, African countries, individually, collectively, and inevitably in collaboration with the capital-lending countries and with the international and regional financial institutions, have to aim at (a) increasing the flow of foreign financial resources, and (b) improving the terms, or reducing the cost of borrowing. These two objectives are obviously inter-related." Another equally important objective is increased effectiveness in the utilization of resources received from foreign sources (it goes without saying that improving the efficiency of domestic productive resources is a fundamental necessity).

4. It is against the background outlined above that African countries are now participating in discussions on international cooperation in the field of financing of trade and development. The issues involved and the problems to be resolved have now been put in proper perspective through the efforts of the United Nations

1/ E/CN.14/WP.2/3 .

2/ E.g. International Flow of Long-term Capital and Official Donations, 1961/65. (United Nations Publications Sales No.66.II.D.3), also the subsequent report International Flow of Long-term Capital and Official Donations 1961/66, document E/4371.

Conference on Trade & Development and particularly through consideration by the UNCTAD's Committee on Invisibles and Financing related to Trade. The need for concerted action has been brought into clear focus.

II. THE VOLUME OF AID

5. In 1960 the General Assembly of the United Nations unanimously adopted a resolution under which the developed countries undertook to transfer 1% of their gross national product each year to the developing countries as their contribution to the attainment of the targets of the UN Development Decade. This undertaking has been subsequently confirmed, in particular at the First UNCTAD in 1964. But since 1961, the net flow of development capital from the developed market economies has been declining steadily in relation to their gross national product. By 1966, the ratio had fallen to about 0.7%. The flow of development assistance from the Socialist countries has also grown at less than 1% per annum of the growth of their gross incomes.

6. During the period 1961-1966, the combined gross income per annum of the developed countries increased by about \$500 bill. Considering that the net capital transfers to the developing countries has been running at the rate of 3.7 bill. per year, a shortage of real resources in the donor countries cannot account for the failure of aid to grow. The balance of payment situation of^a number of principal donor countries, such as the UK, has been cited as the immediate cause of decisions not to increase aid or even to reduce it. But the more general explanation of the situation is that as resources have grown in the developed countries the claims of external assistance have had a low priority in the allocation of these resources.

7. A decision has to be made whether it is feasible, or politically useful, to approach the question of the volume of aid in terms of an attempt to get the existing commitments implemented. This would entail securing agreement by the developed countries that they would increase the volume of their aid over a period of years until it had reached the target levels. In view of the situation in both donor and recipient countries the timetable for such a programme cannot realistically be made for a period of more than five years.

8. It has become necessary to work out separate agreements on targets for the flow of public assistance, which is both the dominant element in the total flow of aid and also subject to a special set of policy instruments arising from the political arrangements in donor countries, as against the flow of private long-term capital in regard to which the governments of donor countries can only make limited and generally non-operational commitments.
9. It has been suggested in this connection:
- (a) That the more advanced countries might be requested to agree to a target that the flow of public assistance shall maintain a certain minimum ratio to gross income (a figure in the region of 0.75% has been mentioned), without prejudice to the overall target concerning the net flow of total financial assistance;
 - (b) That this particular target in the field of public assistance should be implemented by about 1971;
 - (c) That the trend towards a diminution of the share of aid in the allocation of budgetary resources in the advanced countries should be halted and reversed; and
 - (d) That the governments of developed countries should undertake to assure that aid targets on a net basis are achieved, by taking appropriate action with regard to the weight of repayment liabilities resulting from the gross flow of aid, or with regard to the automatic relending of receipts on account of repayments of aid by developing countries.
10. The total flow of aid to the developing countries is not one undifferentiated stream but a sum of a number of aid flows which are often distinctly compartmentalised. For the African countries therefore, the important question is not simply whether the total volume of aid flowing to all developing countries attains any given target figure, but also what happens in particular to the volume of

aid flowing through those channels which lead in the direction of African countries.

11. The analysis set out in the annex to this paper indicates that the major factor determining the future volume of aid to the African region will be whether the transfers of capital, both multilateral and bilateral, from Western European sources will grow adequately. Secondly, African countries need to make sure that aid from the UK and from the international financial institutions will grow rapidly more particularly the African region needs a large increase in aid extended by IDA. Thirdly, there is the problem of securing a greater volume of assistance from the United States in whose total aid programme assistance to African countries constitutes a disproportionately small item. Fourthly, there is the question whether an all-African approach can succeed in increasing the volume of aid supplied by the Socialist countries to the African region.

12. Three central points in the approach of the African countries towards the consideration of this question should be the following:

- (a) As the least developed region with its basic infrastructure still to be built up, Africa requires to have special international arrangements made to ensure that the volume of aid flowing into the region will be commensurate with its development needs.
- (b) The African region has agreed to support the movement towards the liberalisation of world trade on a non-discriminatory basis. But this participation in the movement towards a new world order in the field of trade will not yield any material benefits unless special measures can be agreed on to promote the export industries of the region. And these measures should include the provision of an adequate background of general services to facilitate the establishment of export generating enterprises.

- (c) In some cases the achievement of trade liberalisation on multilateral non-discriminatory basis will demand that some African countries give up special preferential positions at present enjoyed by them. The flow of international assistance to the region during this period of transition towards a situation of complete liberalisation should be adequate not only to compensate the African countries concerned for the loss of advantages, but also to enable their economies to withstand the effects of the new situation in their international trade.

13. From an institutional point of view, it would be advisable to obtain the support of the whole international community for a recommendation that the institutions now existing under the Treaty of Association between some African countries and the EEC should be maintained during the period ahead and be used for channelling an increased volume of aid to the African countries. Should the UK and other EFTA countries succeed in gaining membership in the European Common Market, these institutions should be appropriately modified to manage the transfer of a proportionately increased volume of assistance.

14. The machinery of the OECD has succeeded in putting the consideration of aid questions by donor countries on a practical and objective basis. However, unlike the inter-American system and the consultative group arrangements which the World Bank has organised for certain developing countries, the OECD machinery does not at present provide opportunities for systematic consultation between donors and recipients. Such consultation has proved useful in a number of aid programmes and seems to be absolutely essential if the actual implementation of any agreed international targets concerning the volume of aid is to be hoped for in a reasonable period. It would therefore be advisable to recommend the setting up of consultative machinery between the recipient countries which are members of UNCTAD and the donor countries now grouped in the OECD to oversee the steady implementation of the agreed targets concerning the volume of aid.

15. There is a possibility that in some important circles in both donor and recipient countries the achievement of the targets of the DAC and General Assembly resolution will become an end point in thinking about the process of improving the terms of aid. Since these targets are already agreed to be implemented by 1968, the question for UNCTAD II will not simply be whether there is a firm promise and timetable for their achievement by 1968, but also what targets for further improvements in the terms and conditions of aid should be set for the period after 1968. But a joint consultative and implementation committee would also have several other functions and tasks to discharge:

- consultations and action programmes are needed to ease the terms and improve the conditions and effectiveness of aid;
- to rationalize the utilization of commercial credits;
- to streamline terms and conditions of aid extended by different donors;
- to assist in efforts aimed at the elimination or reduction of aid-tying;
- to suggest ways and means of encouraging a larger flow of private long-term lending and inducing a larger re-investment of earnings out of private investment.

16. In the area of official contributions in addition to the stepping-up of the total volume of aid, the greater multilateralization of aid and the commitment to provide a volume of donations and grant-like transfer which would rise proportionately with income, the joint UNCTAD/OECD Consultative Group could consider the implementation of a number of other schemes proposed at various occasions such as:

- loans to international and regional finance institutions on concessional terms;
- automatic relending of amortization and interest funds received from developing countries on official loans;

- the possibility of devoting a certain percentage of current military allocations (budgets) and/or the allocation for development aid purposes of a proportion (say, not less than 25% in the first instance) of the savings resulting from an internationally supervised disarmament scheme;
- the provision of more technical assistance through regular arrangements with multilateral agencies.

17. The situation of the different regions in the matter of their aid requirements is rather different. There is consequently need for the provision of special arrangements to supervise the implementation of the overall targets of international assistance in each particular region. Thus the inter-American system has evolved towards putting assistance to the Latin American countries on a rational and long-term basis, taking account of the particular circumstances of that region. In Asia the consultative groups set up to deal with the requirements of India and Pakistan give special attention to the transfer of the bulk of international assistance going to that region. Arrangements are now evolving to take care of the aid needs of Indonesia, they already exist for a number of the other countries in the Far East, and the Asian Development Bank seems assured of the resources to operate as a truly multilateral institution for channelling aid to that region.

