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JOINT COMMITTEE ON FOREIGN AFFAIRS

Report On

AUSTRALIA'S FOREIGN AID

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JOINT COMMITTEE ON FOREIGN AFFAIRS

REPORT ON "WHAT IS THE MOST EFFECTIVE FORM
OF AID - BILATERAL OR MULTILATERAL"

To the Hon. N.H. Bowen, Q.C., M.P.,
Minister for Foreign Affairs.

PREFACE

Sir,

Following discussions between the Committee and yourself and an exchange of correspondence it was agreed in March/April that the Committee consider and report upon "what is the most effective form of aid - bilateral or multilateral". It was also agreed that, under certain conditions, the Committee could hold its inquiry in "open" or public sessions.

The Committee resolved that a sub-committee consisting of Mr Bryant, the Hon. L.H.E. Bury, Mr Calder, Mr D.M. Cameron, Mr Cohen, the Hon. Sir John Cramer, Mr Cross, Mr Kirwan, Mr Lloyd, Mr Mackellar, Mr Morrison, Mr Reynolds, Mr Staley and Mr Turner be appointed to consider the reference from the Minister. On 27 April 1972, Mr Turner was elected Chairman of the Sub-Committee. During the absence of Mr Turner overseas on parliamentary business, Mr Morrison was elected Acting Chairman from 12 October 1972.

At an early date it was realised that, whilst the wording of the reference was specific, if the Sub-Committee were to fulfil adequately the

task imposed upon it, it would have to extend the area of its inquiry over the broad spectrum of foreign aid. At the Committee's request you agreed that the inquiry be not too restricted.

It was agreed, with your concurrence, that the Sub-Committee's inquiry encompass the following:

- (1) The historical background and emergence of foreign aid programmes.
- (2) The international setting for foreign aid programmes.
- (3) The forms of aid -
 - (i) Bilateral Government aid;
 - (ii) Multilateral Government aid; and
 - (iii) Other forms of non-Government aid;

Advertisements were placed in major daily newspapers in all states requesting submissions from interested persons and organisations. The response to these advertisements was encouraging. The Sub-Committee received a total of 39 submissions. Twenty-two meetings were held - 12 in public session - at which evidence was heard from thirty-four witnesses, comprised of representatives of Commonwealth Government departments, academics and voluntary aid organisations.

As the Sub-Committee progressed in its inquiry it realised that, in the time available to it, it could not report on all aspects of the reference in depth. For this reason the examination of facets of aid in the report are general rather than specific. The Committee considers that much remains to be examined in this field and consequently believes that a continuing Parliamentary oversight of the question

should be maintained through the medium of a Parliamentary Committee.

Apart from the historical importance of the inquiry, in that it is the first public inquiry held by a Sub-Committee of the Joint Committee on Foreign Affairs, the Committee believes that the inquiry has indicated that a public inquiry by a Parliamentary Committee into matters which relate to foreign affairs are a valuable and natural extension of Parliamentary activity.

The Sub-Committee reported to the Committee on 19 October 1972 and the Committee considered and adopted the Report on 24 October 1972.

The Joint Committee on Foreign Affairs has the honour to present to you the following Report:

CONCLUSIONS AND RECOMMENDATIONS

The Committee has made a number of conclusions and recommendations in the body of its Report. However, the Committee wishes to emphasise its principal conclusions and recommendations. These are as follows:

CONCLUSION 1: In the limited time available, the Committee has only been able to examine the broad features of the Australian aid programme. An in-depth appraisal of the aid programme was not possible. The Committee noted that there has been no independent and systematic evaluation of aid projects and that Departmental evaluations have only recently been undertaken. The Committee was unable to carry out field investigations or to hear evidence from recipient countries. (Paras 2.6.11, 2.6.12, 2.6.13.)

RECOMMENDATION: The Committee recommends that the Joint Committee on Foreign Affairs carry out a periodic review of aid.

CONCLUSION 2: In response to the term of reference of the Committee, "What is the most effective form of aid - bilateral or multilateral", the Committee came to the following conclusions:

- A. The Committee does not regard bilateral and multilateral forms of aid as mutually exclusive alternatives. A combination of bilateral and multilateral aid is the most effective way of achieving the objectives of development. Both forms of aid are complementary. (Para. 2.4.6.)
- B. Bilateral aid has some particular advantages. The donor can select countries to supply with aid. This is seen as desirable for a number of reasons - partly because goodwill may be gained and because advantages accrue in terms of trade. (Paras 2.3.1 to 2.3.4.)

- C. Multilateral aid supplements bilateral aid and shares aid burdens among developed countries more equitably. It is less open to suggestion that narrow national interests predominate and the practice of tying aid is less widespread. (Paras 2.6.14, 2.6.17, 4.1.1.)
- D. Multilateral agencies are better equipped to carry out major infrastructure projects because of their resources. (Para. 2.5.4.)

RECOMMENDATION: The Committee recommends that, while maintaining the present emphasis on bilateral aid, Australia increase its disbursements to some multilateral agencies, in particular to the Special Fund of the Asian Development Bank and contribute to the U.N. Fund for Population Activities, and that

- A. Australia continue to play a role in infrastructure projects in which it has developed an expertise
- B. greater emphasis be placed on aid projects in the agricultural, social welfare and educational fields
- C. ways of contributing to the local costs of projects in these fields be examined so that projects with a high local cost content may be aided.

CONCLUSION 3: The Committee supported the present objectives of the aid programme but noted recent thinking on development problems which pointed not only to the gap between rich and poor nations but to the disparities between rich and poor within countries. (Paras 1.1.8 to 1.2.2.)

RECOMMENDATION: The Committee recommends that more emphasis be placed on the social aspects of development in the criteria on which projects are selected.

CONCLUSION 4: The Committee concluded that the present emphasis internationally on aid targets leads to too much attention being paid to relative aid performances of donor countries based on questionable statistical criteria. (Para. 2.2.1.)

RECOMMENDATION: The Committee recommends that in the Development Assistance Committee, Australia press for more attention to be focussed on the quality of aid, including the terms of aid and the contribution to development.

CONCLUSION 5: The Committee concluded that the organisational structure of Australian aid administration has developed in a largely ad hoc fashion over the last quarter of a century. The existing structure involving dispersal of aid functions among several departments needs to be substantially reviewed in the light of the increased complexities and sophistication of development assistance and to accommodate the administration of aid to an independent Papua New Guinea. (Paras 2.6.1 to 2.6.6.)

RECOMMENDATION: The Committee recommends that consideration be given either to the strengthening of the Aid Branch of the Department of Foreign Affairs to administer all aid including multilateral aid and aid to an independent Papua New Guinea, or to the establishment of an authority responsible to the Minister for Foreign Affairs.

Consideration be given to the establishment of an aid consultative committee.

CONCLUSION 6: The Committee concluded that more emphasis was now being placed on the development aspects of the work of the multilateral financial institutions, where Australia is presently represented by officials of the Treasury. (Para. 2.6.15.)

(vii)

RECOMMENDATION: The Committee recommends that Australia's representation at meetings of the World Bank Group include officials from the Aid Branch of the Department of Foreign Affairs.

CONCLUSION 7: The Committee was unable to come to a judgement as to the effectiveness of capital project aid in the absence of any systematic post hoc evaluation of projects being carried out by the Department. (Paras 2.6.11, 2.6.12, 3.2.7.)

RECOMMENDATION: The Committee recommends that more emphasis be placed in future on evaluation of aid projects.

CONCLUSION 8: The Committee concluded that Australia undertook projects in a large number of differing fields, and that there were advantages in a greater degree of specialisation than occurs at present. (Paras 3.2.9, 3.2.10.)

RECOMMENDATION: The Committee recommends that consideration be given to compiling a survey of Australian aid resources in areas in which Australia has particular expertise.

CONCLUSION 9:

A. The Committee was unable to come to a judgement on how effective the work of Australian experts in developing countries has been, because of the lack of a systematic evaluation of the contribution of experts in the field. (Para. 3.6.5.)

B. The Committee does not concur with the suggestion that a professional corps of experts should be set up as it believes the present recruitment of experts is satisfactory. (Para. 3.6.3.)

RECOMMENDATION: The Committee recommends that the regular evaluation of Australia's aid should include an evaluation of the work of Australian experts in developing countries.

CONCLUSION 10: The Committee concluded that Devisa Kredit aid is a useful form of aid. (Paras 3.3.1 to 3.3.10.) (Mr Morrison and Mr Cross dissenting.)

RECOMMENDATION: The Committee recommends that Devisa Kredit aid be expanded. (Mr Morrison and Mr Cross dissenting.)

CONCLUSION 11: The Committee concluded that the contribution of private students to the development of their own countries following education in Australia has not been adequately assessed. (Paras 3.6.13 to 3.6.24.)

RECOMMENDATION: The Committee recommends -

- A. that the present arrangements for private students from developing countries in Australia should be reviewed regularly in the light of improved educational facilities in developing countries.
- B. that more emphasis should be placed on educating students in their home countries through assistance to local institutions and by the provision of Australian educationists where practicable.

CONCLUSION 12: The Committee concluded that the tying of Australian contributions to multilateral agencies and financial institutions is no longer necessary. (Paras 4.1.4., 4.1.5.)

RECOMMENDATION: The Committee recommends that contributions to multilateral agencies and institutions be progressively untied and that Australia take the initiative in persuading other countries to adopt the same attitude.

CONCLUSION 13: The Committee concluded that the expansion of trading opportunities for developing countries is one of their most important development needs. (Para. 5.2.1.)

RECOMMENDATION: The Committee recommends that -

- A. Australia support international moves to increase exports from developing countries.
- B. the tariff preference scheme be reviewed so as to expand the list of items which can be imported under preference and to raise the quota limits on some items.
- C. as far as possible, no new discriminatory tariffs be raised against imports from developing countries, and within the general review of Australian tariffs now in progress, account be taken of the difficulties these countries face.

CONCLUSION 14: The Committee concluded that voluntary overseas aid organisations are disadvantaged at present in relation to many domestic charities because tax deductions are not allowed on contributions to overseas aid organisations. (Paras 6.1.6, 6.1.7.)

RECOMMENDATION: The Committee recommends that pro-rata grants be made by the Government on projects submitted by voluntary agencies and approved by the Government, rather than making donations tax deductible. (Senator Bishop, Mr Cross, Mr Reynolds and Mr Staley dissenting, expressing the view that donations to approved Australian overseas aid organisations should be tax deductible in addition to the provision of pro-rata grants.)

The Committee also recommends that -

- A. funds be made available for research into problems of aid and development.
- B. Australia allow the A.D.B. and developing countries access to the Australian capital market to raise funds. (Senator Hannan dissenting.)

CHAPTER ONE

INTRODUCTION

1. Emergence of Australia's official aid programme

1.1.1 The giving of aid to developing countries by developed nations is a relatively new phenomenon. Before World War II, metropolitan powers (including Australia) made subventions to their colonies and allowed some of them to borrow on their private capital markets. Aid programmes after the war followed from the wartime programme of the United Nations Relief and Rehabilitation Administration (U.N.R.R.A.) and developed into two streams - multilateral and bilateral. As U.N.R.R.A. came to an end, the United Nations set up specialised agencies for refugees, care of children and technical assistance to which Australia contributed. The International Bank for Reconstruction and Development (I.B.R.D.) was established in 1944 and Australia became a member in 1947. At this time the I.B.R.D. was mainly concerned with lending for post-war reconstruction and the U.N. agencies were primarily relief oriented. In the immediate post-war years, bilateral aid increased sharply with large U.S. aid programmes for Europe through the Marshall Plan, and assistance to Greece, Turkey, the Philippines, Korea and Latin America, while other metropolitan countries, including Australia, increased their aid to their colonies. In 1950 the U.S. widened its area of interest bilaterally and with the "Point Four" and other programmes, directed aid to the Middle East, South and South East Asia and Latin America.¹

1.1.2 The impetus for increasing Australian aid to the South East Asian region derived from a Commonwealth Foreign Ministers' Conference held in Colombo in January 1950. Proposals made by Australia and Ceylon resulted in the formation of a Consultative Committee which set up a bilateral technical assistance programme to which Australia pledged £A3.5 million, and later reviewed development plans from Asian Commonwealth countries, on the basis of which the donor countries offered aid. Australia offered £31.5 million over six years and signed agreements for economic assistance with India, Ceylon and Pakistan.

1.1.3 Since 1950, the Colombo Plan has widened considerably to include non-Commonwealth Asian states and the United States. It is a consultative arrangement for the giving of aid bilaterally. While the bulk of Australian aid continues to be given under the label of the Colombo Plan, the aid programme has expanded to encompass special programmes. These include Special Aid to Indonesia (which includes Devisa Kredit aid, commodities and freight allowances for wheat), S.E.A.T.O. aid, the Indus Waters Scheme, the Laos Foreign Exchange Operations Fund, Special Aid to Cambodia and to South Vietnam, the Australian-Asian University Aid and Co-operation Scheme, A.S.P.A.C. Projects, and some minor Asian programmes.² Australia has also entered into the Food Aid Convention of the International Wheat Agreement and has extended aid to countries in the South Pacific mainly under the South Pacific Aid Programme (S.P.A.P.) and the South Pacific Commission. Australia also participates in two Commonwealth Schemes: Commonwealth Co-operation in Education and the Special Commonwealth African Assistance Plan (S.C.A.A.P.).

1.1.4 Australian aid has widened in the multilateral framework. Australia has subscribed to the I.B.R.D. and the International Finance Corporation (I.F.C.), and contributes to the International Development Association (I.D.A.). It has also shown a special interest in the Asian Development Bank set up in 1963 under the auspices of the U.N. Economic Commission for Asia and the Far East (E.C.A.F.E.).³

1.1.5 Australia's greater concentration in recent years on bilateral aid giving has resulted in a proportionately smaller share of Australia's total aid programme being directed through the U.N.⁴ The U.N. and its agencies administer five large Funds each with annual expenditures of over \$US10 million. Australia contributes \$2 million per annum to the U.N. Development Programme, nearly \$1 million to the World Food Programme, and smaller amounts to the U.N. Children's Fund, the U.N. High

2. See Transcript, pp. 9-13 for a description of these programmes. Budget Statement No. 8 lists the amounts spent on each item. Appendix B.

3. Transcript, pp. 18-21.

4. *ibid*, p. 21.

Commissioner for Refugees and the U.N. Relief and Works Agency. The U.N. Fund for Population Activities is not included in the Australian aid programme. Apart from the U.N. Fund for West Irian which is financed by the Netherlands and Indonesia, the remaining sixteen U.N. administered Funds have annual expenditures of \$US1 million or less and are specific either in function or country allocation. These are not included in Australia's aid programme.

1.1.6 The strong preference of Australia for giving aid bilaterally derives from several circumstances some of which are common to other donors and some of which are particular to Australia. Internationally, about 80 per cent of all aid is given bilaterally.⁵ One reason for this emphasis on bilateral aid is the continuing linkage between former colonial powers and their former dependencies where a preference for giving large amounts of aid to particular countries could only be achieved bilaterally. Historically another reason was

"the cold war and the ideological splits in the world itself which channelled aid on the one side coming from the United States and its allies - the western world in other words - into those countries which were considered to be either uncommitted or considered to be hopefully on our side in international politics. And on the side, of course, of the Soviet Union the aid was very carefully controlled under an internationally co-ordinated mutual assistance system which was typical of international communist systems."⁶

A third reason was the largely unstructured nature of the international aid situation in the early 1950's in which the systematic giving of aid on an international basis lacked an effective institutional form.

1.1.7 Australia has had particular reasons for emphasising bilateral aid. The responsibility for Papua New Guinea's development could in practice only be discharged bilaterally, and unlike other countries' dependencies, Papua New Guinea is Australia's closest neighbour, and has been seen for a century as its most important strategic bulwark. Apart from Papua New Guinea,

5. *ibid.*, p. 626.