18. Consultative groups have recently been set up for a small number of African countries. But the number of individual States in the region precludes any possibility that these arrangements could ever be extended to cover more than a small proportion of the continent. It would therefore seem advisable to work towards the establishment of special consultative machinery for the African region in which there would be practicable arrangements for organising a dialogue between the African countries and the donor countries, and through which the flow of international assistance to Africa could be placed on an assured and rational footing. It would be desirable for the African countries to have the firm support of the other developing regions in pressing for the establishment of such special arrangements for Africa.

III. THE TERMS OF AID

19. The discussion of this question in UNCTAD starts from resolution 2170(XXI) of the United Nations General Assembly in which the donor countries agreed that "not later than by 1968" at least 80% of assistance should be in the form of grants, together with loans at interest rates of 3% or less, with a repayment period of twenty-five, years or more; except that where countries provide 70% or more of their total official assistance in the form of grants or grant-like contributions, this in itself should be regarded as full compliance with the target. On their own, the donor countries in the Development Assistance Committee of the OECD also adopted a recommendation in similar terms in 1965.

20. Since the deadline for the implementation of these targets has virtually arrived, the issue now resolves itself into finding out whether, and if so how, the donor countries intend to implement this resolution. The developing countries should know ~~what~~ time period beyond the original deadline would be required by donor countries in order to be able to implement it, and what consultative machinery on a multilateral basis should be established to work out the modalities of its implementation. The evidence on the deterioration in the terms of aid is quite clear: ever since the historic US decision to abandon the soft terms which had just previously been adopted by the international community in setting up the IDA, the trend has persistently been for interest rates to rise, for maturities to shrink, and for grace periods to diminish - in short a continuing hardening of the terms of aid. The implications of this trend have been succinctly stated in a recent study by the UNCTAD Secretariat: "if gross inflow of grants and loans were to continue at present levels, and present average terms and conditions were maintained, the net inflow of grant and loans would decline from

\$7.4 billion in 1966 to \$4.4 billion in 1975, and net lending alone would become negative after the year 1975." ^{1/}

21. There have been other manifestations. Grants have continued to constitute a smaller segment of the total flow of external capital. The sharp fluctuations which have characterized the flow of long-term private capital have forced some developing countries during periods of downswing to resort to utilization of commercial credits to meet the capital requirements of their development programmes. Many of them have also had to borrow long-term capital during such periods at unfavourable terms. The growing practice of aid-tying has had the effect of increasing the real cost of aid (or what is the same thing, reducing the real value of aid) in addition to the distortion of resource allocation which it usually causes.^{2/} On the multilateral side, the World Bank's current terms of lending have contributed to a worsening of the global average terms of aid. This is because the Bank has not taken the opportunity afforded by the current trend towards a general reduction in the world interest rate structure to consider a reduction in its rates in the same way that the previous period of rising interest rates was the occasion for a rise in Bank lending charges.

22. Often, changes in the terms of aid have aggravated the effects of a fall in the volume of assistance or neutralized the positive effects of an increase in volume. Thus the United Kingdom has recently commenced a drive to improve the terms of its aid by granting interest-free loans. But the positive effects of that effort have more or less been negated by that country's failure to keep its flow of resources to developing countries up to the level attained

^{1/} Problems of Debt Servicing, document TD/B/C.3/36.

^{2/} OECD: Development Assistance Efforts and Policies, 1965 Review; Quality and Effectiveness of Financial Flows and Problems of Debt Servicing: Note by the UNCTAD Secretariat - Document TD/B/C.3/35.

in earlier years. At the other hand, contribution of the United States of America to the flow of international financial resources continued for a while to increase at the same time that there was a marked tendency for the terms and conditions on which the resources were being extended to harden. Thus the proportion of grants declined, interest rates crept up and there was more aid-tying. Most recently, a reduction in volume has also been decided on which makes the prospects of US assistance to international development very gloomy in the intermediate period ahead.

23. The problem is how to arrest these adverse effects without reversing the positive tendencies associated with them. The underlying principle which developing countries should seek the agreement of donor countries to accept and observe is that no further deterioration in the terms of aid should be allowed to take place, that improvements in the direction of trying to attain the General Assembly and DAC targets should not be purchased at the cost of a reduction in the volume of aid, and equally important that future increases in the volume of aid should not be made conditional on a worsening in the terms of aid.

24. From the point of view of the African countries it has to be emphasized that apart from the European Development Fund and the bilateral donations flowing from countries such as France and Belgium, the African region has had to bear the full weight of this deterioration in the terms of aid. In other regions the intervention of regional institutions such as the Inter-American Development Bank and of consultative machinery on aid have often assured some degree of protection against the immediate worsening of the terms of aid in step with changes in the aid policies of major donor countries. Most African countries, however, have had to depend upon the ordinary machinery of aid, and have therefore felt immediately the deterioration in the terms of aid. Accordingly it is necessary for the African countries both to join in the general search for some agreed means of halting the deterioration and subsequently

improving the terms of aid, and also to press for special machinery which will protect them against reverses that might occur in the implementation of these general international policies.

25. There are several possibilities to be pursued in the direction of improving the terms of development assistance. From the Report of the Second Session of the Committee on Invisibles and Financing Related to Trade it appears that there is a readiness on the part of donor countries to fulfil the DAC recommendation. Thus "The representatives of many developed market economy countries placed particular emphasis on the need to fulfil the recommendation of the Development Assistance Committee (DAC) of the OECD on financial terms and conditions and (several) indicated the steps which they were taking to soften the terms of development assistance in conformity with that recommendation."^{1/} On the other hand, "some of them considered that full compliance with the DAC recommendation would require more time."^{2/} Whatever the actual effectiveness and speed of the steps taken by developed countries it is clear that not only is the target far from reached but the present policies still tend towards a further retrogression.

26. The dateline for fulfillment of the General Assembly and DAC target is the end of 1968. Early in that year, UNCTAD II will be expected to seek a clear promise and if possible a timetable for further improvements in the terms and conditions of aid in the period after 1968 while at the same time assuring the timely achievement of the targets previously set.

27. If agreement can be reached to set up the suggested consultative machinery between the donor and recipient countries, the following suggestions would stand a better chance of being carried out in the period after UNCTAD II:

^{1/} Report of the Committee, document TD/B/118, TD/B/C.3/51

^{2/} Ibid.

- In the area of suppliers credits; the possibility of separating within the export credit organizations of donor countries the flow of credits going to developing countries should be pursued with the aim of granting concessionary provisions over the conventional terms covering credits to developed countries;
- The interest-free principle could be pushed as a general principle for acceptance by other bilateral donors. It is not unreasonable to expect that efforts at maintaining an equitable distribution of the development assistance "burden" among donor countries will yield positive results for the developing countries in terms of more favourable terms of aid. Already the initiator - UK - reduced the volume of its contribution, reportedly owing to balance of payments strains. At the other end, the hardening of loan terms by the USA is believed to have been in response to illiberal policies on the part of European countries. The general adoption of the interest-free principle by more countries would be an inducement for the US Government to reverse the trend in its terms of lending;
- In the area of multilateral assistance, agreements should be secured on refraining from the introduction of restricting conditions into the system of operation of the multilateral agencies particularly IDA;
- Just as any improvement in the World Bank's terms of lending will bring about global improvement, so will an increase in the resources of, and lending by, the IDA (assuming no change in IDA's terms). While both objectives should be pursued independently, it should also be possible to bring about further improvement through the creation of intermediate lending facility - between the regular Bank and the present IDA windows - which would, utilizing part of the Bank's reserves, extend loans on what are essentially subsidized terms. The allocation of say \$1.5 to \$2.5 billion

of existing Bank reserves for lending on these intermediate terms would be of particular interest to African countries in the financing of a continental infra-structure which cannot in most cases pay the present cost of regular Bank money and which, on the other side, cannot compete with the claims of India and other countries backed by Bank consortia for IDA funds.

- The European Development Fund which also gives capital assistance by way of both grants and loans is due for re-negotiation next year. Despite its limited country coverage, UNCTAD II might be able to express a wish to see an increase in the Fund, on the condition however (a) that such increase is an additional element in the aid programmes of countries like West Germany and Holland who might otherwise transfer resources from their general aid programmes to the EDF, and (b) that further improvements in the terms, e.g. a further increase in the element of interest subsidy now granted on the commercial portions of the operation, might be made.
- A multilateral attempt at aid untying might be made. For instance, the US is reportedly setting a minimum figure on the share of the exports resulting from the disbursement of IDA loans which must come back to US enterprises in order to free its new IDA contributions from tying conditions. This criterion could usefully be turned round by the African and other developing countries. It may be possible to secure agreement on the principle that countries which do already get a minimum of such orders back from their aid disbursements should not be entitled to tie their loans. A further arrangement might be made whereby countries which do not attain the minimum ratios of export orders to aid disbursements would be able to draw on international credit, provided say, through the IMF, up to an amount which limits the net foreign aid costs of the aid programme to the agreed

ceiling. If this ceiling were set from the beginning even at a low level, say 30 per cent, it would then be the aim to seek a relaxation of the conditions through successive agreements with the capital exporting countries.

IV. THE DEBT—SERVICING PROBLEM

28. The rate at which debt-servicing obligations of developing countries are mounting leaves no doubt as to where these countries are heading; in fact the crisis point has already been reached by several countries. Under the existing international practice a debt problem is only acknowledged when the situation has actually developed into a financial crisis. It would obviously be far more satisfactory to have machinery for dealing with debt problems before that point is reached. In most cases it is easy to tell when a crisis is on the way. It would also seem unrealistic, given the known facts about the debt structure of so many developing countries, to continue to treat debt crisis as a sickness affecting a few isolated countries. Although some countries are facing more serious problems than others, the debt problem is such a common phenomenon in the world of developing countries that its treatment should be based on principles which are capable of general application. There will naturally always be some countries requiring immediate and more comprehensive measures. However, international policy should be based on the potential dimensions of the debt problem rather than on its finally revealed manifestations: action should be as far as possible preventive. There is no contradiction between this approach and the now accepted position that the treatment of debt-servicing problems require two types of measures, long-run and short-run measures.

29. The debt-servicing problem has arisen primarily out of the persistence of unfavourable terms and conditions of aid, and therefore measures aimed at avoiding the problem in the long run must consist in the main part of adjusting the structure of

interest rates and maturities of loans and the ratio of grants to loans in the total of foreign aid to a more realistic level. But in dealing with those cases where a crisis has already arisen a liberalization of the terms of new financial assistance is obviously not enough. Renegotiation of debt with a view to rescheduling of repayment liabilities is usually necessary. The sharp increase of short-term credit in recent years, particularly the disproportionate growth of commercial credits in the flow of aid, has been the principal reason for the difficulties in debt repayment.

30. Despite general agreement about the necessity of measures to deal with the debt problem much has been accomplished. There is a reluctance to deal with those cases where a crisis has not actually occurred. And when action is finally taken the absence of established machinery or generally agreed principles for such action often makes the measure taken quite ineffective. Some solutions have consisted of simply postponing the crisis for a few months.

31. There is some reluctance among debtor countries to ask for renegotiation and rescheduling of debt, since this might adversely affect their credit-worthiness and their chances of securing further development assistance. This fear is not completely without justification, given the overall climate of opinion among donors.^{1/} There appears to be greater emphasis on the inefficiency of developing countries, particularly in the area of debt management, than on the persistent and growing deterioration of the terms of borrowing.

32. A number of general principles can be recommended for African and other developing countries to sponsor in the UNCTAD discussion of the debt question.

- Treatment of crisis resulting from excessive repayments obligations should be applied more systematically rather than on an ad hoc basis. This does not mean the

^{1/} "A formal renegotiation may serve to improve and gradually restore the credit of a country that is in serious difficulties in meeting its obligations, and enable the debtor to avoid a default, with its damaging effects on the international credit structure. Yet it may not suffice to restore the debtor's credit-worthiness to the level at which it would have been if renegotiation had not been necessary." IMF Annual Report 1965.

application of one rigid formula to all cases, but it does seek to emphasize the laying down of certain basic principles to provide the guidelines for action.

- In order to tackle the problem effectively the creation of some standing arrangement will be necessary for at least the period of time during which the bulk of rescheduling cases are expected to come up.
- In the determining which cases require action to reschedule debt, the criterion should be the potential debt-servicing position of each country based on projections. Hence it is necessary to make realistic evaluations of the present situation and to identify the much broader group of potential crisis countries rather to concentrate on the obviously acute situations cases as is presently done.
- Although the debt-servicing problem is more often caused by private lending than by official aid transactions, a significant contributing element of this private lending consists of short-term supplier's credits most of which are publicly guaranteed. Until more permanent institutional improvement has been brought into this system of financing, it might not be unreasonable to recommend that governments of donor countries take over these supplier's credits and transform them into long-term obligations when the recipient appears to be under debt-servicing stress.

V. SUPPLEMENTARY FINANCIAL MEASURES

33. Since export trade, and sometimes the level of export prices, has a decisive influence on government revenues in many developing countries, instability in the export sector has often caused interruptions to the steady implementation of development plans. This leads to many dis-economies and is also an impediment to the maintenance of that degree of confidence which is required to stimulate private investment. In many cases a revival of export markets soon follows and on the average of the good years and the bad the developing country has enough resources to finance the planned programme of development. The interruption with its attendant losses, is therefore seen in retrospect to have been unnecessary, to have been forced on the country solely because of the lack of some means to tide countries over a temporary bad patch. The proposal was therefore to set up machinery to furnish developing countries which are in temporary difficulties owing to export fluctuations with long-term loans to bridge the gap and to enable them to maintain a steady, and hence more economical pace of development.

34. The scheme has been studied by the World Bank since the first UNCTAD and proposals have been evolved which answer most of the questions that need to be answered before the scheme could be realistically implemented. The most important of the remaining questions concern the definition of the "policy package", the neglect in the present scheme of terms of trade considerations, the treatment of "overages", and the speed and mechanics of the systems to be set up for effecting the required transfers of supplementary assistance.

(1) The Policy Package

35. It is desirable that the agreement resumed between the executing agency and the recipient country should cover policy commitments similar to those now involved in the operation of World Bank consultative groups, i.e., agreement on a number of general macro-economic targets buttressed by rather more detailed projections in the export sector. Because of differences in the economic situations of the various

developing countries, a uniform degree of elaborateness of the policy package would be both unattainable and unnecessary. The elaborateness of the content of each package would have to be worked out on a pragmatic basis.

(ii) The Liability of Contributing Countries

36. In view of prevailing uncertainties in the whole field of aid, the best solution to this problem might seem to lie in adopting the most widely accepted estimates of the financial requirements for a meaningful scheme, stated within certain ranges of magnitude, as a basis for starting the scheme off. It would be quite acceptable for the developing countries to agree that the liability of the contributing countries would be limited within those ranges for an initial period of, say, five years - to be revised in the light of what appears to be the actual requirements when the scheme has been tried for some time.

(iii) Export Projections

37. Since it seems unrealistic expect universal agreement on all aspects of the statistical methods to be employed, it would appear practical to entrust the matter to a statistical service within the Executive Agency whose competence would be accepted by all parties to be beyond reproach and which could be advised if necessary by a technical committee of representatives of participating countries.

(iv) The Treatment of Overages

38. It might be difficult for most developing countries to ensure that unforeseen increases in export earnings are saved even where the export of major commodities is State controlled. Moreover, success in doing so amounts to freezing export earnings at least temporarily into idle reserves, and this cannot be expected to represent an attractive objective for a developing country even for the sake of participating in a scheme of supplementary financing.

(v) Relations with IMF and Compensatory Finance Scheme

39. Since the proposed policy package and export projections would obviously impinge on the same range of problems as the present IMF system of surveillance, and in order to avoid conflicting international agency verdicts on the same situation, the developing countries could concede the principle that the administering agency and the IMF should "co-ordinate their activities closely" and invite the interested governments on the donor side to propose details of how this might be done.

(vi) Speed and Periodicity of Transfer

40. A system similar to the one devised by the IMF could be adopted, preferably with the provision that interim drawings could be allowed covering practically all of the estimated current shortfall in export receipts so as to avoid inflation or an accumulation of expensive short-term debts which could occur if the recipient country had to wait many months for the completion of negotiations and other formalities before it could draw on any assistance.

41. As can be seen many of these outstanding issues are readily negotiable or should properly be left to be dealt with by a responsible Executing Agency. There is a risk in the present discussion that an excessive concentration on difficulties, real and hypothetical, could result in the scheme of supplementary financing not getting off the ground. African countries with their extreme liability to export instability, and no other protection open to them, should exert their weight on the side of getting the scheme started on the basis of whatever satisfactory compromises can be achieved.

VI. THE QUESTION OF INTERNATIONAL LIQUIDITY AND AID

42. Balance of payments strains have often been put forward especially by major donor countries as an explanation of the failure to step up their contribution to development assistance as well as for the tendency towards a hardening of the terms the aid granted by them. Persistent balance of payments difficulties especially in the case of reserve currency countries have stimulated the moves to reform the international monetary system. And agreement has now been reached on a generally acceptable plan for deliberate reserve creation should world liquidity prove inadequate. If the various constitutional processes go through as envisaged there will be by 1969 a new source of international financial instrument to be used for sustaining and increasing the volume of world trade.