6. Professor Wolfsohn, Transcript, p. 650B.

Australia has always concentrated its aid in Asia. There have been several reasons for this among which a humanitarian strand which recognized the great and pressing needs of the area was mixed with a political strand which sought to contribute to the region's political stability through development of the economies of these newly independent nations.⁷ The development of trading opportunities was sought and the generation of goodwill between Australia and the peoples of the region was seen as an important aspect of aid.⁸

1.1.8 These broad aims of Australian aid have continued to the present time although a changing emphasis in the last few years has appeared with the ferment in thinking about aid and development internationally and with an examination of past aid experience. The disparities in development between countries have become more apparent,⁹ the hopes for a rapid "take-off" into economic growth have been frustrated in many cases, and the trading problems of the developing countries are still far from a satisfactory solution.

1.1.9 The old definitions of development which centred on economic growth in general and on G.N.P. growth in particular are being widened to encompass social concepts including increased self-reliance by developing countries and a more equitable distribution of the proceeds of economic growth.¹⁰

2. Present Objectives

1.2.1. It appears that in recent years some of the basic premises of Australian aid have been redefined, partly in response to international discussion on aid and partly as a consequence of the re-examination of past aid performance. Aid has come to be regarded as an accepted form of international conduct, while the ideological and political expectations that were seen as an

7. Transcript, p. 60.

8. See speeches by Sir Percy Spender in late 1950. Current Notes on International Affairs, vol. 21, 1950, pp. 816, 887.

9. Professor Hogan. Development Themes submission.

10. International Strategy for the Second Development Decade, Transcript, p. 163.

important aspect of international aid giving are less important today. Sir Percy Spender's statement in late 1950 that the broad purpose of the Colombo Plan was to attack poverty, social unrest and political instability and to discourage extremist ideologies¹¹ has given way in part to the belief that aid can neither "buy" allies nor be expected to guarantee political stability.¹² For Australia, and most countries, however, there remains a distinct foreign policy element in aid giving which can contribute to the stability of the less developed countries for, in the widest sense, "their stability is our stability."¹³

1.2.2 The basic motivation for aid - the humanitarian belief that Australia has an obligation to assist the less developed nations - remains important. The major objective of aid is development, which is defined as a contribution to economic growth in recipient countries, through the transfer of capital resources and technical skills. The advancement of Australia's national interest and opportunities for trade promotion are secondary to the objective of development. The co-operative aspect of development was stressed by the Minister for Foreign Affairs in a recent speech to the House of Representatives:¹⁴ co-operation between donor and recipient on a basis of equality, and co-operation and co-ordination between donors. In regard to donor-recipient co-operation, the Minister said:

"We do not seek to impose on recipient countries our political philosophy or way of life, nor consciously to transplant our social and economic institutions.....the flow of aid itself opens up new options for constructive social change to help break the self-generating cycle of want, poverty and political upheaval."¹⁵

11. Transcript, p. 110.

12. The Rt Hon. William McMahon, M.P., Australia's External Aid, Speech in the House of Representatives, 3 September 1970. Department of Foreign Affairs publication 1971. p. 6.

13. The Hon. N.H. Bowen, M.P., Statement on Australian Foreign Aid, H. of R. Hansard, 21 September 1972, page 1749ff.

14. *ibid*, Annex, pp. 2-4.

15. *ibid*, p. 2.

The Minister also referred to the problem of "aid fatigue" among some donor countries and called for as much attention to be paid to the quality of aid as to its quantity.

1.2.3 It is in terms of these current objectives that the effectiveness of the bilateral and multilateral arms of the aid programme can be gauged.

CHAPTER TWO

THE MAIN CHARACTERISTICS OF THE AID PROGRAMME

1. Size of bilateral and multilateral aid¹ programmes

2.1.1 In 1971-72, total Australian aid disbursements were \$200 million. Of this total, 68 per cent went to Papua New Guinea, 26 per cent to other countries bilaterally and 6 per cent to multilateral institutions. These proportions are typical of the last ten years in that Papua New Guinea's share has ranged from 65 per cent to 70 per cent, other bilateral aid has ranged from 16 per cent to 25 per cent, while the greatest fluctuation has appeared in the amounts going to multilateral institutions - some 5 per cent to 13 per cent of all aid.² The proportions of aid going to Papua New Guinea and other countries can be predicted fairly precisely except for cases of emergency aid, while the disbursements to multilateral financial institutions cannot be estimated as accurately.³ The rate of disbursement of I.D.A. and A.D.B. funds, a factor not within the Government's power to control, can affect the flow of aid going to multilateral institutions. Mr Heinrich of the Treasury, explained that:

"When I.D.A. approves a credit or a loan for a particular project, it is usual for expenditure on that project to be spread over a period of time which might range up to 10 years, or thereafter before the project is completed. All of the funds that we have put at the disposal of I.D.A. have been committed for particular projects but expenditures thereon necessarily have lagged."⁴

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1. For the purposes of this section aid is defined as official development assistance only.
 2. See Table 1.
 3. See Budget Statements No. 8, 1971-72, 1972-73.
 4. Transcript of Evidence, p. 748.

TABLE 1

AUSTRALIA : OFFICIAL DEVELOPMENT ASSISTANCE (DISBURSEMENTS)

1961-62 TO 1972-73 (ESTIMATED)

| Year | Bilateral | | Papua New Guinea | | Multilateral | | | Increase on previous year % |
|----------------|-----------|-----------------------------|------------------|-----------------------------|--------------|-----------------------------|-----------------------------|-----------------------------|
| | \$'000 | Percent- age of Total | \$'000 | Percent- age of Total | \$'000 | Increase on previous year % | Percent- age of Total | Total |
| | | % | | % | | % | % | \$'000 |
| 1961-62 | 12,272 | 19.1 | 44,446 | 69.0 | 7,652 | | 11.9 | 64,370 |
| 1962-63 | 14,897 | 19.9 | 49,782 | 66.6 | 10,058 | 31.4 | 13.5 | 74,737 |
| 1963-64 | 14,029 | 16.4 | 61,098 | 71.2 | 10,672 | 6.1 | 12.4 | 85,799 |
| 1964-65 | 24,136 | 24.8 | 67,998 | 69.9 | 5,159 | -51.7 | 5.3 | 97,293 |
| 1965-66 | 25,719 | 23.6 | 75,167 | 69.0 | 8,018 | 55.4 | 7.4 | 108,904 |
| 1966-67 | 28,169 | 22.6 | 83,784 | 67.3 | 12,571 | 56.8 | 10.1 | 124,524 |
| 1967-68 | 34,251 | 24.5 | 91,645 | 65.5 | 14,001 | 11.4 | 10.0 | 139,897 |
| 1968-69 | 37,489 | 25.1 | 99,376 | 66.4 | 12,712 | -9.2 | 8.5 | 149,577 |
| 1969-70 | 40,148 | 24.2 | 115,475 | 69.5 | 10,558 | -16.9 | 6.4 | 166,181 |
| 1970-71 | 43,274 | 24.5 | 121,968 | 69.0 | 11,458 | 8.5 | 6.5 | 176,700 |
| 1971-72 | 51,404 | 25.7 | 136,720 | 68.4 | 11,700 | 2.1 | 5.9 | 199,824 |
| 1972-73 (est.) | 57,446 | 26.1 | 144,739 | 65.8 | 17,901 | 53.0 | 8.1 | 220,086 |

Source: Budget Statement No. 8 - External Aid.

2.1.2 From 1962-63 to 1966-67, the total aid programme grew at a rate of nearly 11 per cent per annum. In the last five years (1967-68 to 1971-72), the rate of growth has been 7 per cent per annum which is the same rate of growth as total federal government expenditure.⁵ This tapering off in the rate of growth is reflected in aid to countries other than Papua New Guinea where the trend has been to a lower average increase than in the earlier period, and also in the disbursements in multilateral aid.

2. Australia's Relative Aid Performance

2.2.1 When Official Development Assistance (O.D.A.) is compared to Gross National Product, Australia has ranked among the first four in the world.⁶ The Australian Government has voiced considerable reservations about the aid targets proposed by the U.N. and the Pearson Commission and used by the D.A.C. as indicators of relative aid performance on the grounds that such targets do not emphasise sufficiently the quality of the aid given:

A. The first concept, the total net flow of official and private resources, is the basis for the one per cent aid target which Australia exceeded in 1970 and 1971. This concept lumps together official development assistance on concessional terms, official development loans made on commercial terms with private investment, and official and commercial export credits with a maturity of more than twelve months.

B. The second concept, the net official flow of resources, is also seen as deficient in that it includes transactions by governments, such as official export credits or purchases of World Bank bonds, that are not concessional in nature.

C. The third concept of official development assistance, which omits these non-concessional official flows, is seen by Australia as a more meaningful measure of comparative

5. Department of the Treasury.

6. See Table 2 and Appendix B.

aid effort. Again, loans and grants are treated as if they were the same, which they are not, and no deduction is made for interest payments made by developing countries on loans. Using this last yardstick (for which the U.N. has set a target of 0.7 per cent of G.N.P.), Australia's O.D.A. was 0.52 per cent of G.N.P. in 1971, while the average of D.A.C. countries was 0.35 per cent.

2.2.2 Almost all of Australian aid is given in grant form and among D.A.C. countries Australian aid has the highest grant element. The provision of grants derived from the initially small size of the programme and also from a continuing desire to avoid creating debt burdens for developing countries.⁷ Only two official loans have been made to Papua New Guinea, one in 1970 for the construction of Arawa township in connection with the Bouganville Copper enterprise, and the other to purchase equity in Commonwealth New Guinea Timbers Pty Ltd.⁸ As a matter of policy, requests for loans to other countries have been refused.⁹ Many other countries give substantial proportions of their aid as grants,¹⁰ and the "grant" or concessional element in loans to countries such as Indonesia, India and Pakistan ranged from 51 per cent to 64 per cent to 1970.¹¹

2.2.3 When O.D.A. is divided into multilateral and bilateral proportions, the proportion of Australian aid going to multilateral institutions is the lowest among D.A.C. members except for Portugal.¹² This fact partly reflects Australia's decision to concentrate its aid in Papua New Guinea where opportunities for multilateral involvement in development have been restricted until recently by the Territory's dependent status.

7. Transcript, p. 112.

8. Department of Foreign Affairs.

9. Transcript, p. 105.

10. See Table 2.

11. World Bank, I.D.A., Annual Report, 1972, pp. 89-90. The grant element is the face value of loan commitments less the discounted present value of the future flow of repayments of principal and interest, using the customary rate of 10 per cent and expressed as a percentage of the face value.

12. See Table 2 and D.A.C. Review 1971, p. 36.

TABLE 2

SELECTED D.A.C. MEMBERS : OFFICIAL DEVELOPMENT ASSISTANCE

1970
\$US m.

| Country | Bilateral | | Multilateral | | Total | Percentage of G.N.P. 1971 |
|----------------|-----------|---------|---------------------------|--------------------------|---------|---------------------------------|
| | Grants | Loans | U.N. Agencies (Grants) | Banks (subscriptions) | | |
| Australia | 188.3 | 2.2 | 5.4 | 7.5 | 203.4 | 0.52 |
| Belgium | 86.6 | 5.7 | 18.3 | 9.1 | 119.7 | 0.49 |
| Canada | 156.2 | 111.5 | 41.7 | 36.9 | 346.3 | 0.37 |
| France | 675.2 | 173.0 | 58.2 | 44.7 | 951.1 | 0.68 |
| Germany | 246.6 | 219.5 | 81.6 | 51.2 | 598.9 | 0.34 |
| Japan | 121.2 | 250.3 | 7.7 | 78.8 | 458.0 | 0.23 |
| Netherlands | 93.2 | 61.4 | 36.1 | 5.7 | 196.4 | 0.60 |
| United Kingdom | 204.5 | 195.1 | 26.5 | 21.1 | 447.2 | 0.41 |
| United States | 1,381.0 | 1,276.0 | 160.0 | 233.0 | 3,050.0 | 0.32 |

Sources: O.E.C.D. Development Assistance 1971 Review, pp.170-1.
Budget Statement No. 8, 1972-73.

2.2.4 Mr Parsons from the Department of Foreign Affairs, pointed out that -

"The figures ^{of} of multilateral and bilateral proportions/ are very different if we exclude Papua New Guinea ... If we include Papua New Guinea in our figures, the Australian figure is 6.3 per cent; but if we exclude Papua New Guinea our percentage rises to 22.1 per cent."13

If the concentration of aid in Papua New Guinea has been an important factor in the past in the relatively small amount of aid given to multilateral agencies,¹⁴ it is worth noting that since 1967-68 Australia has contributed \$60.4 million to multilateral institutions and Papua New Guinea has received I.B.R.D., I.D.A., A.D.B. loans and U.N.D.P. aid worth \$60.8 million in the same period.¹⁵

2.2.5 While Papua New Guinea has been the main recipient of Australian aid, the concentration of bilateral aid in recent years in the South East Asian region has also affected the proportion of aid going to multilateral institutions. As Mr Parsons from the Department of Foreign Affairs said:

"Bilateral projects do allow us to concentrate our aid in the areas which we regard as important. If we give a massive amount, say, to U.N.D.P., we have no direct control over where or how that might be spent. By giving an amount to, say, Indonesia, we do have that influence."16

2.2.6 The geographical distribution of multilateral funds has not (except for the A.D.B.) been seen by Australia to coincide sufficiently with its policy of concentration on South East Asian countries: for example, in cumulative terms only about 6 per cent of all I.B.R.D. loans and I.D.A. credits have gone to South East Asia and both the World Food Programme and U.N.D.P. place less than 10 per cent of their aid in the same

13. Transcript, pp. 114-115.

14. *ibid*, p. 21.

15. *ibid*, p. 909B.

16. *ibid*, p. 341.

area.¹⁷ Apart from the allocation patterns of multilateral institutions, there are other reasons for giving aid to South East Asian countries bilaterally. There is first the opportunity to serve diplomatic objectives.¹⁸ Bilateral aid can promote the generation or consolidation of political relations and also derives prestige in the aid arena generally. Bilateral aid also offers more trade and investment opportunities than multilateral aid.¹⁹

2.2.7 These factors, which are of course advantageous to Australia, partly explain the concentration on bilateral aid as against multilateral aid.

3. Geographical Distribution of Aid

2.3.1 The Australian Government attaches great importance to the social and economic development of Papua New Guinea and this is reflected in the large proportion of Australian aid (some 70 per cent) which is directed to the Territory. Australian aid provided more than half of Papua New Guinea's budget receipts in 1970-71²⁰ and the Territory receives one of the highest rates of aid in the world in per capita terms. Until recently (1969-70), the Territory received a lump sum grant from Australia which covered budget deficits but now aid is divided into three main categories: grant-in-aid (\$30 million in 1971-72) for budgetary support, a development grant (\$40 million) and an amount to cover the differential costs of overseas officers in the P.N.G. Public Service (\$38 million). In addition, Australia has expended significant amounts through Commonwealth Departments and instrumentalities and also made loans to the Territory.

17. See Table 4 which sets out the geographical allocation of the major multilateral funds to which Australia contributes or subscribes. Appendix C contains the full list of multilateral agencies. See also Mr Parson's statement: "Our representatives in the governing council of the U.N.D.P. regularly feel that it is necessary to point out the importance and size of the needs of Asia, which we do not feel are fully reflected in the allocations". Transcript, p. 482.

18. Transcript, p. 63.

19. Transcript, pp. 344-346, 613.

20. Department of External Territories.

2.3.2 The Australian Government has also sought aid for the Territory from multilateral institutions. Loans to the value of \$58.5 million (primarily for infrastructure) have been received from the I.B.R.D., I.D.A. and A.D.B. while \$2.3 million has been received from the U.N.D.P. and U.N. agencies for a secondary teachers' training college, a co-operative college and a transport survey.²¹

2.3.3 Apart from Papua New Guinea, the allocation of development aid to a country appears to be determined by a combination of three criteria: geographical propinquity, economic need, and the state of Australia's political relations with that particular country.²² To qualify for substantial Australian aid, countries now need to fall within the general South East Asian or South West Pacific area. India and Pakistan now receive only 18 per cent of Australia's aid compared with 46 per cent in 1965-66.²³ The major reason for the fall in aid to India has been its changing requirements for food aid. From a peak of food aid worth \$9.4 million in 1966-67, India received food aid from Australia worth \$1.2 million in 1971-72. The preponderance of aid to Indonesia, some 36 per cent (as against 5 per cent in 1965-66), can be explained both in terms of economic need and Australia's desire to consolidate political relations with that country. A similar situation exists in regard to increases in aid to Cambodia and Vietnam. The Philippines which would appear to qualify for more aid on grounds of propinquity and need, has not fared so well, partly because the U.S. has had the major responsibility there.