43. The existence of these resources will be of great importance to developing countries both in the framework of trade and development assistance, especially since their economies, and particularly their exports are subject to more frequent and severe short-term fluctuations than those of the developed countries. And unlike the latter they have not got the means - reserves and credit facilities - with which to make the necessary adjustments during periods of difficulty without unpalatable curtailment of essential imports.

44. In the later stages of the planning this new system of international credit interests of developing countries were brought more closely to the attention of the developed countries as well as the international institutions concerned, owing in part to the concern with the matter expressed at the first UNCTAD and the organization by the Conference of an expert group to study the problem of international liquidity with special reference to the needs of developing countries.

45. The Export Group strongly recommended that for the success of a world monetary system it has to be truly international. And, what is of particular significance from the developing countries' point of view, it also concluded that "it is both feasible and desirable to establish a link between the creation of international liquidity and the provision of development finance, without detriment to either process".^{1/}

46. The system that has now been proposed is international from the point of view that developing countries will have a share in the credit facilities to be created (unlike some previous credit arrangements made under the IMF) and will also be associated in the management of the scheme. However agreement has not been reached to create a link between the new liquidity arrangements and an obligatory increase in the transfer of aid by any developed country which makes use of it as demanded by the developing countries. It would not pay African and other developing countries to make their participation in this scheme conditional upon the acceptance of the link in the form originally proposed. But the search must be pressed vigorously for some income of enabling African countries and others to benefit more from the scheme than they are now likely to do.

47. Two reasons why the present proposals would yield relatively little benefit to African countries might be considered. Firstly, those African countries which belong to the franc zone have a system of import programming (the so-called operations account) which makes it unclear how they could make use of the new facilities to supplement their import capacity.

48. Secondly, the new reserve assets are to be shared among countries in proportion to their present quotas in the IMF, which means that the share coming to the African region will be quite insubstantial in the first place. But, in addition, because African countries derive so much of their requirements in the monetary sector from other regions and have such a small share in supplying other regions' needs, most of the credits allocated to them will leak out after the very first round

^{1/} International Monetary Issues and the Developing Countries.
(United Nations publication Sales No.: 66.II.D.2) New York.

of transactions without contributing much to stimulate local productive activities. By contrast, the developed countries will spend their allocations on each others' goods, so that where in Africa there will be only a once-for-all gain of credit to spend on imports, in the more advanced countries there will be a permanent increase in purchasing power which will circulate among them to stimulate their production and their trade and which will be further augmented by leakages of the credits initially granted to developing countries.

49. In general if the wealthier countries are going to obtain additional claims to real resources by international decision, and if their balance of payments problems which have been adduced as the case for reductions in aid are also going to be eased, then there would seem ample reason to insist that they should make some contribution to international development in proportion to these gains. While leaving the exact modalities for later negotiation the African countries would do well to mobilize other developing countries behind the demand that the developed countries make some commitments to increase their aid in conjunction with the coming into effect of the new international credit system.

ANNEX

ASSISTANCE RECEIVED BY AFRICAN COUNTRIES FROM DEVELOPED COUNTRIES AND MULTILATERAL AGENCIES

1. The following is a brief analysis of the financial assistance received by Africa, according to statistical information so far available in the ECA secretariat. Despite the numerous gaps in such information, it is hoped to identify the major trends in the flow of capital made available to the African countries during the first half of the Development Decade, and thus to formulate the position that the African countries might adopt during the negotiations in the second UNCTAD. The figures available cover aid supplied by the member countries of the OECD and the multilateral agencies as well as the commitments of the centrally planned countries.

2. From 1961 to 1964, the cumulative net total of capital made available to Africa by the member countries of the OECD and the multilateral agencies reached \$6,754 million^{1/}, or approximately \$24 per head (see table 1). By comparison, Asia obtained \$11 per head in the four years and the developing countries of America \$17. At first sight, this comparison would seem favourable to Africa. However, on investigation, it is seen that aid to Africa is concentrated in certain countries. For example, the franc zone countries alone absorbed more than 56 per cent of the foreign resources supplied to Africa. This reflects the amount of aid provided by France to its former colonies. Table 3 clearly shows how great this was: the highest amounts are those for franc zone countries and bilateral aid, France being, according to a recent OECD study, the greatest supplier of bilateral assistance to Africa.

3. Bilateral assistance provided by the developed countries with market economies between 1961 and 1963 represented 93 per cent of the total financial assistance made available to Africa. Study of this assistance shows that 74 per cent consisted of grants. This is further reflection of the influence of French aid, a large part of which is known to be made in the form of grants.

^{1/} In this study dollars are taken to be United States dollars unless otherwise specified.

TABLE 1

Geographical distribution of net official flows 1/ 2/
to less-developed countries from OECD, member
countries and multilateral Organisations, 1961-1964

Receipient regions	Net flow (US\$ million)					Per capita net flows	
	1961	1962	1963	1964	1961-1964	1964	1961-1964
						US\$	US\$
Asia	2235	2402	2758	2935	10330	3.15	11.07
America	876	945	1150	1018	3989	4.39	17.19
Europe	543	468	469	343	1823	3.78	20.03
Africa	1657	1719	1636	1722	6734	6.04	23.69
North of the Sahara	800	576	715	684	2775	11.40	46.25
South of the Sahara	857	1143	921	1038	3959	4.61	17.60

Source: OECD, Development Assistance Efforts and Policies, 1965, Review
Appendix Table 7.

- 1/ The flows include loans with a maturity of one year or more.
- 2/ Net official flows equal net bilateral official grants and loans received, plus grants and loans received from multilateral organisations, less capital repayments and capital subscription payments to these organisations.

TABLE 2

Percentage of total disbursements
by type and area, 1960 and 1963

	1960				1963			
	Total	Bila- teral	Multila- teral	Private	Total	Bila- teral	Multila- teral	Private
	Per cent				Per cent			
Total	100	57	4	38	100	65	8	27
America	21	5	-	17	28	11	3	13
Africa	33	19	2	12	28	19	1	8
Asia	41	31	1	8	41	32	3	6
Other	4	2	-	2	3	3	-	-

Source: OECD, Development Assistance Efforts and Policies, 1965, Review

Note: If the less-developed countries in Europe had been included, the total used as a base would have been increased by 8.3 per cent in 1960 and 8.8 per cent in 1963, reducing all percentages in the table correspondingly. It would have had little effect upon the patterns.

TABLE #3

African Countries: Net Official Flow of External Resources from Industrial Market Economies and from Multilateral Agencies, 1961-1964
(Millions of Dollars)

Region and Country	Bilateral				Multilateral			Total			
	Grants		Loans		1961	1962	1963	1961	1962	1963	1964
	1961	1962	1961	1962							
Africa	1,246	1,280	1,201	291	121	145	112	1,657	1,719	1,656	1,722
Algeria	401	353	286	37	- 5	- 4	- 3	433	392	276	252
Congo (Democratic Republic) ..	60	63	87	-	26	2	-	87	67	87	115
Ethiopia	21	25	21	- 1	6	6	4	26	20	26	...
French franc area	282	313	310	38	45	92	74	367	444	448	447
Ghana	3	3	4	-	-	- 1	10	2	6	27	40
Guinea	1	6	15	1	-	1	-	2	10	23	...
Kenya	34	35	32	29	2	2	2	65	51	56	53
Liberia	5	7	10	22	-	-	-	27	79	34	17
Libya	36	30	26	1	-	1	1	36	32	27	16
Malawi .....	...	...	...	...	...	...	...	8	12	17	32
Morocco	88	53	69	29	-	1	3	117	85	117	107
Nigeria	7	14	18	24	2	1	- 3	33	30	16	54
Portuguese Overseas Provinces.	3	3	10	30	-	-	-	33	41	52	64
Sierra Leone ..	10	5	5	4	-	-	-	14	8	10	...
Somalia	21	23	22	-	3	1	3	24	24	31	...
Sudan	13	10	10	2	10	14	8	25	21	19	...
Tanzania	22	37	20	17	2	- 1	-	41	47	32	44
Tunisia	84	60	65	2	1	-	3	87	65	95	71
Uganda	10	16	14	11	4	2	1	25	30	21	20
UAR	103	171	142	7	17	22	5	127	201	209	238
United Kingdom Colonies	18	19	21	11	-	2	3	29	26	31	...
Zambia .....	...	...	...	...	...	...	...	...	5	3	18

Source: United Nations: International Flow of Long-Term Capital and Official Donation 1961-1965.