2.3.4 Table 3 sets out the country allocation of Australia's aid. Indonesia ranks first with 36 per cent, then India with 11 per cent followed by Thailand, Vietnam, Pakistan and Malaysia. Comparison of this distribution pattern with the regional distribution of all bilateral and multilateral aid gives an idea of how Australian priorities fit in with the international scene.

21. Transcript, p. 909B.

22. *ibid*, pp. 63, 336-339.

23. See Table 3.

TABLE 3

AUSTRALIA : DISTRIBUTION BY COUNTRY OF BILATERAL AID
(EXCLUDING PAPUA NEW GUINEA)

\$A'000

| Country | 1965-66 | Percentage of Total in 1965-66 | 1970-71 | Percentage of Total in 1970-71 | Cumulative to 30 June 1971 |
|---------------|---------|--------------------------------------|---------|--------------------------------------|-------------------------------|
| Asia: | | | | | |
| Afghanistan | 30 | 0.1 | 78 | 0.2 | 957 |
| Bhutan | 146 | 0.7 | 147 | 0.3 | 604 |
| Brunei | 2 | - | - | - | 83 |
| Burma | 874 | 4.0 | 1,300 | 3.0 | 10,446 |
| Cambodia | 254 | 1.2 | 1,676 | 3.9 | 6,305 |
| Sri Lanka | 756 | 3.5 | 1,002 | 2.3 | 15,628 |
| India | 8,166 | 37.8 | 4,876 | 11.4 | 88,306 |
| Indonesia | 988 | 4.6 | 15,512 | 36.2 | 63,424 |
| Iran | - | - | 48 | 0.1 | 72 |
| Korea | 270 | 1.2 | 241 | 0.6 | 2,521 |
| Laos | 721 | 3.3 | 1,119 | 2.6 | 7,671 |
| Malaysia | 2,284 | 10.5 | 2,621 | 6.1 | 26,338 |
| Maldives Is. | 3 | - | 44 | 0.1 | 124 |
| Nepal | 48 | 0.2 | 840 | 2.0 | 1,818 |
| Pakistan | 1,820 | 8.4 | 2,757 | 6.4 | 47,835 |
| Philippines | 275 | 1.3 | 122 | 0.3 | 6,041 |
| Singapore | 243 | 1.1 | 588 | 1.4 | 5,687 |
| Thailand | 3,195 | 14.7 | 3,736 | 8.7 | 28,022 |
| Viet-Nam | 1,053 | 4.9 | 2,916 | 6.8 | 21,396 |
| Miscellaneous | n.a. | .. | 919 | 2.1 | 7,119 |
| South Pacific | 126 | 0.6 | 1,341 | 3.1 | 4,828 |
| Africa | 420 | 1.9 | 943 | 2.2 | 4,623 |
| Total: | 21,674 | | 42,826 | | 349,848 |

Source: Department of Foreign Affairs.

Note: Figures do not include the Indus Waters Scheme.

From D.A.C. figures, slightly more than half of all bilateral aid goes to Asia, and half of the Asian allocation is placed in the South East Asian region.²⁴ The distribution of multilateral aid (which is about one fifth of all aid) differs: less than one third goes to Asia and less than one third of this is placed in South East Asia.²⁵ It is clear from this that South East Asian countries are far more dependent on bilateral aid than on multilateral aid.

2.3.5 The criteria for allocation of multilateral funds differ according to the institution concerned and to whether the funds are for ordinary loans on relatively hard terms or soft loans on concessional terms. The major World Bank criteria for allocation of loans are economic performance and the ability to service debts, while the proportions of I.D.A. aid directed to particular regions are decided in discussions among World Bank donor countries. Generally, those countries which would find I.B.R.D. loans hard to repay, because of their relative poverty (on a basis of a per capita G.N.P. of less than \$US300), are eligible for I.D.A. credits. Some attempt is also made in the World Bank to redress imbalances which occur from bilateral preferences.²⁶ The particular regional distribution of multilateral aid (set out in more detail in Table 4) shows that in 1970-71, while I.B.R.D. loans to Asia were 21.5 per cent of all loans, only 4.7 per cent went to South East Asia and, while I.D.A. credits to Asia were 68.7 per cent of all credits, only 16.4 per cent went to South East Asia. In order to achieve a more balanced distribution of aid funds internationally, the Pearson Commission called for donors to provide 20 per cent of their O.D.A. for multilateral programmes.²⁷

2.3.6 In 1971 nearly half of the Asian Development Banks (A.D.B.) ordinary loans and nearly 75 per cent of special soft loans went to South East Asia. The criteria used by the A.D.B. for allocation of its ordinary loans are similar to those of the

24. D.A.C. Review 1971, pp. 186-187.

25. *ibid*

26. See Pearson Commission Report Partners in Development, pp. 134, 227.

27. *ibid*, p. 215.

LIST OF MULTILATERAL AID ORGANISATIONS AND FUNDS, GEOGRAPHIC ALLOCATIONS AND METHOD OF ALLOCATION

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | Whether donor may earmark funds for particular countries or purposes | Method by which allocations are decided |
|---|--|-------------------------------------|--------------------------------|---------------------|---|-----------------------|------------------------|-----------------------|--|---|
| | | | Total \$US\$ | S. Asia \$US\$ % | S.E. Asia \$US\$ % | N.E. Asia \$US\$ % | S. Pacific \$US\$ % | E. Africa \$US\$ % | | |
| International Bank for Reconstruction and Development | Development lending, to (mainly) developing members and associated technical assistance | 533.0 2.3 ⁽¹⁾ | 16,086.5 | 2,344.0 14.6 | 1,033.6 6.2 (Cumulative net IDB loans at 31.6.71) | 507.1 3.2 | 48.5 0.3 | 562.1 3.5 | No | Informal consensus of Directors or formal simple majority of weighted votes of members. Votes are weighted by size of subscription. |
| International Development Association | Soft-term development lending and associated technical assistance to lowest income members | 64.0 2.1 ⁽²⁾ | 3,304.4 | 2,044.4 61.2 | 88.6 4.7 (Principal of IDB loans signed in 1970-71) | 154.5 8.1 | 35.0 1.8 | 133.3 7.0 | No | Informal consensus of Directors or formal simple majority of weighted votes of members. Votes are weighted by size of subscription. |
| International Finance Corporation | Financing productive enterprises in (mainly) developing members by loans or purchase of equity | 2.2 2.1 ⁽³⁾ | 584.4 | 286.9 51.1 | 95.9 16.4 (Principal of IDA credits signed in 1970-71) | 7.0 1.2 | - | 68.5 1.2 | No | Informal consensus of Directors or formal simple majority of weighted votes of members. Votes are weighted by size of subscription. |
| Asian Development Bank | Ordinary or Special Funds (soft) loans and associated technical assistance to developing members | 85.0 7.1 ⁽⁴⁾ | 531.3 | 62.0 11.8 | 233.9 44.0 (Cumulative net ADB Ordinary loans at 31.12.71) | 28.6 43.0 | - | - | Ordinary - no | Informal consensus of Directors or formal simple majority of weighted votes of members. Votes are weighted by size of subscription. |
| | | 10.0 5.6 ⁽⁵⁾ | 107.2 | 31.4 29.3 | 97.9 48.3 (Principal of ADB Ordinary loans approved in 1971) | 100.5 49.6 | - | - | Special Funds - no other than in exceptions | Informal consensus of Directors or formal simple majority of weighted votes of members. Votes are weighted by size of subscription. |

- NOTES
- (1) Percentage of IDB Subscriptions at 31.6.71
 - (2) Percentage of IDA subscriptions and replenishments at 31.6.71
 - (3) Percentage of IFC subscriptions at 31.12.71
 - (4) Percentage of ADB subscriptions at 31.12.71
 - (5) Percentage of contributions pledged to ADB Special Funds at 31.12.71.

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | | | Whether donor pays earmark funds for particular countries or purposes | Method by which allocations are decided | | |
|---|---|-------------------------------------|--|------------|-----------|----------|-----------|-----------|------------|---|--|---|-----------|---|
| | | | S. Asia | | S.E. Asia | | M.E. Asia | | S. Pacific | | | | E. Africa | |
| | | | \$US\$ % | % | \$US\$ % | % | \$US\$ % | % | \$US\$ % | % | | | \$US\$ % | % |
| United Nations Development Programme | Grant technical assistance and pre-investment surveys | 2.0 0.6 ⁽¹⁾ | 1,188.4 | 140.8 12.0 | 88.9 7.6 | 30.3 2.6 | 6.9 0.6 | 104.9 9.0 | Yes | Simple majority of the Governing Council (elected by UN Economic and Social Council) | | | | |
| | | | (Cumulative Special Fund allocations to 31.12.70) | | | | | | | | | | | |
| | | | 53.0 | 9.5 18.0 | 7.0 13.2 | 0.2 0.4 | 1.2 2.4 | 6.1 11.5 | | | | | | |
| | | | 1,276.0 | 171.0 13.0 | 122.5 9.6 | 35.5 2.8 | 18.5 1.5 | 116.0 9.1 | | | | | | |
| World Food Programme | Grant food for payment in kind on development projects and for feeding programmes including emergencies | 2.1 1.0 ⁽²⁾ | 1,084.2 | 119.5 11.0 | 50.7 4.7 | 35.6 3.3 | 81.0 7.5 | 98.3 5.5 | No | Informal consensus or formal two-thirds majority of the Intergovernmental Committee (half elected by UN Economic and Social Council, half by FAO Council) | | | | |
| | | | (WFP Commitments approved January 1966 - April 1972) | | | | | | | | | | | |
| | | | 87.7 | 6.4 7.3 | 2.8 3.2 | 0.4 0.5 | - | 11.3 12.9 | | | | | | |
| | | | 77.5 | 24.5 31.6 | 6.7 8.6 | 2.0 2.6 | 1.1 1.5 | 5.4 7.0 | Yes | | | | | |
| United Nations Children's Fund | Aid for schools and other children's facilities and for emergencies (grants) | 0.6 1.5 ⁽³⁾ | (UNICEF programme disbursements in 1970) | | | | | | | | | | | |
| | | | 11.4 | 1.0 8.5 | 1.2 10.3 | 0.8 7.2 | - | 5.1 44.4 | Yes | Informal consensus or formal simple majority of the Executive Committee (appointed by UN Economic and Social Council) | | | | |
| United Nations High Commissioner for Refugees | Rehabilitation and resettlement of refugees (grants) | 0.2 3.2 ⁽⁴⁾ | (UNHCR programme disbursements in 1970) | | | | | | | | | | | |
| | | | 48.0 | - | - | - | - | - | - | Yes | UNRWA Secretariat on advice of the Advisory Board (appointed by UN General Assembly) | | | |
| United Nations Relief and Works Agency | Grant rehabilitation of Palestinian refugees | 0.2 0.05 ⁽⁵⁾ | (UNHCR expenditure in 1970) | | | | | | | | | | | |
| | | | - | - | - | - | - | - | - | - | | | | |

(1) Percentage of UNDP donor governments' pledges in 1972.

(2) Percentage of cumulative WFP pledges to 31.12.71

(3) Percentage of UNICEF donor governments' contributions in 1970.

(4) Percentage of UNHCR donor governments' contributions in 1970.

(5) Percentage of UNRWA donor governments' contributions in 1970.

... Indicates geographic breakdown is not available.

I.B.R.D. - economic performance and the ability to service debts. Unlike the I.D.A., however, the A.D.B. does not rule out any country in the region from eligibility for a soft loan, although in practice loans to countries which would not qualify for I.D.A. credits have been minimal. The present country distribution of ordinary loans and special loans²⁸ has been a consequence of a number of factors. In the case of ordinary loans, Korea, Taiwan and Singapore have had the largest share partly because of their ability to come forward with viable projects for loans, partly because they can afford to borrow on ordinary terms of $7\frac{1}{2}$ per cent over 10 to 25 years, and partly because of the aim of the A.D.B. to establish its credit rating in the world market for funds.²⁹ Apart from a small loan to Singapore, these countries have not received soft loans from the A.D.B. The lion's share of soft funds from A.D.B. (some 45 per cent) has been taken up by Indonesia because of its debt servicing problem and its great needs with the remainder being divided between Nepal and Sri Lanka, the next largest recipients, and spread in smaller amounts among other Asian countries. The fact that the volume of lending by the A.D.B. on ordinary terms has been five times larger than that from special funds was explained by the ad hoc nature of contributions to special funds. The Committee expressed some concern that the major role played so far by the A.D.B. has been in aiding countries which have already taken off in the development process.³⁰

2.3.7 The impact of Australian bilateral aid on the total bilateral aid receipts of countries to which substantial Australian aid is given is small, though understated somewhat because of its grant character. Australia supplies 7 per cent of Cambodia's bilateral aid, 8 per cent of Malaysia's, 4 per cent of Indonesia's and 4 per cent of Thailand's.³¹ In the case of

28. See Table 5.

29. Transcript, pp. 772-775.

30. *ibid*, pp. 111, 772, 774, 776.

31. Department of Foreign Affairs.

TABLE 5

GEOGRAPHIC DISTRIBUTION OF A.D.B. LOANS¹CUMULATIVE TOTAL - 31 DECEMBER 1971

| Country | Loans from Ordinary Funds | | Loans from Special Funds | |
|----------------------|---------------------------|----------|--------------------------|----------|
| | \$US million | Per Cent | \$US million | Per Cent |
| Afghanistan | - | - | 5.2 | 4.9 |
| Sri Lanka | 13.1 | 2.5 | 11.3 | 10.5 |
| China, Republic of | 98.8 | 18.8 | - | - |
| Indonesia | - | - | 47.8 | 44.6 |
| Khmer Republic | - | - | 1.7 | 1.6 |
| Korea, Republic of | 129.7 | 24.7 | - | - |
| Laos | - | - | 4.3 | 4.0 |
| Malaysia | 55.9 | 10.7 | 3.3 | 3.1 |
| Nepal | 2.0 | 0.4 | 14.9 | 13.9 |
| Pakistan | 46.9 | 8.9 | - | - |
| Philippines | 58.5 | 11.2 | 3.5 | 3.3 |
| Singapore | 70.7 | 13.5 | 3.0 | 2.8 |
| Papua New Guinea | - | - | 4.5 | 4.2 |
| Thailand | 48.8 | 9.3 | - | - |
| Vietnam, Republic of | - | - | 5.0 | 4.7 |
| Western Samoa | - | - | 2.7 | 2.5 |
| Total | 524.4 | 100.0 | 107.2 | 100.0 |

¹ Net figures after deducting cancellations and amounts converted from one loan to another.

countries in the South Pacific whose aid receipts are generally quite small, Australian aid has a far greater impact. Nearly 18 per cent of Fiji's aid comes from Australia, as does 8 per cent of Tonga's and 23 per cent of West Samoa's.³²

2.3.8 The Sub-Committee has inquired into two aspects in regard to this: the impact of Australian aid on the development objective in these countries and the problem of integration of Australian aid into the development plans of developing countries. In general terms, the evidence is conflicting on the extent to which foreign aid has helped growth in national output of recipient countries.³³ The intervention of other factors in the growth process such as trade opportunities, domestic management of the economy and the depth of social and economic problems, makes it difficult to assess the impact of aid even in countries where aid receipts are large. For Australian aid, this was illustrated in an exchange during hearings.

"Mr Bryant: What you are saying is that anything we do is likely to be a drop in the bucket in the total influence on the economic development of the country.