TABLE 34

African Countries: Net International Flow of Long-Term Capital and Official Donations, 1961-1964
(Millions of Dollars)

Region and Country	Official donations				Long-term capital								Total			
	Official				Private				Total							
	1961	1962	1963	1964	1961	1962	1963	1964	1961	1962	1963	1964	1961	1962	1963	1964
Africa (10 countries)	177	130	151	74	420	399	502	552	157	65	190	247	754	594	843	873
Ethiopia	9	14	7	8	7	24	15	4	6	5	12	12	22	43	34	24
Ghana	- 3	-	-	- 2	131	45	60	48	-13	22	31	27	115	67	91	73
Libya	29	29	29	14	3	- 1	1	-	- 2	- 5	6	49	30	23	36	63
Morocco	43	2	36	12	45	42	41	59	1	-	2	-13	89	44	79	58
Nigeria	7	7	7	18	94	46	85	84	70	42	113	158	171	95	205	260
Rhodesia and Nyasaland .	8	8	17	...	3	4	12	...	65	-29	- 1	...	76	-17	28	...
Somalia	16	24	18	...	4	- 5	11	...	22	4	-	...	22	23	29	...
Sudan	23	17	14	3	17	22	22	29	15	9	5	2	55	48	41	34
Tunisia	53	33	32	19	10	38	21	66	9	11	30	19	72	82	83	104
UAR	- 8	- 4	- 9	2	106	184	234	262	4	6	- 8	- 7	102	186	217	257

Source: United Nations: International Flow of Long-Term Capital and Official Donations 1961-1965.

UNITED STATES AID TO AFRICA

4. From 1960 to 1966, the total of United States bilateral aid^{1/} to Africa, was \$2,733 million. Of this total, \$1,645 million, i.e. 60 per cent, was in the form of grants and the rest in the form of loans (see table on page 6).

5. The chief agencies of American aid to Africa were: AID with \$1,496 million, i.e. 55 per cent of the total, the Food for Peace programme with \$906 million, 33 per cent of the total, loans from the Export-Import Bank totalling \$216 million, 8 per cent of the total, and other programmes to the amount of \$115 million, 4 per cent of the total.

6. It can be noted that American aid rose very considerably from year to year being \$211 million in 1960 and nearly \$460 million in 1961. The reason lies mainly in the increased Food for Peace programme, whose contribution almost quintupled and the rise in loans from the Export-Import Bank. The increase continued in 1962, this time through the contribution of AID and the Export-Import Bank. From 1963 to 1965, American aid to Africa decreased and, in 1966, despite an increase in the overall amount, aid remained below the 1961 level.

7. The share of AID, which was 81 per cent of total American aid in 1960, was reduced to 44 per cent in 1966, whereas the respective shares of the Food for Peace programme and the Export-Import Bank, which were 16 and 1.7 per cent in 1960, increased to 37 and 11 per cent in 1966.

8. The terms for American aid have been deteriorating since 1960. In fact, the proportion of loans, which was 43 per cent in 1960, rose to 52 per cent in 1966, the proportion of grants falling from 57 per cent in 1960 to 48 per cent in 1966. The rate of interest applied to all United States loans has continually increased: 2.5 per cent in 1962 and 1964, 3.3 per cent in 1965, whereas the amortization period has been shortened: 29 years in 1962, 33 years in 1964 and 28 in 1965.^{2/}

^{1/} Not including military aid.

^{2/} Foreign Affairs, July 1967, Vol. 45, No. 4, P. 722.

TABLE

United States loans and grants to Africa, 1960 - 1966

Program	Millions of US\$						
	Foreign Assistance Act Period						
	1960	1961	1962	1963	1964	1965	1966
<u>AID and predecessor agencies - Total</u>	<u>169.7</u>	<u>264.0</u>	<u>315.0</u>	<u>239.1</u>	<u>189.0</u>	<u>149.7</u>	<u>169.5</u>
Loans	86.4	93.3	115.6	115.9	90.9	73.0	88.9
Grants	83.2	170.7	199.4	123.2	98.1	76.8	80.6
<u>Food for peace - Total</u>	<u>33.4</u>	<u>147.9</u>	<u>98.7</u>	<u>217.1</u>	<u>146.0</u>	<u>121.2</u>	<u>141.8</u>
Title I - (Total Sales Agreements)	(-)	(14.3)	(40.1)	(58.8)	(50.1)	(55.5)	(37.9)
Less: (Planned for U.S. Uses)	(-)	(2.9)	(7.7)	(8.7)	(11.3)	(12.6)	(7.3)
<u>Title I - Planned for Loans and Grants</u>	<u>-</u>	<u>11.4</u>	<u>32.4</u>	<u>50.1</u>	<u>38.9</u>	<u>42.8</u>	<u>30.6</u>
104c - Grants for Common Defense	-	-	-	-	-	3.4	-
104e - Grants for Economic Development	-	7.2	11.0	26.4	1.0	1.0	-
104e - Loans to Private Industry	-	1.4	2.8	3.7	8.0	5.3	1.3
104g - Loans to Governments	-	2.9	18.6	20.0	29.9	33.1	29.4
TITLE I - ASS'T FROM OTHER COUNTRY AGRMTS	-	-	-	-	-	-	-
TITLE II - EMERGENCY RELIEF & ECON. DEVELOPMENT	26.8	120.5	41.4	127.5	54.0	37.3	48.1
TITLE III - VOLUNTARY RELIEF AGENCIES	6.6	16.0	18.2	37.4	52.4	31.5	24.5
TITLE IV - DOLLAR CREDIT SALES	-	-	0.7	2.1	0.7	9.6	38.6
<u>Export - Import Bank Long-Term Loans</u>	<u>3.5</u>	<u>43.7</u>	<u>67.5</u>	<u>9.7</u>	<u>12.8</u>	<u>34.5</u>	<u>44.3</u>
<u>Other U.S. Economic Programs</u>	<u>4.0</u>	<u>4.0</u>	<u>7.2</u>	<u>15.0</u>	<u>24.9</u>	<u>27.2</u>	<u>32.7</u>
<u>TOTAL ECONOMIC</u>	<u>210.6</u>	<u>459.6</u>	<u>488.4</u>	<u>480.9</u>	<u>312.7</u>	<u>332.6</u>	<u>388.3</u>
Loans	89.9	141.3	205.2	151.4	142.3	155.5	202.4
Grants	120.6	318.4	283.2	329.5	230.4	177.2	185.9

Source: AID: Statistics & Reports Division, U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945 - June 30, 1966.

These figures are averages. In general, loans from AID are for a period of 40 years (with ten years' grace on amortization) and bear interest at 2.5 per cent (1 per cent during the grace period), whereas loans from the Export-Import Bank are for a period of 10-20 years, at 5.5 per cent interest. Until 1961, principal and interest were serviced in local currency except for loans from the Export-Import Bank, which were re-paid in dollars. But since 1962, it has increasingly been the rule that loans and interests must be repaid in dollars. The greater part of American aid is linked with the purchase of supplies from the United States.

UNITED KINGDOM AID TO AFRICA

9. The following information can be derived from the fragmentary figures available: the bilateral aid supplied by the United Kingdom to Africa had considerably increased in 1965/66 over the 1957/58 level; from \$62 million in 1957/58, United Kingdom Aid rose to nearly \$230 million in 1965/66.

TABLE
British Government Bilateral Disbursements of
Economic Aid to Africa, 1957/58 - 1965/66
(million US\$)

	1957/58			1964/65			1965/66				
	Grants	Loans	Total	Grants	Loans	Technical Assistance	Total	Grants	Loans	T.A.	Total
Africa	52.3	10.0	62.3	95.7	83.9	50.2	229.8	76.9	97.2	55.6	229.7
Commonwealth	39.5	10.0	49.5	84.6	79.1	49.4	213.1	76.6	91.5	54.2	222.3
Others	12.8	-	12.8	11.1	4.8	0.8	16.7	0.3	5.7	1.4	7.4

Source: Ministry of Overseas Development: Overseas Development; The Work in Hand, August 1965 and January 1967.

10. British aid is mainly concentrated in the African members of the Commonwealth, and this trend has become more and more accentuated. The share received by these countries rose from 79 per cent in 1957/58 to 96 per cent in 1965/66. Incidentally, 83 per cent of United Kingdom aid was in the form of grants in 1957/58 and 33 per cent in 1965/66. The 1957/58 figure includes the cost of technical assistance, which it was not possible to identify separately. Taking the figures for 1964/65 and those for 1965/66, the proportions are as follows: grants, 42 per cent in 1964/65 and 33 per cent in 1965/66; loans, 36 per cent in 1964/65 and 42 per cent in 1965/66; technical assistance, 22 per cent in 1964/65 and 25 per cent in 1965/66.