Mr Parsons: I think that is right and therefore it makes it very difficult to put a value on the economic impact of any foreign aid programme, even some of the bigger American programmes in India."³⁴

Yet, while it is difficult to measure the impact of a country programme, comparative assessments of the value of different types of aid may shed some light on this aspect.³⁵

2.3.9 One important factor which does affect the impact of Australian aid is the degree to which it is integrated into developing countries' development plans. First, because the Colombo Plan is essentially bilateral in character, it has done little in the area of co-ordinating donor programmes.³⁶ Australia has however taken part in consultative and co-ordinating groups for countries such as Indonesia, the Philippines and

32. Department of Foreign Affairs.

33. See Professor Hogan's Development Themes.

34. Transcript, p. 326, see also Professor Hogan's evidence on this point, Transcript, pp. 1212-1213.

35. See below, Chapter 3.

36. Transcript, pp. 72-74.
/21. ..

Thailand where attempts are made to co-ordinate donor aid policies and programmes and where recipient governments have access to such consultations.³⁷ Australia has no formal aid agreements with particular countries but has concluded understandings with some on the levels of future aid.³⁸ Apart from this, it is assumed that Australian aid projects will fit into the development plans of say Indonesia and Malaysia, as a consequence of the fact that the basis of aid is a request from the recipient government.³⁹ The Sub-Committee inquired into the problem of the allocation of priorities of projects within development plans.⁴⁰ It was informed that most recipient countries identify the priorities of categories of projects. In such cases the choice of project by the donor depended more on the capacity of the donor to carry out a project than on the donor's assessment of how projects were integrated into development plans.⁴¹ While the Sub-Committee received suggestions for alternative use of aid resources, it had before it no firm evidence of distortion of development patterns due to selection of low priority projects. The task of co-ordination of development projects is seen by Australia to rest with the recipient countries.⁴²

4. Aid Composition by Type: Bilateral and Multilateral

2.4.1 Australian bilateral aid (excluding aid to Papua New Guinea)⁴³ is composed of three types:

1. Capital project aid which consists of the supply of equipment and the carrying out of projects, including the use of Australian technical personnel. The main purpose of project aid is to contribute directly to economic development.

37. *ibid*, pp. 282-283.

39. *ibid*, pp. 323-324.

38. *ibid*, p. 290, with Indonesia, Vietnam and countries in the South Pacific.

40. *ibid*, pp. 324-333.

41. *ibid*, p. 334.

42. *ibid*

43. Papua New Guinea is excluded here as comparable information is not available because all aid, until recently, has been of the budget support type.

2. Programme aid which consists of food aid supplied under the Food Aid Convention (F.A.C.) of the International Wheat Agreement, import subsidy and budgetary support aid (such as D.K. aid to Indonesia, and funds to F.E.O.F. in Laos) and commodities and materials which are not directed to projects. The primary purpose of programme aid is to ease balance of payments problems although general economic stabilisation and development objectives may be important. Emergency aid (including food, cash and goods) is also classified as Programme Aid.

3. Technical assistance which is a general term covering two main aspects: first, the use of Australian experts in developing countries, and second, the training of students from developing countries in Australian schools, universities and other educational institutions, and the provision of courses in Australia to train personnel from developing countries in specialised fields. Training also includes amounts spent to train students in third countries. Aid to research institutions may also be classed as technical assistance.

2.4.2 In 1970-71, 29 per cent of the bilateral programme was spent on capital project aid, 50 per cent on programme aid (of which 31 per cent was food aid), and 21 per cent on technical assistance.⁴⁴ In the last seven years, the project aid share has remained fairly static (although it is expected to increase in future), food aid has declined slightly but is now stable at some \$12 million per annum,⁴⁵ and it appears unlikely that technical assistance will increase substantially except for research programmes. The largest increase has been in programme aid, other than food aid, which includes emergency aid and also reflects an increase in D.K. aid to Indonesia. By comparison with D.A.C. countries, Australia gives a higher proportion of its aid (other than aid to Papua New Guinea) as food aid⁴⁶ but in the last few years the level of food aid has remained constant.

44. See Table 6. No breakdown of technical assistance expenditure into experts and training is available.

45. The F.A.C. commitment is for 225,000 tons of wheat a year. Transcript, p. 295.

46. Transcript, p. 253. The comparison may be slightly inflated because of the grant character of Australian aid.

TABLE 6

AUSTRALIA: BILATERAL AID BY TYPE (EXCLUDING PAPUA NEW GUINEA)

\$A million

| Year | Capital project | Percentage of total | Programme | | Percentage of total | | Technical Assistance experts and Training | Percentage of total | Total |
|---------|---------------------|---------------------|-----------|-------|---------------------|-------|---|---------------------|--------|
| | | | Food | Other | Food | Other | | | |
| 1964-65 | 6.512 ^a | 27.4 | 8.490 | 2.531 | 35.7 | 10.6 | 6.210 | 26.1 | 23.743 |
| 1970-71 | 12.079 ^a | 28.5 | 13.274 | 8.047 | 31.3 | 19.0 | 8.970 | 21.2 | 42.370 |

Source: Department of Foreign Affairs

Note: ^a includes Indus Waters Scheme

2.4.3 This composition of aid has remained fairly stable over the years and appears to reflect the capacity of Australian aid resources suited to project aid and technical assistance. The components of aid to particular countries, however, have been tailored to meet recipient needs. Three examples illustrate this. Indonesia has a high proportion of programme aid in its aid from Australia. This reflects, first, its food needs and also its need for foreign exchange support through D.K. aid and direct commodity imports. India's most important need from Australia is food aid and the composition of its programme with little project aid or technical assistance shows this. Malaysia receives no food aid or other programme aid from Australia, while its allocation is divided between project aid and technical assistance.⁴⁷

2.4.4 The types of aid carried out by multilateral agencies vary considerably. The I.B.R.D. and I.D.A. see their major role as project lending, and do not normally make funds available for technical assistance (except in conjunction with specific projects). The Bank's policy restricts programme lending to special circumstances where such lending would support development policies already under way.⁴⁸ The Bank regards advice on balance of payments problems as falling within the area of responsibility of the International Monetary Fund (I.M.F.), and in general, considers programme aid in the form of broad expenditure on imports as more difficult to supervise from a development point of view than project aid.⁴⁹

47. Transcript, p. 43. Composition by type of aid programmes of Indonesia, India and Malaysia -

| 1970-71 | Capital Project | <u>\$million</u> | | Technical Assistance |
|-----------|-----------------|------------------|--------------------------------|----------------------|
| | | <u>Food</u> | <u>Programme other</u> | |
| Indonesia | 2.4 | 4.2 | 7.7 (including 5.2m. D.K. aid) | 1.2 |
| India | 0.6 | 3.4 | 0.2 | 0.4 |
| Malaysia | 1.5 | - | - | 1.1 |

48. World Bank Annual Report 1971, p. 29.

49. Transcript, pp. 744-746.

2.4.5 Individual U.N. Agencies cover a more specialised field. The U.N.D.P. now co-ordinates U.N. programmes in each country, and provides technical assistance, surveys, feasibility studies and assistance with planning. Other U.N. Programmes such as the Children's Fund and the Population Fund have special aid activities.

2.4.6 It would appear that a strong advantage of bilateral aid lies in the donor's ability to direct it to purposes where multilateral agencies are not deeply involved. Generally, most technical assistance, most food aid and most balance of payments aid are carried out bilaterally, and as international development bank lending concentrates on large projects, there is scope for smaller scale projects to be undertaken bilaterally.

5. Sectoral Distribution of Project Aid: Bilateral (Excluding Papua New Guinea) and Multilateral

2.5.1 Project aid can be allocated in differing areas of recipient countries' economies: into agriculture, manufacturing, transport and so on. The sectoral distribution of Australia's project aid has been highly concentrated.⁵⁰ In 1970-71, more than 60 per cent of projects were infrastructural: transport and communications, energy production and a contribution to the Indus Waters Scheme. Expenditure on agricultural projects was 12 per cent of the total, on social projects (which include welfare and education) some 20 per cent, while industry took up some 2 per cent.

2.5.2 This concentration arises from a combination of three factors: the importance which has been attached by both recipients and donors to infrastructure; a perception that this is an area of particular Australian expertise;⁵¹ and third, the particular method of financing project aid. In the case of the last factor, Australia, like most donor countries, undertakes joint projects to which each government contributes.⁵² This means in effect that

50. See Table 7.

51. e.g., with the Snowy Mountains Engineering Corporation and the P.M.G.

52. See Table 8.

TABLE 7

AUSTRALIA: SECTORAL DISTRIBUTION OF CAPITAL PROJECT AID
(EXCLUDING PAPUA NEW GUINEA)

1970-71

| | \$A million | Percentage of Total |
|---------------------------------|-------------|------------------------|
| Agriculture | 1.375 | 12.1 |
| Transport and communications | 6.223 | 54.8 |
| Energy | .595 | 5.2 |
| Industry | .289 | 2.5 |
| Social | 2.221 | 19.6 |
| Indus | .663 | 5.8 |
| Total | 11.366 | |

Source: Department of Foreign Affairs

TABLE 8
AUSTRALIA: FINANCING OF CAPITAL PROJECT AID^a
(EXCLUDING PAPUA NEW GUINEA)
1970-71

| | %A million | Percentage of Total |
|-----------------------------------|---------------|------------------------|
| Turnkey | - | - |
| Joint with other donors | .641 | 5.6 |
| Joint with recipient ^b | 9.757 | 85.8 |
| Equipment only | .976 | 8.6 |
| Total | 11.374 | |

Source: Department of Foreign Affairs

Notes: ^a the major part of costs borne by
Australia is financing equipment
and technical assistance.

^b includes Indus Waters Scheme.

Australia covers the foreign exchange costs of the project (primarily the cost of equipment which is two-thirds tied to purchase in Australia) and supplies the technical personnel not available locally. The recipient government covers the local costs which are chiefly local supplies and labour. In the infrastructure field, the major part of the cost of a project is its foreign exchange cost whereas in agriculture and social welfare projects, local costs may exceed foreign exchange costs. If tapping domestic savings for local costs is a problem, as it is in some countries in South East Asia, then projects in these latter sectors may have to be deferred, particularly if available domestic savings are devoted to projects of the highest priority.⁵³ Thus, present financing arrangements appear to have an effect on the present sectoral distribution of Australia's project aid.

2.5.3 In general terms, this kind of financing "encourages an uneconomic bias towards capital-intensive projects"⁵⁴ with a consequent loss of opportunity to generate employment. Both the Pearson Commission and D.A.C. in its 1971 Review⁵⁵ have recommended that present donor policies covering local costs should be liberalised. As regards Australia, while it is not necessary that some kind of hypothetical balance should be maintained between sectors, it is important that if Australia is to concentrate on infrastructure aid that this should be integrated into the priorities of recipient governments. Alternative projects and alternative financing should be examined so that the contribution of projects to the development objective can be assessed on other criteria besides recipient request.

2.5.4 The question was raised before the Sub-Committee whether infrastructure aid might be more appropriately carried out by multilateral institutions than by bilateral donors because the co-ordination of priorities of such projects could be achieved

53. Mr McClintock from E.D.C., in regard to the problem of raising domestic capital, suggested that some Australian aid could be used to finance a development bank in co-operation with local interests to generate capital for projects. Transcript, pp. 798-800B.

54. Pearson Commission Report, Partners in Development, p. 177; this point was also made to the Sub-Committee by Professor Hogan in his Development Themes.

55. Pearson Report, p. 177, D.A.C. Review 1971, p. 57.

more effectively.⁵⁶ Against this, it was argued that it would be difficult in practice to make such a division and that the wishes of recipient countries also had to be taken into account.⁵⁷ Another witness argued that while it was preferable for multilateral institutions to carry out major infrastructure projects, there was still scope for bilateral donors to engage in smaller infrastructure projects provided they were integrated into the development plans of developing countries.⁵⁸ The general point of view of the Committee was that major infrastructural works were particularly appropriate for implementation by multilateral institutions.

2.5.5 The sectoral distribution of the I.B.R.D.'s multilateral aid in cumulative terms shows a concentration on electric power, transportation and industry. The I.B.R.D.'s sectoral distribution has changed recently with a new emphasis on agriculture, education and social projects.⁵⁹ Dr Whitelaw of the Treasury told the Subcommittee in this regard that -

"It is probably true to say that some of the weakness in the development of developing countries has been associated with undue concentration by both borrower and lender on some of the more obvious and ostentatious types of development. This has no doubt been a problem. The situation is changing and this is a trend which is likely to continue in the period ahead."⁶⁰

2.5.6 The I.D.A., which in cumulative terms has concentrated on transportation, agriculture and general development and industrial imports⁶¹ has begun a similar change in priorities to that of the I.B.R.D.⁶² The A.D.B. has also concentrated on electric power (42 per cent of all projects in 1971), transport and communication and industry.⁶³ This was explained as being a consequence of the fact that the A.D.B., as a financial institution, was best geared to finance this type of project.⁶⁴

56. Transcript, p. 121.

57. *ibid*

58. *ibid*, p. 714ff, see also p. 681ff.

59. Transcript, p. 739.

60. *ibid*, p. 739.

61. *ibid*, p. 674.

62. *ibid*, p. 654.

63. *ibid*, p. 682.

64. *ibid*, p. 771.

The problems associated with financing agricultural expansion - for example the small foreign exchange content in agricultural projects, cultural and social constraints such as land tenure patterns and the difficulties of increasing exports of traditional primary products - have been seen as much more difficult.⁶⁵

2.5.7 The sectoral distribution of aid funds both bilaterally and multilaterally, has important consequences for both the social and economic objectives of development. In the bilateral area, Australia has some degree of choice in projects.

6. Administration of Aid: Bilateral and Multilateral
Aid Organisation

2.6.1 Australian aid is at present administered through a number of departments. The Department of External Territories is primarily responsible for aid to Papua New Guinea. Bilateral aid to countries other than Papua New Guinea is administered by the Department of Foreign Affairs through an Aid Branch in its Development Division. This Branch consists of five sections dealing with policy, projects, international training, review (evaluation), and general services.⁶⁶ Additionally, offices in state capitals administer training programmes, and at present there are 21 officers, experienced in aid, who are solely concerned with aid functions at overseas posts. The Department of Foreign Affairs also allocates aid to U.N. agencies.

2.6.2 The Departments of the Treasury, Education and Science, Immigration, Trade and Industry, and Primary Industry, also fulfil aid functions. The Treasury role,⁶⁷ apart from general budgetary oversight, is concerned with multilateral and Australian aid to Papua New Guinea, with Australian aid going through the international financial institutions of the World Bank Group and

65. *ibid*, p. 772.

66. Comprising two Second Division Officers, 108 Third Division Officers, and 28 Fourth Division Officers. The Aid Branch was administratively reorganised in 1965, 1969 and 1971.

67. Transcript, p. 796ff.

the A.D.B., and with some aspects of bilateral aid. This is carried out through the International Relations Branch of the Overseas Economic Relations Division. The Department of Education and Science acts on behalf of the Department of Foreign Affairs in the administration of sponsored students coming to Australia. It also acts as educational adviser to the Department of Immigration which controls the entry of private students.⁶⁸ The Department of Education and Science also administers the Commonwealth Co-operation in Education Scheme which is concerned mainly with teacher training. The Department of Trade and Industry has a direct role in providing advice on the capacity of industry to carry out projects and in conducting export development training courses. Indirectly, it is involved in the aid field in regard to trade deriving from aid, and with investment which helps promote exports to developing countries. Administratively, it is involved with the Export Payments Insurance Corporation (E.P.I.C.), tariff preferences and export and investment promotion.⁶⁹ The Department of Primary Industry advises the Department of Foreign Affairs on aid in the form of primary products. The Department of Supply acts as the main procurement agency for aid goods other than those for Papua New Guinea.

2.6.3 Co-ordination of aid policies is the task of the Interdepartmental Committee on Aid,⁷⁰ which meets periodically, while co-ordination in various areas on a day-to-day basis is carried out between the relevant sections in departments.⁷¹ The Department of Foreign Affairs bears the main responsibility for aid with the Treasury exercising overall surveillance.⁷²

2.6.4 In an international context, the administration of aid is organised in either of two main ways: one, by a wholly or partly autonomous body, or two, by individual departments. In

68. *ibid*, p. 716B.

69. *ibid*, p. 505.

70. Comprising the Departments of Foreign Affairs, Treasury, Trade and Industry, Defence, Primary Industry and Education and Science.

71. Transcript, p. 796ff.

72. *ibid*, p. 799.

the first category Belgium, Denmark, Norway and the U.K. have aid bodies which are responsible for most of the functions of aid giving but remain part of their respective departments of foreign affairs. The Canadian, German and the U.S. aid bodies are autonomous, though remaining, in the cases of Canada and the U.S., responsible to the Minister for Foreign Affairs. Those countries in the second category are Australia, Austria, France, Italy, Japan, the Netherlands, Portugal and Switzerland. From the point of view of policy making, all countries co-ordinate the views of interested departments.

2.6.5 Where countries disperse aid functions among departments, this has been partly a consequence of dealing with the specialised nature of some types of aid. Differing emphases on the foreign policy aspects of aid have led to differing methods of administrative control. Tradition and the maintenance of bureaucratic power have also played a part. Those countries which have consolidated aid functions in bodies with at least some degree of autonomy appear to have done so in the belief that this affords greater opportunities for co-ordination of aid, and that it indicates a higher priority for aid in governmental objectives.⁷³

2.6.6 Some witnesses before the Sub-Committee called for an autonomous or semi-autonomous body to administer all of Australia's aid.⁷⁴ Witnesses from the Australian Council for Overseas Aid (A.C.F.O.A.) saw several advantages in a separate instrumentality: the importance of aid would be upgraded,⁷⁵ the aid programme would be separated from the diplomatic functions of the Department of Foreign Affairs,⁷⁶ and all aid functions, presently separated, could be consolidated. Witnesses did not generally envisage a separate aid department, but rather a statutory body responsible to the Minister for Foreign Affairs. Some witnesses placed stress on the importance of aid being administered by specialists, rather

73. Transcript, p. 1156 refers to the Canadian experience.

74. This aspect was examined in Transcript, pp. 355-357, 866ff, 830B.

75. Transcript, p. 867.

76. *ibid*, p. 868.

than by diplomats and general administrators.⁷⁷ They suggested that such an aid organisation could be linked to an advisory body to tap Australian community resources and to some kind of research institution specialising in development.

Aid Administration

2.6.7 The Sub-Committee sought information on the cost and effectiveness of the present method of administering aid. In examining the cost of administering aid, several problems arose: some administrative costs (those of State governments, statutory authorities and private companies) incurred in a programme, could not be identified separately.⁷⁸

2.6.8 The 1970-71 administrative costs of aid⁷⁹ (including aid to Papua New Guinea) were estimated to have been:

| | |
|------------------------------|----------------------|
| Departments in Australia | \$6.4 million |
| Australian Overseas Missions | <u>\$1.2 million</u> |
| | <u>\$7.6 million</u> |

If administrative costs of aid to Papua New Guinea are excluded (about \$4.1 million), it costs in the region of \$3.5 million to administer other programmes. Capital project aid was estimated to have cost about \$1 million, and sponsored trainees and students about \$1.7 million. The remainder, \$0.8 million, was the cost of administering programme aid, other technical assistance and multilateral aid. This total of \$3.5 million for administering aid (excluding Papua New Guinea) included personnel costs in Australia and overseas, travel costs and office costs. A further \$0.9 million was spent in administering private students⁸⁰ in Australia but this is not seen as part of the official aid programme. The total of \$3.5 million was equivalent to 6.4 per cent of all aid (excluding Papua New Guinea). International comparisons are not particularly meaningful here, for even if it

77. Mr J.B. Webb, Transcript, p. 830B.

78. See Appendix D.

79. Department of Foreign Affairs, see Appendix D.

80. Department of Foreign Affairs.

can be shown that Australia's costs are lower than the D.A.C. members' average (due to the relatively low administrative cost of programme aid), the real measure of administrative costs is in terms of its effectiveness in achieving objectives, not in some ideal administrative cost, total expenditure ratio.⁸¹

2.6.9 It proved rather difficult, in the time available to the Sub-Committee, to achieve a full picture of the effectiveness of bilateral aid administration. The breadth of administration of aid to Papua New Guinea was clearly outside the range of the Sub-Committee, especially as change was occurring rapidly in the Territory. Of the three types of other bilateral aid (capital project, programme and technical assistance), most evidence was received on technical assistance, some was received on D.K. aid, F.E.O.F., emergency aid and food aid, while evidence taken on capital project aid was of a general kind rather than related to specific works. The administration of particular types of aid such as capital project aid and technical assistance is discussed more fully in Chapter Three in relation to their special features.

2.6.10 Within the total aid programme, the part that requires most planning by the Department of Foreign Affairs is bilateral aid to countries other than Papua New Guinea. Within the sum estimated for any particular year, country levels of aid are decided on a basis of what is required to complete or continue existing commitments plus appropriations for new projects or new types of aid.⁸² Although annual budgeting remains in force, most commitments are authorised on a rolling basis for some years ahead.⁸³ This has been of some importance as the rate of disbursement of bilateral funds can be affected by procurement and other delays in Australia and by delays in the recipient countries.

81. Transcript, pp. 297-299.

82. The criteria referred to in the section on geographical distribution of aid are important here. See above, p. 14.

83. Transcript, pp. 67-69.

2.6.11 The Sub-Committee inquired into the question of evaluation of aid. Mr Parsons told the Sub-Committee that:

"There is the general broad evaluation of aid programmes as such. There is an interdepartmental committee for instance - a senior committee of major departments concerned with aid programmes. It meets regularly and discusses some of the major problems and major matters bearing on aid programmes. Secondly, we have annual international reviews where aid programmes are evaluated very stringently by the Development Assistance Committee of the O.E.C.D. Thirdly, there is the Colombo Plan Consultative Committee where again there is a general evaluation and discussion of programmes. That is the framework, in terms of general aid matters, against which we develop the evaluation of specific projects. For instance, each of our posts in countries where there are major programmes has people working on foreign aid matters who are obliged to submit regular monthly and annual reports about the progress of particular projects. It is also a matter for heads of missions in the regular meetings that are held on an area basis."⁸⁴

2.6.12 However, the Committee noted that, in regard specifically to project aid, apart from progress reports, no post hoc evaluation has been carried out.⁸⁵ The Department of Foreign Affairs has recently set up an evaluation section, staffed by economists for this task, but because of staffing delays and pressure to carry out other tasks, the section has not yet begun to carry out evaluations.⁸⁶

2.6.13 The administration of Australian aid can be seen as a developing process responding to an increasing awareness of the importance and complexity of aid giving. The appointment of officials to posts abroad whose sole task is aid administration and the expansion of the Aid Branch in the Department of Foreign Affairs, are advances in this respect. An in-depth examination of aid administration by the Sub-Committee on the basis of evaluation of particular projects and in the light of suggestions made to the Sub-Committee was not possible because of constraints of time and the scope of the Sub-Committee's inquiry.

84. *ibid*, pp. 70-72.

85. *ibid*, p. 355.

86. *ibid*, p. 353.

2.6.14 The Sub-Committee inquired into the administration of aid by multilateral financial institutions and by U.N. agencies. The I.B.R.D. capital stock of \$US27,000 million is subscribed by member countries on a basis of their economic and financial strength and each subscription is linked to the member's quota in the I.M.F. Australia's subscription to the I.B.R.D. at present totals \$US533 million, of which \$US53.3 million has been paid in. Ten per cent of member's subscriptions can be used by the Bank under certain conditions, while 90 per cent remains on call as financial backing for the Bank's borrowing operations. The Bank derives funds for lending from paid-in subscriptions, borrowings on the world capital markets and from the income it earns each year.

2.6.15 Each member country appoints a Governor (generally the finance minister or head of central bank) to the Board of Governors in which the Bank's powers are vested. The Board of Governors has delegated most of its powers to a Board of Executive Directors of 20 members of whom five are appointed by the largest stock holders - U.S., U.K., France, Germany and Japan⁸⁸ - and the remaining fifteen elected by the other members in accordance with their voting power, which is directly related to the size of their capital subscriptions. Thus, Australia has joined with New Zealand and South Africa to obtain the required voting power to elect a director. Directors and alternate directors are usually representatives of finance departments or central banks but it is notable that both the U.S. director and the U.K. alternate director represent development institutions.⁸⁹

2.6.16 The Directors broadly determine policy within the Articles of Agreement and voting on the Board of Executive Directors is also weighted, being the sum of the voting power of the country or countries represented. The Executive Board

88. Prior to the adjustments made following the recent review of I.M.F. quotas, India was entitled to appoint a Director instead of Japan.

89. The U.S. Director is also Director of the Mid-American Development Association and the U.K. alternate Director is Private Secretary to the Minister for Overseas Development.

appoints the President (currently Mr Robert McNamara), who is responsible for the conduct of the ordinary business of the World Bank Group.

2.6.17 The Sub-Committee examined three aspects of the administration of the I.B.R.D.: control of policy, staffing, and the role of the I.B.R.D. in development. On the first aspect of control of policy, the linkage of the voting power of countries (to elect directors and also in voting by the directors) to the control of policy means that developed nations dominate the institution⁹⁰ and among the developed nations the largest subscribers have relatively more weight. On the other hand, developing nations outnumber developed nations and the traditional method of decision in the Board is by consensus.

2.6.18 In terms of organisation and techniques, the Bank is also influenced by its location in the United States and the fact that it has, until recently, recruited the majority of its staff from the developed nations. It has a professional staff at present of some 1,600⁹¹. Administrative expenses of the World Bank Group (including I.B.R.D., I.D.A. and I.F.C.) in 1970-71 were \$US76.5 million or approximately 3.1 per cent of loan commitments and 6.4 per cent of loan disbursements in that year.⁹²

2.6.19 The Committee gained the impression that among multilateral agencies, the World Bank Group was very efficiently administered.⁹³ Professor W.D. Hogan, Professor of Economics at the University of Sydney, told the Sub-Committee, with regard to the Bank's efficiency and role in development, that:

"I believe that there are differences in efficiency and quality of work between the multilateral institutions. The advantage of the multilateral institutions in many instances is that they are open to greater examination and analysis than the institution associated with bilateral aid schemes In terms of measuring the efficiency of

90. Developing nations hold approximately 30 per cent of I.B.R.D. voting power.

91. World Bank Annual Report 1972, p. 3.

92. Transcript, p. 702.

93. *ibid*, p. 708.

World Bank performance one would have to look at the whole spectrum of its activities including those projects which it supervises for other agencies. If you take into account the sums involved and the fact that the staff of that institution is only 2,800, it is not an enormous institution yet it carries out a great deal of aid activity throughout the world. It is the co-ordinating body for a good number of consortia to a number of developing economies and in that way acts as a secretariat on a scale which is almost impossible to quantify in terms both of the amount involved and of its influence."94.

2.6.20 Apart from its own lending, its country surveys and its planning, a major I.B.R.D. role has been in attempting to set up effective co-ordination of bilateral, multilateral and regional aid. This has proved difficult. As the last D.A.C. Review pointed out:

"The failure to discuss projects, and hence achieve any significant degree of project co-ordination, at meetings has been due in part to the fact that donor representation has tended to be officials from capitals who are only equipped to discuss general economic policy issues, but not specific project details."95

Such meetings have also been infrequent. In the developing countries themselves there are often difficulties including the lack of a workable development plan and fears on the part of some leaders that co-ordination may threaten their control over aid.⁹⁶ The I.B.R.D., D.A.C. and the U.N. have all taken initiatives to ameliorate the situation.

2.6.21 The International Development Association (I.D.A.) is administered by the same staff as the I.B.R.D. and its policies are co-ordinated closely with those of the I.B.R.D. The I.D.A. was formed in 1960 (largely on U.S. initiative) to meet the needs of developing countries for funds on concessional terms. Although I.B.R.D. terms (7½ per cent) are less than it would cost developing countries to borrow themselves on the world capital

94. Transcript, p. 1217.

95. D.A.C. Review 1971, p. 131.

96. *ibid*, p. 136.

markets, their debt servicing problems made it imperative that long term, very low-interest loans be made available. I.P.A. meets part of this need. I.D.A. credits bear a service charge of $\frac{1}{4}$ per cent over 50 years with a grace period of 10 years. The I.D.A. is funded from five sources: initial subscriptions by member countries; periodic replenishment exercises involving its richer members; contributions by certain countries; grants from the World Bank; and I.D.A.'s own net income.

2.6.22 Membership of I.D.A. is divided into two categories: "Part I" countries and "Part II" countries. The former comprise all the relatively developed or high-income members, including Australia, while the latter includes all the relatively poorer developing member countries. Each Part I country was obliged to pay its entire subscription to I.D.A. in convertible currency, all of which could then be used by the Association for lending. Each Part II country, on the other hand, was obliged to pay only one-tenth of its subscription in convertible currency - the remaining nine-tenths could be, and invariably was, paid in the member's own currency and this could not be used by I.D.A. for lending without the member's consent. Some Part II countries have since released all or part of the latter portion of their subscriptions for use by the Association, subject to various terms and conditions. Initial subscriptions to I.D.A. totalled \$US1,016 million at 30 June 1971. Australia paid its initial subscription of \$US20.18 million over the five year period 1960-64.

2.6.23 Three agreements to replenish I.D.A.'s resources have been negotiated. The first replenishment exercise was for \$US750 million which was payable by Part I countries only, over the three-year period 1965-67. Australia's share of this total was \$US19.8 million. The second replenishment exercise came into effect in 1969, adding roughly \$US1,200 million to I.D.A.'s resources by way of contributions from Part I countries and a long-term interest-free loan from Switzerland, a non-member. Australia's share of this total was \$US24 million payable over the three years 1968-70. Agreement was reached in 1970 for a third replenishment exercise involving total payments to I.D.A.

of more than \$US2,400 million over a period of three years beginning in 1971. Australia's share of this total is \$US48 million. The agreement governing this replenishment became effective in late September 1972 after the U.S. Congress had given legislative approval for payment of the U.S. contribution, which is a necessary precondition for the effectiveness of the agreement. It is believed that concern with the U.S. balance of payments and "aid fatigue" have contributed to the difficulty of passing this legislation. Some countries, including Australia, made voluntary contributions to I.D.A. pending the third replenishment agreement becoming effective. Australia's contribution amounted to \$US16 million, or the equivalent of the first annual payment due under the third replenishment.⁹⁷ The rate of I.D.A. credit commitments and disbursements has been significantly affected by shortfalls of funds available for lending resulting from these delays in negotiating and ratifying its second and third replenishment exercises.

2.6.24 On the question of the effect that Australian views have had in I.D.A. negotiations, Dr Whitelaw from the Treasury said:

"At those consultations it has been possible to influence the kind of overall package which is acceptable to the donor countries in order that the finance required would be forthcoming. It is fair to say also that in the case of I.D.A. replenishment the donor countries were able to slow down an expansion of I.D.A. which had been proposed by the management. That slowing down was in the interests of the efficiency of the institution and to prevent undue growth with waste and the type of thing we have been talking about earlier which is undesirable."⁹⁸

2.6.25 The setting up of the Asian Development Bank in 1966 resulted from a belief that there was need for a development loan institution tied more closely to the problems of the region. It was felt that the activities of the I.B.R.D. and I.D.A. could be

97. Transcript, p. 649ff.

98. *ibid*, p. 712.

usefully supplemented at a regional level, that funds would become available for the Bank from donor countries, such as Australia, that had a particular interest in the region and that a regional bank would have a specialised knowledge that would prove effective in co-ordination and in aid giving generally.⁹⁹

2.6.26 The A.D.B.'s organisation is modelled on that of the I.B.R.D. and I.D.A. It has a Board of Governors most of whose powers are delegated to a Board of Directors operating in Manila. The Board of Governors elects the President, at present Mr Shiro Inoue of Japan. Unlike other regional banks, the A.D.B.'s Board of Directors has eight regional members and four non-regional members. The voting power of directors is weighted according to the size of each country's capital subscription. The A.D.B. has a capital stock of \$US1,100 million to which members pay in one half of their subscriptions with one half remaining on call. Australia subscribed \$85 million of which half has been paid in. The A.D.B.'s capital is to be increased to \$US2,750 million over the next 3 years. Of the increase, 20 per cent will be paid in and 80 per cent will remain on call. Australia's share will be \$US127.5 million, of which \$US25.5 million will be paid in.

2.6.27 The A.D.B.'s organisation for lending represents something of an amalgam of the organisation of the I.B.R.D. and the I.D.A. The A.D.B. relies on member's subscriptions and borrowings on capital markets (so far over \$200 million) for funds for ordinary loans on terms of 7½ per cent interest. It has also a soft funds "window" in its Special Funds which are financed from voluntary contributions from members. These special funds are loaned at 1½-3 per cent per annum.