11. According to a report by the Ministry of Overseas Development, a large part of British aid was used in the technical assistance field, to repay the African countries' expenditure to pay the British officials they used in their various services or British consultants or economic missions sent to the African countries. Another part of such aid was used as budget subsidies. Furthermore, although it is increasingly becoming a feature of British policy to link aid with the purchase of products from the United Kingdom, a large part of British aid to Africa was intended to cover the local expenses of development projects. For example, in 1965/66, 58 per cent of the £3 million interest-free loan to Kenya was used to cover local expenses. In Uganda, the proportion is 34 per cent, and in Malawi there is no limit.

AID FROM CENTRALLY PLANNED COUNTRIES TO AFRICA

12. Table 5 shows the commitments undertaken by the centrally planned countries to help the African countries. There was a very considerable increase in such commitments between 1962 and 1965. From 1954 to 1961, the commitments of the centrally planned countries for economic assistance to Africa totalled \$1,247 million, but these commitments reached a higher total during the following four years: \$1,375 million between 1962 and 1965.

TABLE 5

Commitments of Bilateral Economic Assistance from
Centrally planned Economies to African Countries, 1962-1965
(Millions of dollars)^{a/}

Item and country	Total before 1962 ^{b/}	1962	1963	1964	1965 ^{c/}
Total commitments for all developing countries	4,138	316	341	1,246	685
Total commitments for Africa	1,247	55	242	874	204
Algeria	-	-	156	143	-
Central African Republic.	-	-	-	4	-
Congo (Brazzaville)	-	-	-	33	29
Ethiopia	114	-	-	-	-
Ghana	122	-	-	22	20
Guinea	106	13	-	-	-
Kenya	-	-	-	55	-
Mali	75	10	-	27	-
Morocco	5	12	-	-	-
Nigeria	-	-	-	-	14
Senegal	-	-	-	7	-
Somalia	74	-	22	-	-
Sudan	22	-	-	-	-
Tanzania	-	-	-	51	-
Tunisia	48	-	-	-	-
Uganda	-	-	-	15	15
U.A.R.	681	20	64	517	126

Source: United Nations: International Flow of Long-Term Capital and Official Donation, 1961-1965.

a/ National currencies converted into dollars at official rates of exchange.

b/ Cumulative, 1954-1961.

c/ Preliminary.

Annex
Table 10

13. The main characteristics that seem to follow from table 5 are the concentration of aid from the centrally planned countries in a small number of African countries and a certain degree of irregularity in such aid. From 1954 to 1961, aid was supplied to only 9 African countries; this number fell to 5 in 1962 and to 3 in 1963. In 1964 the number rose again to 10, falling back to 5 in 1965. Moreover, apart from the UAR, no African country has received aid continuously year by year from the centrally planned countries.

14. It would have been interesting to ascertain what proportion of the allocations from the centrally planned countries was actually used by the African beneficiary countries and also for what purpose, but this information is not available at present.

AID FROM THE EUROPEAN ECONOMIC COMMUNITY TO THE ASSOCIATED AFRICAN STATES AND MADAGASCAR

15. Negotiations for the renewal of the Yaoundé Convention are to begin soon. One of the most important factors in these negotiations will incontestably be financial aid from the European Development Fund (EDF). So far, the EDF has been the largest multilateral source of aid provided to the African States associated with the EEC (AASM) and even the largest absolutely.

16. The first Fund (the Fonds de développement de l'outre-mer or FEDOM) which commenced on 1 January 1958, was designed to supplement the bilateral aid granted by the European States, the largest share of which consisted of that granted by France to its colonies through the Fonds d'assistance et de coopération (FAC). Aid under FAC, although slightly on the decrease since 1963, was still large even after the second Fund (EDF) started operations in 1964.

17. From 1959 to 1965, the FAC paid to African countries loans totalling more than \$465 million, 99 per cent of which went to associated countries in the France zone^{1/} (see table 6). The loans were distributed as follows: 33 per cent for the infrastructure, 32 per cent for development and production, 21 per cent for social equipment and facilities, 10 per cent for general expenditure and 4 per cent for shares (see table 7).

^{1/} Including Mali.

TABLE 6

ALLOCATIONS MADE BY THE COMITE
DIRECTEUR (MANAGEMENT COMMITTEE)
OF THE FAC FOR DEVELOPMENT PROGRAMMES
IN AFRICAN STATES AND MADAGASCAR
FROM BEGINNING OF OPERATIONS TO
31 DECEMBER 1965^{a/}

	Distribution by State and year							In thousand francs	
	1959	1960	1961	1962	1963	1964	1965	TOTAL	
FRANC ZONE									
- Senegal	12,784	26,961	23,771	27,535	22,482	43,467	12,022	169,022	
- Mali	22,646	34,515	14,600	22,020	1,601	5,441	463	101,286	
- Former Federation of Mali	9,442	11,394	6,332	—	—	—	—	14,504	
- Mauritania	4,530	27,218	71,235	13,743	14,405	14,280	19,619	165,030	
- Ivory Coast	19,580	35,481	20,621	39,306	51,034	21,737	48,223	235,982	
- Upper Volta	20,218	23,142	19,783	19,018	19,626	17,056	21,186	140,029	
- Dahomey	88,050	15,119	23,247	11,644	35,599	19,703	16,447	209,809	
- Niger	10,132	26,047	2,400	27,206	33,849	30,684	22,773	153,691	
- Gabon	9,604	18,967	19,722	19,197	16,380	9,951	16,843	110,664	
- Congo	12,836	23,445	15,980	10,276	24,051	16,305	2,430	105,323	
- CAR	7,102	24,749	15,906	4,840	13,641	34,510	8,987	109,735	
- Chad	10,386	25,710	11,314	12,102	31,628	23,080	29,544	143,764	
- Madagascar	35,464	58,259	46,461	52,001	62,919	44,167	54,361	353,623	
- Cameroon	37,882	1,341	41,797	37,256	39,248	31,694	44,109	233,327	
- Togo	6,346	3,227	12,955	649	15,503	14,736	4,638	58,054	
OTHER									
- Rwanda	—	—	—	—	1,223	3,674	1,472	6,369	
- Burundi	—	—	—	—	—	508	4,475	4,983	
- Congo (Leo.)	—	—	—	—	—	2,463	7,887	10,350	
- Ethiopia	—	—	—	—	—	300	—	300	
Total	307,002	355,566	333,460	296,793	383,189	333,756	315,479	2,325,245	

Source: Caisse Centrale de Coopération Economique: Rapport d'activité, exercice 1965.

a/ Figures based on decisions by the Comptroller of the FAC, taking into account cancellations during 1965.

TABLE 7

ALLOCATIONS MADE BY THE COMITE
DIRECTEUR (MANAGEMENT COMMITTEE)
OF FAC FOR DEVELOPMENT PROGRAMMES
IN AFRICAN STATES AND MADAGASCAR
FROM BEGINNING OF OPERATIONS TO
31 DECEMBER 1965

Distribution by State and category of operations

	Shares	General expenditure	Development and production	Infra- structure	Social equipment and facilities	TOTAL	In thousand francs in the form of advances
FRANC ZONE							
Senegal	2,508	16,990	64,000	32,430	53,094	169,022	28,030
Mali	—	4,403	81,974	7,257	7,552	101,286	12,600
Former Federation of Mali	—	6,318	—	6,560	1,626	14,504	—
Mauritania	57,974	13,051	29,019	59,092	5,894	165,030	5,000
Ivory Coast	—	28,646	65,309	43,764	98,263	235,982	10,940
Upper Volta	—	23,738	61,242	22,900	32,149	140,029	760
Dahomey	—	6,925	34,336	148,823	19,724	209,808	—
Niger	—	19,666	52,356	57,354	23,716	153,092	5,400
Gabon	300	7,500	26,063	58,653	18,048	110,664	300
Congo	—	12,480	38,687	32,783	21,373	105,323	4,700
CAR	26	7,174	43,429	36,736	22,370	109,735	1,900
Chad	—	17,771	48,914	46,665	30,414	143,764	4,040
Madagascar	—	32,498	152,620	91,446	77,059	353,623	8,091
Cameroon	—	27,234	48,635	98,001	59,457	233,327	—
Togo	—	2,926	14,272	32,553	7,303	58,054	900
OTHER							
Rwanda	—	1,355	332	1,027	3,655	6,369	—
Burundi	—	1,620	2,900	275	188	4,983	—
Congo (Leo.)	—	4,900	3,000	1,830	620	10,350	—
Ethiopia	—	—	—	—	300	—	—
TOTAL	60,603	236,295	767,088	770,149	482,905	2,325,245	82,661

Source: Caisse Centrale de Coopération Economique: Rapport d'activite, exercice 1965.