2.6.28 From the point of view of obtaining funds, the A.D.B. suffers some problems from its dual role. Mr Heinrich from the Treasury, explained -

"The capital of the Bank is at present considered to be insufficient. This lies behind the decision taken recently to increase it by 150 per cent. So far as the future is concerned a lot depends on whether the A.D.B. is to be viewed as a bank or as an aid

99. *ibid*, p. 701.

institution. If it is to be viewed essentially as a bank it will normally be expected to obtain most of the funds it needs for lending by borrowing on the world capital markets and it would need less infusions of capital from its member governments. If it becomes an aid institution and places less emphasis on the need to tap the capital markets of the world it will be forced to rely that much more on government contributions.¹⁰⁰

This dual role has also had some effect on the geographical and sectoral distribution of A.D.B. funds.¹⁰¹ It appears that there is some difficulty at present in reconciling, within the one institution, a proper concern for the Bank's financial soundness which is necessary for borrowing on the world's capital markets, with the need to pay special attention to the smaller or less developed countries under the A.D.B.'s articles of agreement.¹⁰²

2.6.29 The Sub-Committee inquired into the way subscriptions to the A.D.B.'s ordinary funds were fixed. The criteria for allocating regional member countries' proportions of the total capital stock of some \$1 billion were estimates of G.N.P., trade, population and taxation revenues.¹⁰³ From a formula derived from these criteria, Australia's subscription was set at \$85 million; the fourth largest after the U.S., Japan and India. It was explained to the Sub-Committee that because India has great development needs, it would swamp any allocation of A.D.B. funds and thus has not chosen to be a recipient of A.D.B. funds.¹⁰⁴ The Sub-Committee was also told that only Australia and New Zealand tie the local currency portion of their ordinary fund subscriptions to purchase in the donor country. As Dr Whitelaw from the Treasury explained -

"The argument used was the classical argument for tying, that Australia at the time the A.D.B. was established was predominantly an exporter of primary products. It was not competitive in terms of supply of capital equipment and items needed for the implementation of projects which might be financed by the A.D.B. It was felt that if Australia was to contribute a substantial amount, much more than most of these European donor countries, it should do something to try to protect Australia's interests by ensuring that some part of the finance of these projects resulted in expenditure on Australian goods and services."¹⁰⁵

100. Transcript, p. 762.

101. See above, pp. 18, 19.

102. Transcript, p. 658.

103. *ibid*, pp. 757-759.

104. *ibid*, p. 781.

105. *ibid*, pp. 760-761.

2.6.30 The A.D.B.'s Special Fund resources (\$US203 million) derived mainly from voluntary contributions from members, are divided into three funds: an agricultural fund; a technical assistance fund; and a multi-purpose fund. Australia has given \$US10 million, most of which goes to the multi-purpose fund and is tied to purchase in Australia, with the balance (also tied to Australian services) allocated to the technical assistance fund. The ad hoc nature of contributions to A.D.B. Special Funds is seen as a major handicap to its operations, but attempts to make contributions uniform (as in I.D.A.) need the support of the large donors.

2.6.31 In regard to multilateral financial institutions generally (with the exception of I.D.A.), the process of their development appears to involve a period in which it is necessary for them to establish their financial soundness and credit rating on the world capital markets before they can venture into the more difficult areas of development. On the other hand, as the submission from the Department of the Treasury put it:

"The tendency for international aid institutions to proliferate and the inexorable growth in their administrative budgets, suggests that they may develop a life of their own and become less and less relevant to the development process."¹⁰⁶

2.6.32 The U.N. agencies concerned with aid have been undergoing a period of change since the publication of the Jackson Report in 1969.¹⁰⁷ Since their inception, the various U.N. funds have suffered from a shortage of financial resources and have encountered serious difficulties in co-ordinating their programmes because they have been administratively, and in terms of budget, decentralised organisations. As Sir Robert Jackson stated -

".....it (the U.N. Development System) is under the control of about thirty separate governing bodies; in the past much of their work in dealing with administrative problems has been self-defeating. At the headquarters level, there is no real

106. Transcript, p. 629.

107. Sir Robert Jackson, A Study of the Capacity of the United Nations Development System.

'Headpiece' - no central co-ordinating organisation - which could exercise effective control. Below headquarters, the administrative tentacles thrust downwards into an extraordinary complex of regional and sub-regional offices, and finally extend into field offices in over ninety developing countries."¹⁰⁸

2.6.33 U.N. funds have proliferated because of pressures for aid to be directed to particular areas and to particular sectors and from attempts by developing countries to set up funds that would represent their views rather than those of large donors. Since the acceptance of the Jackson Report, the U.N.D.P. has begun to co-ordinate all U.N. agencies' aid in each country and to set up five year indicative levels of aid for each country. The U.N.D.P.'s secondary role is in technical assistance, surveys and planning. U.N.D.P. policy is made by an elected Governing Council, of which Australia is currently a member. The remaining U.N. agencies continue to administer their specialised programmes through executive boards and committees.¹⁰⁹

108. *ibid*, p. (iii); vol. I.

109. See Transcript, p. 263ff, for a description of the administration of these programmes.

CHAPTER THREE

THE CHARACTERISTICS AND EFFECTIVENESS OF PARTICULAR
TYPES OF AID

1. Aid to Papua New Guinea

3.1.1 Papua New Guinea is rather a special case in Australia's aid. As one of the few remaining dependent territories in the world, it continues to be surveyed annually by the U.N. Trusteeship Council. While the Territory becomes less dependent politically, it remains deeply dependent on the inflow of Australian capital - in terms of aid and investment - and on Australian skills for its economic development.

3.1.2 The special nature of Australian aid to Papua New Guinea has been acknowledged in its administration directly by the Department of External Territories and indirectly by other Commonwealth Departments. Australia has been responsible for economic development in the Territory, but as independence approaches and on its achievement the Papua New Guinea Government will become responsible for economic development. Australia will assume an aid relationship to Papua New Guinea, on similar terms to that which exists at the moment with other developing countries to which Australia now gives aid, although due to historical and geographical reasons some special features may be preserved.

3.1.3 In this period of transition, aid to Papua New Guinea is changing in nature. Recent constitutional developments in Papua New Guinea, particularly the July 1970 decision to devolve final authority and responsibility for important areas of government upon Ministerial and Assistant Ministerial members of the Papua New Guinea House of Assembly, were accompanied by changes in the aid arrangements. The former lump sum grant was divided into three: the grant in aid for recurrent expenditure, the development grant, and the payment (outside the P.N.G. budget) of the differential costs of expatriate public servants. The Sub-Committee was told that in future the Commonwealth's aid will go mainly to development projects and other specific forms of aid.¹ The P.N.G.

1. Transcript of Evidence, p. 898B.

House of Assembly has for some years accepted the commitment to increase progressively the Territory's economic self-reliance through increasing internal revenue and loan receipts.² The main administrative change in regard to aid and development has been the institution of an Office of Programming and Co-ordination in the Territory, whose Director reports to the Finance and Legislative Committee of the Administrator's Executive Council. The functions of the Office are to recommend a co-ordinated development programme, to review functions and priorities of departments, and to co-ordinate and stimulate planning activities generally.³

3.1.4 It has been the task of this Office (together with the Department of External Territories) to review periodically the five year programme 1968-69 to 1972-73, and to work on the preparation of a new development programme for 1973-74 to 1977-78. The basic principle of the programme is -

"To help the inhabitants of the Territory to become self-governing as soon as possible and to ensure that when this aim is reached the Territory will, to the greatest extent feasible, be able to stand on its own feet economically."⁴

The main objectives of the programme are -

- . Maximum increases in production consistent with financial and manpower resources and market capacity.
- . Maximum participation by Papua New Guineans at all levels.
- . Maximum practicable progress towards financial self-reliance.
- . Maximum practicable contribution to meeting social needs and raising the level of living of the people.⁵

2. P.N.G. Office of Programming and Co-ordination. The Development Programme Reviewed 1971, p. 1.

3. *ibid*, p. 2.

4. *ibid*

5. *ibid*, p. 3.

3.1.5⁷ It appeared from evidence before the Sub-Committee that, whereas in the first five year plan most emphasis was laid on the objective of maximising economic growth, now increasing stress is being placed on maximum participation by Papua New Guineans in the economy. In regard to maximising economic growth, the achievement has been an important one with a rate of growth of Gross Monetary Sector Product of 13.5 per cent for the period 1968-69 and 19.5 per cent for 1969-70.⁶ The rise in 1969-70 was largely a result of investment associated with the Bougainville copper project. This kind of increase has had two implications: one, that while the level of indigenous disposable incomes has been rising in absolute terms, the share of disposable incomes of indigenes has fallen (to some 39 per cent of the total) in relation to the share held by expatriates, despite the continuing transition from a subsistence to a money economy. This is partly explained by the increase in expatriate employment in the economy due to increased Australian investment, but also by the greater emphasis placed on capital rather than manpower. In the second place, with such rapid economic growth due to investment and aid, it has been difficult to ensure that the rate of participation by indigenes in industry and to lesser extent in agriculture has kept pace with growth let alone improved. In the monetary sector, Papua New Guineans controlled 40 per cent of agricultural production in 1968-69⁷, but the industrial and financial sectors were largely or wholly in expatriate hands.⁸ An exchange during hearings illustrated the possibility of conflict of these objectives at any one point of time.

"Acting Chairman - Do you see necessarily a conflict between the pure economic concept of maximising economic growth and the intent and purpose of maximising indigenous participation?"

Mr Besley - I would not say a conflict. I would say it is possible to have growth and increasing indigenous participation.

6. Department of External Territories.

7. The Development Programme Reviewed, p. 95.

8. R.T. Shand. Emerging Policy Issues in the Development of Papua New Guinea, A.N.U. 1971, p. 84.

Acting Chairman - Would you agree that the rate of growth might have to be reduced to take this into consideration?

Mr Besley - I would say it could, yes. For instance, if one were to take the line that village life needed to be revitalised - which is a term used by some of our advisers on development strategy - one would have to accept that this would be non-revenue-producing, and since it is non-revenue-producing then obviously growth would decline to the extent that resources were put into that."9

3.1.6 This problem of the relationship between the growth of G.N.P. and the distributive and control aspects of economic growth is one common to most developing countries and the relationship has, of course, important social and political implications. In the area of economic development, the level of technology which can be sustained consistent with increasing indigenous participation is an important problem. It appears for P.N.G. as for other developing countries, that an increase in indigenous participation in the economy may be related in part to a level of technology somewhat lower than that of developed countries. As Australia has been in the main responsible for economic development in the Territory, it is not surprising that an emphasis on modern technology has been as the most efficient method and this is likely to continue to be important when Papua New Guinea itself assumes this responsibility. Yet emphasis on this high level of technology, apart from its other implications, would mean a continuing dependence on Australian aid and foreign investment.

3.1.7 The choices involved here are in the long run of course those for Papua New Guinea and not Australia. The emphasis on indigenous participation in the economy, and measures to achieve this through purchase of equity for P.N.G. in the Bougainville Copper and Commonwealth N.G. Timbers Enterprises (among others); the finance of business through the P.N.G. Development Bank, and business development activities, are important. As pressures for more indigenous participation in and control of the economy appear in Papua New Guinea, special measures may be needed to accelerate this process.

3.1.8 It is clear that the present policies have produced substantial benefits. The functional distribution of budget expenditures in the Territory shows that in 1971-72, 33 per cent was spent on social services including education, health and housing, 27 per cent on infrastructural works, 12 per cent on the commodity producing sectors, and 20 per cent on administration expenses.¹⁰ Difficulties have arisen not so much with the kind of change but with its speed. The Office of Programming and Co-ordination has said:

"These developments have been accompanied by a very high and steeply rising level of activity, which has given rise to certain strains in the economy. These have taken the form principally of shortage of skilled manpower in most categories. There have also been influences on the wage level, and increasing difficulties in the purchase of land for development. Housing is becoming an increasing problem in the rapidly expanding urban areas. There have been large inflows of capital for mineral exploration and manufacturing and commercial development, but investment in the agricultural and pastoral industries has been lagging. There have been shortfalls in the achievement of agricultural and educational programmes. Administration budgets have risen sharply, but there is increasing competition for available funds between all areas of expenditure, both economic and social."¹¹

3.1.9 The Sub-Committee inquired into several other aspects of Australian involvement in Papua New Guinea: the future role of expatriates; foreign investment in Papua New Guinea; Papua New Guinea borrowings on the Australian market; and some aspects of future aid to Papua New Guinea. In regard to the role of expatriates, the Sub-Committee was told that permanent appointment of expatriates to the P.N.G. Public Service ceased in 1963-64. Of the 8,000 or so expatriates employed, about 3,000 were on contract, over 3,000 were temporary appointments, and the remainder were permanently appointed.¹² It was envisaged that following independence, the arrangement for appointment of expatriates would continue to be by contract. It was also expected

10. Department of External Territories.

11. The Development Programme Reviewed, p. 2.

12. Transcript, pp. 921-922B.

that the differential cost of an agreed number of expatriate salaries would continue to be met in a form similar to that operating at present where it is part of Australian aid but outside the P.N.G. budget. The increase in the amount budgetted for these differential costs was explained in terms of wage and salary increases in Australia, and also because there had been a slight increase in the numbers of expatriate public servants because of the rapid rate of development.¹³ It was expected that there would be a progressive decrease in numbers in future as indigenes took a larger role in administration. The Sub-Committee was informed that, generally, uncertainty expressed by expatriates about the future was diminishing as the coalition demonstrated its ability to govern.¹⁴

3.1.10 Foreign investment has played an important part in development in Papua New Guinea. Special government incentives, including low tax rates, tax holidays for pioneer industries, and special tax deductions, are offered to attract investment. Private overseas investment in Papua New Guinea has risen from \$24 million in 1965-66 to \$111 million in 1969-70, an average annual increase of 46 per cent. The major part of the increase has been in the mineral and oil sector with the development of Bouganville Copper. If this investment is excluded, the rate of increase of investment has been much lower, some 13 per cent per annum. Investment in primary production (other than minerals) has fallen slightly and only small rises have occurred in manufacturing and other industries over the last five years. The share of Australian investment in all foreign investment continues to increase being some 93 per cent in 1969-70.

3.1.11 The Sub-Committee inquired into the proportion of local equity in foreign investment in P.N.G. but no figure was available on total equity holdings. The administration and its agencies held equity in 17 companies including 20 per cent in Bouganville Copper, 12.5 per cent in Burns Philp, 35 per cent in Commonwealth New Guinea Timbers, and 45 per cent in Watkins Property and Investments.

13. *ibid.*, p. 932B.

14. *ibid.*, p. 923B.

3.1.12 The Sub-Committee also inquired into the use of loans on the Australian market to acquire equity in investments in Papua New Guinea and also for general borrowing purposes. The Sub-Committee was told that P.N.G., since 1969-70, has borrowed on the Australian market on more favourable terms than Australian semi-government bodies because of the Commonwealth Government's guarantee of the loans and because of certain tax concessions. In 1970-71, Papua New Guinea borrowed \$15.6 million on the Australian capital market for its equity in Bougainville Copper while the Commonwealth made up a shortfall of \$9.4 million. In 1971-72, Papua New Guinea raised \$24.6 million on the Australian market.¹⁵ Rather than place loans to gain equity for a particular project, Mr Besley of the Department of Territories said: "it seems sensible perhaps to have this total borrowing package on a slightly preferred basis and to let the P.N.G. Government then make its own decisions as to how it would allocate these moneys through its budgetary process."¹⁶

3.1.13 In regard to future aid for Papua New Guinea, the Sub-Committee was told that the practice had been to obtain access to multilateral agencies for P.N.G. The Sub-Committee was informed that Australia has replenished I.D.A. funds, one of the reasons being, apart from its international obligations, that this should make it easier for Papua New Guinea to draw money from that source; and it has.¹⁷

3.1.14 The possibility of raising loans in Europe has also been examined, and it is believed that Japan may be interested in some kind of joint aid consortium.¹⁸ Both Canada and Britain are involved in aid to Papua New Guinea in a limited way. As for Australia, it is expected that the present level of aid will continue into the foreseeable future, although it is assumed that the P.N.G. Government itself will explore other sources of aid.¹⁹

15. In addition, \$10 million was raised from Australian sources and \$14.6 million from Papua New Guinea sources.

16. Transcript, p. 941B.

17. *ibid*, p. 935B.