18. The FEDOM had 581.25 million units of account available (equivalent to \$581.25 million) paid in by the six Members of the EEC to finance, in the form of grants, the capital investment expenditure of the associated countries and territories in the non-productive sectors, mainly for the economic and social infrastructure. Owing to the delay that occurred during the start-up period and the negotiations on the second convention of association, as well as the difficulties resulting from the absence or inadequacy of development plans submitted by the associated countries, FEDOM was not able to liquidate its operations by the end of the first convention of association. However, on 31 December 1965, almost all FEDOM's money had been committed (see table 8). For the same reasons there was a gap between the amount committed and that actually expended, which on 31 December 1965 represented only 55 per cent of commitments. However, it is foreseen that if payments continue at \$100 million a year, which has been the rate since 1965, FEDOM will have completed its operations in 1968.

19. With the second convention of association, important changes occurred in the concept of the assistance provided by the EDF. The total money available in the fund was raised to \$800 million for the period 1964-1969, an increase of 38 per cent over FEDOM. Of this \$800 million, \$730 million is intended for the AASM. The money will be made available both in the form of grants and loans and will cover non-profit projects as well as productive investments. Outright grants and loans are distributed as follows:

EDF

Grants	\$620 million
Special loans	\$ 46 million

European Investment Bank (EIB)

Normal loans	\$ 64 million
<u>Total</u>	<u>\$730 million</u>

TABLE 8

AID BY FEDOM TO AFRICAN TERRITORIES ASSOCIATED WITH THE EEC

Associated States, countries and territories	Number of projects	Initial commitment	Contracts and estimates		Unused balance of initial commitment + authorized additions	Amounts in '000 n.a.	
			Number	Total amount		Total commitments	Disburse- ments
Senegal	24	40,833	95	29,829	14,005	43,834	25,546
Mauritania	11	12,540	50	14,113	1,265	15,378	10,280
Mali	24 a/	31,170	113	36,438	5,592	42,030	26,253
Ivory Coast	19	36,445	62	27,204	12,458	39,662	24,600
Dahomey	18	20,379	62	12,348	8,429	20,777	9,203
Niger	8 a/	28,805	52	23,505	7,847	31,352	13,497
Upper Volta	13 a/	37,347	53	22,392	5,902	28,294	15,853
Togo	18	13,995	57	10,808	5,127	15,935	8,345
Gabon	15 a/	15,078	82	12,505	5,275	17,780	10,985
Chad	19 a/	28,837	69	24,720	3,204	27,924	20,256
CAR	27	15,776	87	10,287	7,930	18,217	6,569
Congo (Brazzaville)	18 a/	19,608	57	18,531	6,091	24,622	16,430
Cameroon	27 a/	44,832	72	39,364	13,433	52,797	24,786
Algeria	9	20,427	18	7,160	18,159	25,319	6,058
Madagascar	40	53,528	106	50,679	5,590	56,269	37,146
Comoro Is.	7	2,788	11	2,861	216	3,077	2,367
French Somaliland	2	1,367	8	1,137	62	1,199	846
Reunion	5	7,516	8	2,738	6,124	8,862	2,030
Congo (Kinshasa)	16	17,991	71	14,645	4,492	19,137	7,506
Burundi	11	4,413	22	3,019	1,902	4,921	2,763
Rwanda	11	4,844	71	4,005	941	4,946	3,107
Swazilia	6	8,482	88	7,676	2,261	9,937	6,872
TOTAL	343	456,002	1,314	375,964	136,305	512,269	282,298
Technical control						580	
Total:						512,849	

Source: EEC, European Development Fund, Situation bi-mestrielle des projets en exécution.
Correct to: 31 December 1965.

a/ Project 11.29.101 Rinderpest phase 1, common to Niger, Cameroon and Chad.)The number of projects is
Project 11.29.102 Rinderpest, phase 2, common to Niger, Upper Volta and Mali.)thus in fact 346.
Project 12.29.103 Radio relay link common to Gabon and the Congo (Brazza.)

The loans of the EDF are on very favourable terms, being spread over 40 years with a period of grace or amortization for the first 10 years, at a rate of interest not exceeding 2 per cent. Loans of the EIB are made on normal terms but, by intervention of the EDF, it is possible to lessen the load for the AASM (3 per cent interest rebate for loans of a maximum duration of 25 years, for example).

20. Under the Convention of association, the AASM were obliged to sell their products at world market prices, according to a time-table varying from product to product. That meant that, apart from the associated countries not members of the franc zone, the AASM were to lose the financial advantages resulting from the "overprice" that their products enjoyed in the French market. In 1961, for example, the total financial benefit of the AASM arising out of this preferential treatment was estimated at 343 million French francs, or \$69 million, as can be seen from the table below:

CFA COUNTRIES: ESTIMATED FINANCIAL ADVANTAGES OBTAINED
THROUGH FRENCH PREFERENCES, 1961

Products	Exports of the AASM (franc zone) to France (metric tons) (1)	International Price c.i.f. (French francs per kilogramme) (2)	French Price (3)	Unitary Difference (4)	Total Financial Advantage =(1) x (4) (5)
Coffee, robusta	167,513	2.02	3.23	1.21	202.69
Coffee, arabica	7,600	3.68	4.35	0.67	5.09
Groundnuts	335,000	0.97	1.03	0.06	20.10
Groundnut oil	111,300	1.63	2.00	0.37	41.18
Palm oil	12,400	1.12	1.19	0.07	0.86
Bananas	146,500	0.72	0.90	0.18	26.37
Sugar	45,000	0.29	0.85	0.56	25.20
Rice	13,000	0.90	1.50	0.60	7.80
Cotton	67,455	-	-	-	10.10 ^{a/}
Other products ^{b/}					3.60
All products					342.99

Source: IMF, Staff Papers, Vol.X, No.3, November 1963, p. 368.

^{a/} Subsidy to producers

^{b/} Pepper, gum, grated coconut, etc.

TABLE 9
EDF - Aid for Production

Amounts in '000 n.a.

Correct to 30 June 1966

Country	Programmes		Price support		Commitment	Contracts and estimates		Structural improvement		Disbursements	Total expenditure
	Number	Amount	Commitment	Expenditure		Number	Amount	Balance of unused commitments			
Cameroon	2	4,372	1,032	429	3,340	7	1,265	2,075	978	1,407	
CAR	3	3,668	2,164	1,085	1,504	3	551	953	1,046	2,131	
Dehoney	2	1,965	649	95	1,316	-	-	1,316	-	95	
Madagascar	1	8,551	6,433	-	2,118	-	-	2,118	-	-	
Mali	2	2,847	989	143	1,858	-	-	1,858	-	143	
Niger	2	2,719	1,870	104	849	4	25	824	-	104	
Senegal	2	19,528	10,942	5,604	8,586	1	1,436	7,150	2,905	8,509	
Chad	2	2,985	2,920	1,481	65	-	-	65	-	1,481	
Togo	1	990	747	-	243	-	-	243	-	-	
Total	17	47,625	27,746	8,941	19,879	15	3,277	16,602	4,929	13,780	

Source: EEC: European Development Fund, Situation bi-mestrielle des projets en exécution.
Correct to 30 June 1960.

TABLE 10
EDF - Aid for diversification

Amounts in '000 n.a.		Correct to 30 June 1966				
Country	Programmes		Contracts and estimates		Total commitments (5 + 6)	Disbursements
	Number	Initial commitment	Number	Amount	Balance of initial commitments	
- Burundi	1	2,200			2,200	-
- Cameroon	1	749		630	749	282
- CAR	-	-		-	-	-
- Congo (Brazza.)	3	5,169	2	365	5,169	-
- Congo (Kinshasa)	-	-		-	-	-
- Ivory Coast	2	34,814	4	25,809	34,814	7,035
- Dahomey	-	-		-	-	-
- Gabon	-	-		-	-	-
- Upper Volta	-	-		-	-	-
- Madagascar	2	284		284	284	-
- Mali	1	41		41	41	-
- Mauritania	1	1,357		1,357	1,357	-
- Niger	-	-		-	-	-
- Rwanda	3	4,448	5	328	4,448	82
- Senegal	1	1,025		1,025	1,025	-
- Somalia	-	-		-	-	-
- Chad	-	-		-	-	-
- Togo	-	-		-	-	-
Total		15	50,087	11	22,955	7,399
				27,132	50,087	

Source: EEC: European Development Fund. Situation bi-mestrielle des projets en exécution.
Correct to 30 June 1966.

TABLE 11
EDDF - Economic and Social Investment Projects

Amounts in '000 n.a.

Correct to 30 June 1966

Countries and territories	Number of projects	Commitment	Contracts and estimates		Unused balance of initial commitment + authorized additions	Total commitments	Disbursements
			Number	Total amount			
Burundi	2	320	6	48	272	320	63
Cameroon	5	11,019	1	81	10,938	11,019	20
CAR	5	6,903	-	-	6,903	6,903	-
Congo (Brazza.)	3	3,403	-	-	3,403	3,403	47
Congo (Kinshasa)	6	29,424	-	-	29,424	29,424	-
Ivory Coast	1	211	1	112	99	211	30
Dahomey	3	5,700	-	-	5,700	5,700	-
Gabon	-	-	-	-	-	-	-
Upper Volta	5	5,661	2	429	5,232	5,661	85
Madagascar	11	33,979	-	-	33,979	33,979	-
Mali	5	9,985	1	73	9,912	9,985	20
Mauritania	5	10,092	2	598	9,494	10,092	21
Niger	4	6,272	2	1,770	4,502	6,272	348
Rwanda	1	900	8	23	877	900	-
Senegal	5	6,367	-	-	6,367	6,367	-
Somalia	2	6,419	2	48	6,371	6,419	42
Chad	10	18,228	12	776	17,452	18,228	615
Togo	1	1,013	-	-	1,013	1,013	-
Total AASM	74	155,896	37	3,958	151,938	155,896	1,291
Comoro Is.	2	790	-	-	790	790	-
French Somaliland	1	606	-	-	606	606	-
Reunion	2	8,102	-	-	8,102	8,102	-
Total overseas territories and departments	5	9,498	-	-	9,498	9,498	-
Grand Total	79	165,394	37	3,958	161,436	165,394	1,291

Sources: EEC European Development Fund. Situation bi-mestrielle des projets en execution.
Correct to 30 June 1966.

21. Therefore, a way had to be found of compensating for this loss and allowing the African economies to adapt themselves to the new situation. With this aim 230 million units of account were reserved for allocation to aid to production (price support and structural improvement of crops) and for diversification during the five-year period 1964-1969, an average of \$46 million yearly for all the AASM.

22. Comparing this figure with the \$69 million in paragraph 5, it would seem that AASM in the franc zone were not given compensation equal to the loss incurred by marketing at world prices. Therefore, the other forms of aid from the EDF should be of such a nature as to increase and diversify exports from the AASM in order to provide additional compensation. However that may be, the AASM have intimated that they would have difficulty in winning again on the markets of the six what they lost by the progressive abolition of the special arrangements with France. Furthermore, special steps had to be taken for certain products, particularly oil seeds for which additional aid of \$21.5 million financed out of the EEC budget will be allocated for the period 1 July 1967 to 31 May 1969, when the Yaoundé Convention expires.

23. During the coming negotiations for renewal of this Convention, it will therefore be necessary to calculate more precisely than before the aid to be allotted to the AASM. The amount of the EDF will have to be increased in order both to meet the growing needs of the AASM for economic development and to compensate for the loss of trade preferences.

24. The way of dealing with the question of the preferences that the associated franc zone countries enjoyed in the French market might usefully serve to solve the problems raised by recommendation A.II.1 Section II.A.6 of the first UNCTAD. According to this recommendation, preferential arrangements between developed countries and developing countries which involve discrimination against other developing countries should be abolished pari passu with international measures providing

at least equivalent advantages.^{1/} The system of association as applied at present is a discriminatory preferential arrangement of this type and it is therefore necessary to take the recommendation below into account. Of course, the situation is not the same for this recommendation as in the case of marketing at world prices. In the latter case, when it was a question of price control, it was fairly easy to calculate the difference between the world price and the French "overprice" and to multiply it by the quantity exported to France to find the financial benefit that the AASM could derive from the system. In the first case, when it is a question of preferences in the tariff and quota field, it is more difficult to calculate the order to magnitude of the advantages derived from the preferential system.

25. Nevertheless, the EDF approach is interesting to the extent that this institution has tried to solve the problem of eliminating a kind of trade preference by the actual application of measures to compensate for the resultant losses. It may be said that the advantages arising out of a preferential system and consequently the damaging effects of their elimination depend in the short and medium run on the structure and geographical distribution of the exports from the country in question and on the amount of preferences. In the longer run, it will be necessary to take into account inter alia, the supply potential of the country in question, which will notably depend on the investments made during the period in which the preferential system existed.

26. It therefore seems that the method used by the EDF, namely to supply financial aid that would be channelled into action to strengthen the trade situation by an improvement and diversification of the production of the AASM, is an example of possible international measures providing

1/ The full text of the recommendation is:

"Preferential arrangements between developed countries and developing countries which involve discrimination against other developing countries, and which are essential for the maintenance and growth of the export earnings and for the economic advancement of the less developed countries at present benefiting therefrom, should be abolished pari passu with the effective application of international measures providing at least equivalent advantages for the said countries. These international measures should be introduced gradually in such a way that they become operative before the end of the United Nations Development Decade."

at least equivalent advantages." The problem transcends the bounds of the EDF and the associated countries alone. It would be desirable to set up a consultative agency including the main developed countries that supply aid and the developing countries, to be responsible inter alia for calculating as exactly as possible the preferential advantages derived not only in the framework of association with the EEC but also under other preferential systems.

DATA BASES AND TRENDS IN AFRICA

27. Loans from the International Bank for Reconstruction and Development reached a total of \$1,245 million in 1965/66, an increase of 56 per cent over the cumulative total up to 1960/61.

28. The IBRD loans were used mainly in the fields of transport (railways and roads) and electric energy. Loans for the transport sector represented 52 per cent of the total in 1960/61 and 44 per cent in 1965/66. The proportions for electric energy were as follows: 23 per cent in 1960/61 and 33 per cent in 1965/66. The third-largest category was loans to industry, representing 13 per cent of the total in 1960/61 and 1965/66. Most of these, i.e. 98 per cent of loans to the industrial sector in 1960/61 and 62 per cent in 1965/66, went to mining. The proportion allocated to the agricultural sector was 6 per cent in 1960/61 and 1965/66. Irrigation and clearing of land absorbed most of the agricultural loans.

29. The amount of IDA credits is not available separately except for 1964/65 and 1965/66. These credits totalled \$117 million in 1964/65 and \$145 million in 1965/66. The beneficiary sectors were transport (roads) 61 per cent in 1964/65 and 52 per cent in 1965/66, and agriculture, 14 per cent in 1964/65 and 1965/66.

Bank loans and IDA credits to Africa classified by purpose
cumulative totals 1960/61-1965/66

Purpose	Millions of US\$					
	1960/61	1961/62	1962/63	1963/64 [*]	1964/65	1965/66
	Banque		Banque		IDA	
GRAND TOTAL	799.8	885.1	917.6	1,036.0	1,103.6	1,244.6
Electric power	186.4	247.4	251.6	312.1	405.6	405.6
Transportation	418.2	429.2	442.5	463.9	443.2	545.2
Railroads	263.2	274.2	274.1	274.2	274.0	338.0
Roads	87.8	87.8	87.7	106.4	86.6	119.6
Ports and waterways	17.2	17.2	30.7	33.3	32.6	37.6
Pipelines	50.0	50.0	50.0	50.0	50.0	50.0
Telecommunications	1.5	4.4	4.4	4.4	4.4	9.2
Agriculture and forestry	50.7	59.1	59.1	65.4	69.9	79.9
Farm mechanization	-	-	-	-	-	4.1
Irrigation and flood control	35.0	35.0	35.0	48.0	45.5	47.5
Land clearance	13.7	22.1	22.1	17.1	23.2	26.4
Crop processing	1.0	1.0	1.0	0.3	0.3	1.1
Livestock	1.0	1.0	1.0	0.9	0.9	0.9
Industry	103.0	105.0	120.0	140.5	140.5	163.0
Various industries	-	-	-	20.5	20.5	20.5
Mining	101.0	101.0	101.0	101.0	101.0	101.0
Development Finance Companies	2.0	4.0	19.0	19.0	19.0	41.5
Water supply	-	-	-	-	-	-
General development	40.0	40.0	40.0	40.0	40.0	40.0
Education projects	-	-	-	9.6	-	-
Engineering study	-	-	-	-	-	1.7

Source: Annual Reports IBRD and IDA, 1960/61 to 1965/66.

^{*} Total IBRD and IDA