18. *ibid*, p. 936B. An announcement dealing with Japanese aid to Papua New Guinea was made on 16 October 1972.

19. *ibid*, p. 952B.

3.1.15. Given the limits on the time of the Sub-Committee, its inquiry into aid to P.N.G. tended more to seek information rather than to attempt an appraisal of the effectiveness of aid in the Territory. It was felt that the scope of the Sub-Committee's terms of reference meant that its attention should be focussed on bilateral aid to countries other than Papua New Guinea and on multilateral aid.

2. Capital Project Aid

3.2.1 Although capital project aid expenditure takes up only about one-third of all bilateral aid (excluding aid to Papua New Guinea), it is perhaps the most important part of Australia's aid. It is important because it contributes directly to development, because the transfer of skills associated with a project has a wider and more lasting effect than the use of experts individually, because it is the most "visible" type of aid and the type in which the most personal contact between Australians and nationals of other countries takes place.

3.2.2 The Sub-Committee inquired into the way project aid is administered. When the initial request for a project is made, further assessment is necessary in Australia as to its feasibility, cost and contribution to economic development.²⁰ On an initial request for aid, liaison is generally carried out between recipient officials and an equivalent ranking official in the Australian diplomatic post in that country. In countries that receive substantial amounts of Australian aid, Australian diplomatic posts have experienced officials fully occupied with aid matters.²¹ Heads of missions are frequently involved, and the request reverts to the Department of Foreign Affairs for decision. This is made on the basis of expert advice, and where necessary, a feasibility study made by Commonwealth or State officials or private firms. If a project is a large one, other departments, especially the Treasury, are involved at this stage. On acceptance of a request for a project, the Department of Foreign Affairs is responsible

20. *ibid*, pp. 66-67.

21. *ibid*, p. 316.

for co-ordinating the procurement of equipment (generally through the Department of Supply), the choice of experts and the planning required in Australia. Agreement is reached with the recipient country on the local responsibility for the project. While the project is being carried out, these officials at the diplomatic post have oversight of its progress (often in conjunction with specialists brought from Australia) and report back to Canberra.

3.2.3 The Sub-Committee received evidence on several aspects of this process. First, several witnesses saw problems arising from the emphasis placed on recipient request. Professor Wolfsohn told the Sub-Committee that -

"We must avoid what has been one of the greatest criticisms advanced against our aid - that it is ad hoc, and that provided we feel that it is within a certain financial allocation that is available we should grant this demand."²²

3.2.4 The acceptance of requests individually, or the choosing of a project from a category of projects offered, can make it extremely difficult for a recipient government to have its planning priorities carried out in order, or to co-ordinate projects from a multiplicity of donors. Members of the Sub-Committee inquired into this aspect of co-ordination of aid²³ and it appeared from the evidence that this area needed to be made more effective. It was also suggested to the Sub-Committee that Australia should be more selective in accepting requests.²⁴

3.2.5 The criteria used by the Department of Foreign Affairs in the selection of projects was also examined. These were set out by Mr Parsons from the Department of Foreign Affairs in evidence:²⁵ request from the recipient country; the priority accorded to the project by the recipient country; the extent to which the recipient country is prepared to contribute to the project; the project's contribution to economic development; the

22. Transcript, p. 686B, see also *ibid*, p. 321ff.

23. *ibid*, pp. 72-74, 326.

24. *ibid*, p. 690B.

25. Transcript, pp. 66-67.

cost and feasibility of the project; Australia's capacity to carry out the project; and the proportion of the country's aid level taken up by the project.

3.2.6 It became clear during hearings that it was difficult to evaluate a project's contribution to economic growth in the recipient country, although the evaluation of its feasibility could be done fairly readily. It appeared that the Department of Foreign Affairs frequently relied on the evaluation contained in a country's total economic plan or on World Bank Reports.²⁶ Some types of aid, particularly infrastructure aid, are not easily evaluated in terms of contribution to economic growth. The Sub-Committee examined other criteria for project selection that could be used in addition to those already in use. These were the degree to which a project could generate employment and the use of opportunities deriving from projects for redistribution of income. At present, the choice of projects does take into some account employment opportunities after project completion, but the capital intensive nature of Australia's project aid precluded this being a major factor in project selection.²⁷ As regards income redistribution, this is not a factor used in selecting projects by the Department of Foreign Affairs.²⁸ Mr Parsons told the Sub-Committee -

"There are problem areas, such as the social problems of a country, in which there are limits to which we as a foreign country can seem to make a judgement or interfere."²⁹

This view was generally accepted by the Committee. It was submitted to the Sub-Committee that all aid, being directed towards economic change, entails some degree of social change, and within the limit of interference in the recipient countries' domestic policies, donor countries could use as one criterion for selection of projects a social welfare concept.³⁰

26. *ibid*, p. 324.

27. *ibid*, pp. 302-303.

28. *ibid*, p. 332.

29. *ibid*

30. *ibid*, pp. 825B, 863-871.

3.2.7 For an evaluation of the effectiveness of project aid, the Sub-Committee needed to rely on departmental evaluation and on reports of witnesses as it had no opportunity to examine projects itself. As noted above, the Department of Foreign Affairs had no systematic post hoc evaluation process for particular projects until recently, and apart from one set of witnesses who are actually involved in a project, little specific evidence was available on project evaluation. Most members had had reports of both successful and unsuccessful projects, but there was insufficient evidence presented to the Sub-Committee for it to make a judgement as to the effectiveness of project aid generally.

3.2.8 The Sub-Committee had before it evidence on one project, the Laos Australian Reafforestation Project, which illustrated the multiple effects of some types of project aid. Professor Ovington, of the Department of Forestry of the Australian National University, told the Sub-Committee that the expertise of Australian foresters was particularly appropriate to the development of forestry in many developing countries and that a range of benefits accrue from such projects. In the case of the Laos project, forestry operations can supply a source of government revenue; forestry operations can be associated with settlement of refugees on land where food crops and tree seedlings can be planted together; and the training and provision of information for local foresters to continue the work can be achieved. Such forestry operations, contributing both to economic and social development, were seen as best carried out bilaterally, as experience with multilateral agencies had proved them to be somewhat inflexible. It also became clear in this case that administrative procedures in Australia for urgent procurement were cumbersome and could be made more efficient. Delays in procurement could result in the difference between continuing success or failure of part of the project.³¹

3.2.9 Australia's project aid is spread over a very large number of fields. Projects range from the construction of dams to the supply of water pumps, from the building of roads to the

31. Transcript, pp. 1191-1207.

supply of vehicles, from animal husbandry projects to bakeries, from high level scientific research to the provision of technical equipment. The emphasis appears to lie on supplying needs as they arise, although some trend towards concentration on infrastructure and agricultural extension projects can be discerned. Professor Wolfsohn submitted that there were benefits in a greater degree of specialisation in projects, especially if Australia could provide recipient countries with a kind of "shopping list" of the fields in which Australia was particularly competent to carry out projects.³² The advantages seen were first that the administration of aid would be more manageable and benefit from the continuity which would result from fewer types of projects and from longer term employment of experts. It would also appear that this experience would contribute to the effectiveness of projects. From the point of view of recipient countries, they would know more precisely in which fields to approach Australia, and this would facilitate co-ordination in development plans. Mr Parsons told the Sub-Committee that Australia has a reputation for expertise in various fields and that there was a natural tendency for recipient governments to make requests in areas where they believed Australia had relative advantages.³³

3.2.10 It is probable that some kind of flexible "shopping list" of projects would facilitate the choice of projects both for Australia and for recipient countries, and this should result in project aid being made more effective. The Committee acknowledged that there was a need for such a list to be quite flexible so that recipient government's priorities could be met, so that innovative projects would not be excluded and so that the benefits of aid projects could be spread among the Australian business community.

3. Balance of Payments and Budgetary Support Aid

1. Devisa Kredit Aid to Indonesia

3.3.1 Devisa Kredit (D.K.) aid is an important component of Australian aid to Indonesia taking up about one-third of the total of \$15.5 million in 1970-71. Australia began to provide D.K.

32. Transcript, pp. 653B, 671B, 694B.

33. Transcript, pp. 75-76.

aid³⁴ to Indonesia in 1967-68 and is one of eleven donors to the scheme, which includes the U.S., U.K., Japan and West Germany. D.K. aid has two functions: to conserve Indonesia's foreign exchange reserves, and to channel rupiah funds from the private sector into Indonesia's development budget.³⁵ The scheme is based on commercial transactions between Indonesian importers who buy goods from Australian exporters. The Indonesian importer pays for the goods in rupiahs which are collected by the Bank Indonesia and credited to the Indonesian development budget. The Australian exporter presents his claim for payment for the goods (in the form of a letter of credit from the Indonesian importer) to the Reserve Bank of Australia, which then pays him. In this way, Indonesia saves foreign exchange and diverts rupiah funds to its development budget, a third of which in 1970-71 was financed from the proceeds of all D.K. aid.

3.3.2 The Indonesian Government has prepared a list of goods that can be imported under the D.K. scheme. This list is divided into four groups: A - very essential goods; B - essential goods; C - less essential goods; and D - luxury goods. The donor countries to the scheme have until recently restricted exports to the A and B lists, and within these lists donors are able to remove items which, for various reasons, they consider unsuitable for export under D.K. aid. Australian exporters must also satisfy the $66\frac{2}{3}$ per cent Australian content rule.

3.3.3 The D.K. programme is administered in terms of an annual exchange of letters between the Indonesian and Australian Governments. All transactions under the scheme are notified to the Departments of Foreign Affairs and Trade and Industry and the Sub-Committee was told that there was a continuous process of review of the scheme.³⁶ There is also provision under the scheme, where the Indonesian authorities want to use D.K. funds to buy Australian goods, for Australian Government tendering procedures to be followed.

34. Formerly known as B.E. (Bonus Export) aid.

35. Transcript, p. 212.

36. *ibid*, p. 213.

3.3.4 Australian D.K. aid is released in four or five allotments each year to Indonesian importers. After some initial slowness in selling D.K. aid, demand for Australian D.K. has picked up and it now sells very quickly. Other countries, such as the U.S. and U.K. have found some difficulty in selling their D.K. aid, and the Indonesian authorities have recently allowed D.K. aid transactions on the C and D lists of less essential and luxury goods, leaving it to each donor country to decide whether to retain restrictions by extending its own "prohibited" list.³⁷ Australia restricts D.K. aid transactions to the A and B lists. The Sub-Committee was told that "Australia has endeavoured to ensure with a minimum of control that only essential goods have been supplied through the programme".³⁸ The A and B lists are very wide ranging and the Australian Government has made some deletions from the list. The present exceptions are cars which are completely-knocked-down (C.K.D.) and fertilisers. C.K.D. cars were imported under D.K. aid to Indonesia for some years, where they were assembled, notably at the G.M.H. Surabaya plant. It was felt that C.K.D. cars were taking up too great a proportion of D.K. aid³⁹ and also that since the assembly plant had now become viable the initial stimulus of being part of the aid programme was no longer needed.⁴⁰

3.3.5 The Sub-Committee questioned the export of C.K.D. cars under D.K. aid in the past on the grounds that their contribution to economic development was not obvious. The Sub-Committee was also concerned that some other countries continued to supply C.K.D. cars under D.K. aid.⁴¹ Fertiliser was removed from Australia's list on slightly different grounds. As fertilisers were already being supplied under commodity aid through government procurement, it was believed that imports on fertiliser under D.K. aid was not serving the purposes of the scheme.⁴²

37. Bulletin of Indonesian Economic Studies, A.N.U., July 1972.

38. Transcript, p. 213.

39. *ibid*, p. 531.

40. *ibid*

41. *ibid*, p. 551. Japan has also removed C.K.D. cars from its list.

42. *ibid*, p. 552.

3.3.6 The main commodities exported under D.K. aid in 1970-71 were as follows:⁴³

| | \$A'000 |
|--------------------------|---------|
| Truck chassis | 769 |
| Tinplate | 673 |
| Zinc and zinc products | 584 |
| Cupro-nickel coin blanks | 491 |
| Aluminium products | 416 |
| Steel and steel products | 384 |
| Chemicals | 380 |
| Machinery and equipment | 369 |
| Motor vehicles | 247 |
| Copper products | 227 |
| Milk powder | 129 |

3.3.7 The fact that the D.K. list is so broad produces some anomalies: the problem here is to make a division between those goods which ought to be exported commercially and those which, being directed towards development, should be exported under D.K. aid. Generally, as can be seen from the list above, most goods exported under D.K. aid do fall into the latter category.

3.3.8 The Sub-Committee also inquired into the pricing of exports under D.K. aid. The point at issue was whether the prices of particular goods under the D.K. scheme were the same as the prices charged in commercial transactions. Mr Duthie, from the Department of Trade and Industry, told the Sub-Committee that automatic checks on pricing are carried out by his Department on all invoices received on D.K. aid transactions. In addition, the Department of Customs and Excise carries out random checks. If the Department of Trade and Industry has a query on pricing, this is referred back to the Department of Customs and Excise for further examination. The price for a particular item is then checked against the export returns for the same item to compare the price. The Department of Trade and Industry has done this check for items which were queried but no disparities were found

43. Department of Foreign Affairs.

in such checks. The Sub-Committee pursued the point further in attempting to compare the prices charged under D.K. aid and in commercial transactions made by subsidiaries of international companies where goods were exported from the subsidiary in Australia to the subsidiary in Indonesia. The Department of Trade and Industry carried out these comparisons and informed the Sub-Committee that in D.K. transactions, including those between subsidiaries of international companies, prices charged were comparable to commercial sales of the same goods.

3.3.9 It became clear from the Sub-Committee's examination of D.K. aid that the primary objectives of the scheme, the saving of Indonesian foreign exchange, and the channelling of rupiah funds into the Indonesian development budget, were being achieved. At the same time, it appeared that there was need to maintain continuing control of the scheme as a whole. It was difficult to ensure that all goods exported were directed towards development. Indonesia's recent widening of the lists to less essential and luxury goods would make this more difficult.

3.3.10 One subsidiary aim of the D.K. scheme, the improvement of Indonesia's commercial imports, appears to have been partly achieved. As Mr Duthie explained:

"The Indonesian import pattern as you know literally struck a rock bottom plateau a few years ago and the idea is to get trade moving again. The concept the Indonesians had with D.K. was, apart from project aid which came in separate directions, in terms of commercial trade was to keep it right across the board, to build up an entrepreneurial class of importers and merchants and what have you which it seems to be doing."44

The opportunity under D.K. aid to save Indonesia's foreign exchange has certainly been instrumental in facilitating Indonesia's importing. For Australia's part, the scheme has also been of great importance in increasing Australian exports to Indonesia. Australian exports to Indonesia have increased some fivefold from \$6.9 million in 1966-67 to \$39.1 million in 1970-71. In earlier

years, D.K. aid represented some 25 per cent of Australian exports to Indonesia but now is only some 10 per cent of all exports. The major increase in exports has been in those items which figure prominently in D.K. aid - food, chemicals, manufactured goods, machinery and transport equipment. Mr Duthie told the Sub-Committee that, while it was difficult to quantify the amount of growth of exports directly attributable to aid, that there was a definite link between aid and export growth brought about by liaison between exporters and importers under the D.K. system, by Australian goods sent under aid becoming better known in Indonesia, and through the increasing frequency of shipping services which carried aid goods as base cargoes and filled up with commercial goods.⁴⁵ Carbon black, motor vehicle parts, passenger vehicles and manufactured items, were mentioned as a few of the many aid items which had been followed by commercial orders.

2. Foreign Exchange Operations Fund, Laos

3.3.11 The Laos Foreign Exchange Operations Fund (F.E.O.F.) is essentially a budgetary support programme. Five donors, Australia, U.K., France, Japan and the U.S.A. contribute to the fund which sells the foreign exchange from contributions to Laotian commercial banks, for the local currency, kip. The foreign exchange is used by Lao importers to buy goods, while the major part (some 72 per cent so far) of the counterpart kip thus realised is used to retire the Lao Government's national debt.

3.3.12 From 1964 to 1972, \$US172.2 million has been contributed to F.E.O.F. The U.S. has contributed the major part, with Australia's contribution running at about \$US720,000 per annum.⁴⁶ The Lao budget has had a continuing large deficit for some years due to military expenditure in connection with war conditions in the country. In 1970-71, the deficit was 12 billion kip and it is expected that this year's deficit will exceed 14 billion kip. Estimated local budget receipts of 9.7 billion kip in 1971-72 are derived mainly from indirect taxes and customs duties, while civil

45. Transcript, p. 526.

46. Department of Foreign Affairs.

expenditure is expected to be some 10 billion kip and military expenditure some 8 billion kip.⁴⁷ Contributions under F.E.O.F. then subsidise the annual budget deficit which is largely a result of military expenditure.

3.3.13 In terms of the functioning of the economy, the F.E.O.F. contributions help to sustain a stable and free foreign exchange market in Laos and to counter the inflationary effects of the budget deficits.⁴⁸ The withdrawal of funds from the Laotian economy has modified inflation⁴⁹ and some 23 per cent of the counterpart funds thus withdrawn have been used to finance the local costs of donors' projects. The Lao Government maintains a small development budget. The stabilising effect of F.E.O.F. operations was emphasised by Mr Parsons from the Department of Foreign Affairs:

"In effect, if there were no F.E.O.F., the war would still go on with cost to the local people and probably a rank inflationary situation, and what F.E.O.F. allows to happen is some sort of control."⁵⁰

3.3.14 The Sub-Committee also inquired into the administration of the fund. The basis for administration is an annual exchange of letters between the Lao Government and contributing governments. The Lao Government undertakes to limit its budget deficit, to collect taxes effectively and to control the sale of foreign exchange. F.E.O.F. itself is administered by a manager appointed by the Lao Government on the advice of donor countries whose representatives form an Advisory Board to F.E.O.F. The I.M.F. also has an advisor to the Lao Government, who co-operates with the F.E.O.F. administration. The Lao Government itself has become a donor to F.E.O.F. this year, and is also a member of the newly formed Stabilization Consultative Committee (consisting of donor government representatives, the manager of F.E.O.F. and the I.M.F. representative) which is to examine the running of the programme.

47. Department of Foreign Affairs.

48. Transcript, p. 80.

49. *ibid*, p. 88.

50. Transcript, p. 399.

Australian evaluations of the running of the F.E.O.F. scheme are undertaken by the Department of Foreign Affairs and the Treasury.⁵¹ Reports are received from diplomatic posts, from the I.M.F. and from the other countries involved in the scheme and Australia's contribution is under annual review.

3.3.15 Apart from examining the administration of F.E.O.F., on which there was insufficient evidence before the Sub-Committee to come to a judgement, one of the points at issue with this kind of operation was whether a programme whose main function is to stabilise the economy of a country through subsidy of its military expenditure can be classified as civil aid.

4. Food Aid

3.4.1 Food aid has always been a major component of Australian aid since the first contributions to economic development under the Colombo Plan were made in the form of gifts of flour and wheat to India, Pakistan and Sri Lanka. Later gifts of food aid on an ad hoc basis were in response to demand and in 1965 Australia joined with other countries in supplying large amounts of wheat to India which was threatened by a famine. In an aftermath of this major grain shortage and as part of the "Kennedy Round" of trade negotiations, attempts were made to rationalise the giving of food aid. This was prompted by a combination of factors, one of which was that the ad hoc basis of food aid meant that grain exporting countries were carrying the main burden of food aid and it was believed that other developed countries should participate by providing cash in lieu for the purchase of grains.⁵² This was given point as previous grain surpluses in grain exporting countries were running down and food aid was beginning to involve a significant degree of sacrifice.⁵³ In 1967, the major developed wheat exporters and importers agreed to provide 4.5 million metric tons of wheat to developing countries on a grant or grant-like basis. This agreement is known as the Food Aid Convention (F.A.C.) and is the non-commercial part of the International Grains

51. *ibid*, p. 803ff.

52. *ibid*, pp. 972B, 990B.

53. *ibid*, p. 991B.

Agreement. The F.A.C. was renegotiated in 1971 although three countries, including the U.K., withdrew from the agreement. Australia's contribution under F.A.C. has remained at 225,000 metric tons worth approximately \$A13 million per annum.

3.4.2 The food aid transaction remains essentially bilateral. Australia allocates food aid between countries on a basis of need and the level of all Australian aid going to each country. Food aid is provided f.o.b. and recipient governments generally pay the freight costs although special arrangements are made for Indonesia and Bangladesh.⁵⁴ Australia consults internationally with other exporters and is consulted in turn by them as to food aid shipments with a view to avoiding disruptions to their normal commercial trade. The recipient government is usually required to buy on commercial terms a minimum annual quantity of the commodity on a global basis. This level, the "usual marketing requirement", is negotiated between the recipient countries and the major aid donor of the commodity.

3.4.3 Gifts of Australian food aid are usually added to recipient government stocks and eventually sold to the private sector. The funds thus derived are credited to development programmes. In this way food aid, besides meeting food needs, conserves foreign exchange and directs local currency funds into development.

3.4.4 The Sub-Committee was told that food aid has a number of limitations both on the side of the donor and of the recipient. These can be briefly listed: from Australia's point of view, food aid is indispensable but other forms of aid, such as project aid, may confer greater benefits, dollar for dollar, on recipient countries. Supplies of commodities are also limited in that some commodities are not available for aid (such as vegetable oils), production is occasionally too low or supplies are fully committed domestically or to export (for example, rice), and usually surpluses are not of great magnitude. The perishability of certain foods is also important. The critical factor in food aid is

54. Transcript, p. 216.

however the requirements of the recipient country. As the Department of Primary Industry pointed out:

"To ignore such requirements could mean resistance and resentment in the recipient country, perhaps wastage of unfamiliar foods, and disturbance of the plans and programmes of recipients. The provision of foodstuffs simply because they are in surplus supply in Australia runs the risk of ignoring the most urgent needs of the recipients. If food aid is to be effective Australia must concentrate on the priorities established by the recipients. This is largely why we have not disposed of large quantities of surplus items such as canned fruits and processed eggs in our aid programmes."⁵⁵

3.4.5 From the point of view of the recipient countries, food aid, if not carefully controlled, can have several disadvantages. It can sometimes act as a disincentive to local food production in that agricultural production may receive a lower priority in governmental objectives. Food aid may also affect local market prices so that local production is disadvantaged. Developing countries are also becoming increasingly concerned about the effects of food aid transactions, especially in rice which is about a third of all food aid,⁵⁶ on their exports. The F.A.O. check that aid transactions should not disrupt normal trade operates also in the case of rice, but with trading patterns changing it is difficult to ensure that commercial sales are not affected.

3.4.6 The Sub-Committee was informed that it was expected that the demand for food aid would continue at a high level for the foreseeable future, although a decline in the long term could be expected if agricultural progress in developing countries was maintained.⁵⁷

3.4.7 The Sub-Committee inquired into the purchase of wheat aid by the Australian Government. It examined the possibility of purchasing the 225,000 tons on an annual bulk basis rather than

55. *ibid*, p. 967B.

56. Transcript, pp. 975B, 1003B.

57. *ibid*, pp. 973-974B.

in lots as requests were received. It appeared that due to price fluctuations in wheat export prices, bulk purchase on commercial terms would have cost more in the past than individual purchases spaced more or less evenly throughout the year.⁵⁸ It appeared also that a bulk purchase of wheat aid by the Government from the Wheat Board at a negotiated price would not gain advantage, as aid wheat comes under the provisions of the Wheat Stabilisation Scheme, so that any difference in price, assuming that export prices remain lower than the guaranteed price, would be made up by the Commonwealth.

3.4.8 Apart from its contribution to F.A.C., Australia also takes part in the World Food Programme (W.F.P.). The W.F.P. began in 1963 under the aegis of the U.N. General Assembly and the Food and Agricultural Organisation. The W.F.P. seeks to meet both normal and emergency food needs and to implement projects using food for payment. The W.F.P. is administered by a Secretariat in Rome responsible to a committee comprising the representatives of the 24 participating governments. The W.F.P. has a biennial target - \$US340 million in 1973-74 - and Australia has pledged \$US1.75 million to the regular W.F.P. programme, \$US1.1 million of F.A.C. wheat to be directed through W.F.P., together with a cash amount for freight on the wheat. The W.F.P. has a list of foodstuffs, including egg products, dairy products, sugar, grains, fruits, etc., which are readily available in Australia, and it calls on Australia to provide the commodities when they are needed.

3.4.9 The use of food aid as a channel for disposal of surplus products is clearly disadvantageous to both recipient and donor in the long term. Food aid, when used to supply needs in recipient countries, can have beneficial effects, although its effects on commercial markets of both developed and developing countries have to be carefully controlled.

5. Emergency Aid

3.5.1 Emergency aid is provided by Australia to countries which have suffered natural disasters or man-made emergencies. Such aid

58. *ibid*, p. 956B.

is governed by three considerations: it must be prompt, it must be appropriate and it must be seen to reach those for whom it is intended.⁵⁹ The level of emergency relief to be provided in any case is decided by the Department of Foreign Affairs in consultation with other departments on the basis of the scale of the emergency needs, the capacity of the country itself to handle the situation, the assistance being provided by other donors, and the nature of Australia's relations with the country concerned.⁶⁰ Internationally, Australia supported the appointment in 1972 of a U.N. Co-ordinator for relief for natural disasters, but most Australian emergency aid continues to be given on a bilateral basis principally because it is the quicker method.

3.5.2 Australia provides cash, food, goods, and occasionally volunteers where necessary, from the appropriation for disaster relief, or special appropriations in the Budget or from the F.A.C. Within Australia, the Government, since 1967, has not provided financial assistance to private organisations engaged in relief aid and only in exceptional cases (such as the Bangladesh crisis) where other transport has not been available, has it carried unofficial relief goods. The problem of freight of emergency aid, both official and unofficial, has received a good deal of public attention recently especially in relation to the Bangladesh crisis. Voluntary organisations have made calls on the Government to carry voluntary aid goods in such circumstances, and there has been some controversy over the fact that freight for official aid goods has been included in the amount of aid that was given.⁶¹ In the case of emergency aid given to India to care for the refugees, \$3.4 million was spent in 1971 and 1972 of which \$1 million was for rice, \$0.5 million cash to the U.N.H.C.R. (including freight on rice channelled through U.N.H.C.R.), with the remainder in medical supplies and food. Of the total of \$3.4 million, \$550,000 was paid in sea and air charters. In the case of emergency aid to Bangladesh, a total of some \$3.7 million has been given, again cash, food and medical supplies, and here freight costs were some \$590,000, which does not include the charter of two Fokker Friendships for Bangladesh Airlines.

59. The Hon. N.H. Bowen, Statement on Australian Foreign Aid, II. of R. Hansard, 21 September 1972, page 1749ff.

60. Transcript, p. 220.

61. *ibid*, p. 413.

3.5.3 From June 1971 to February 1972, Australia pledged a total of some \$9.5 million for the Bangladesh crisis of which \$3.5 million has been spent in India on refugees, with the remainder being spent in Bangladesh. Of the \$7.1 million spent already, approximately \$1.14 million has been spent on freight.

3.5.4 On the question of the transport of voluntary aid goods, there would appear to be merit in devising an arrangement whereby the Government would allow such goods to make up cargo in its chartered ships, particularly at times when emergency aid is urgently required. While Australia does provide cash for recipient governments and international agencies to purchase goods (a total of some \$750,000 in the case of the Bangladesh crisis), it may be that foodstuffs (such as rice) and medical goods supplied from countries closer to the emergency area and paid for by Australia, would overcome some of the inevitable delays in goods reaching the area from Australia. This has been done already in one case where recombined milk was purchased from a Manila plant (in which the Australian Dairy Board has an interest) for flood relief in the Philippines.

3.5.5 Mr Percival from the Department of Primary Industry outlined the limitations of using large amounts of food as emergency aid:

"There is frequently a great outcry that we should do more in disaster relief. The difficulties here are obvious - those of communication, transport, time and distance. In many cases we are a long way away from the disaster area, and when you get the aid there, it must be got out, it must be transported and distributed. This is obvious in what happened with Bangladesh; one of the big problems was transportation. But frequently we have offered food and we have been told that they would prefer other things, such as medical supplies, blankets, temporary shelter and this sort of thing which can be got there."62

3.5.6 The provision of emergency aid is one area in the aid field where public sympathies and emotions run high. As emergency aid involves a rapid appraisal of the complex problems of how much

aid a recipient country receives from other sources and its ability to distribute and absorb such aid, the Committee believed it was difficult to come to a judgement on this type of aid without a deeper examination.

6. Technical Assistance

3.6.1 The Sub-Committee examined most aspects of technical assistance including experts, students (both sponsored and private), trainees and research programmes. Here, attention will be concentrated on two aspects only: experts and students (both sponsored and private).

1. Experts

3.6.2 In 1971, Australia sent 297 experts to developing countries. Of these, 51 were educational experts including teachers and advisers, 39 advisers in other fields and 207 were operational personnel who worked in connection with Australian projects and whose costs were subsumed under total project costs.⁶³ The cost of these experts (including those on operations) was \$2.1 million. In 1970, when there was a total of 318 experts, two-thirds of these went to South East Asia, in particular to Thailand, Vietnam and Malaysia. In Thailand and Malaysia, the majority of experts were involved in transport and communications works such as road building, and in Vietnam, in health services. The total of man months worked by all experts in 1970 was nearly 2,000 or an average of some six to seven months per man.

3.6.3 The Sub-Committee inquired into several aspects of the use of experts. It was informed that experts were selected by the Department of Foreign Affairs in consultation with other departments, both Commonwealth and State, from which the majority of experts were recruited. Experts were briefed by the Department of Foreign Affairs, and if their stay was to be a lengthy one, they undertook language courses as part of their preparation. The Sub-Committee inquired into why most Australian experts went to countries already relatively well provided for in terms of their

63. Transcript, p. 222.

own experts or those from other countries and was informed that requests from recipients and the use of experts on Australian projects were the two factors which determined the country distribution of experts.

3.6.4 Some witnesses before the Sub-Committee were critical of the present use of experts: they argued that the length of stay of experts was too short in many cases, so that the object of the stay, to transfer skills to the local people, was not achieved effectively.⁶⁴ It was claimed that the emphasis on recipient request for experts increased the range of skills required so that there was less continuity in the use of experts and some difficulty arose in acquiring experts in Australia. It was suggested that, should Australia specialise in certain areas of aid, this would reduce this problem.⁶⁵ It was argued that professional and physical support of experts could be improved and that really effective liaison with local officials could make the difference between the experts' visit being a failure or a success.⁶⁶

3.6.5 Finally, some witnesses told the Sub-Committee that there was insufficient evaluation of the work of experts.⁶⁷ Mr Parsons from the Department of Foreign Affairs told the Sub-Committee that Australia's overseas diplomatic posts assessed experts' work and reported to Canberra, but that no formal assessment was received from recipient governments.⁶⁸ Evaluation of experts' work is a difficult problem since, in a technical sense, it takes an expert to judge an expert, yet it does appear that some professional periodical review in depth of the use of experts may be required.

2. Students

3.6.6 The Sub-Committee inquired at some length into the training of students in Australia. It concentrated on two aspects, sponsored students and private students. While the latter are not

64. Transcript, pp. 656B, 838B, 883B.

65. *ibid*, p. 657B.

66. Submission by Professor Wolfsohn.

67. Transcript, p. 883, and Professor Wolfsohn's submission.

68. The Commonwealth helps finance the A.S.P.A.C. Registry of Scientific and Technical Services located in Canberra.

officially regarded as part of the official aid programme, the Committee believed that, because the indirect costs of their training were met by the Commonwealth and State Governments, this constituted a form of indirect aid to the home countries of private students.

A. Sponsored Students

3.6.7 Since World War II, more than 12,000 students have been sponsored for training in Australia. The aims of the programme have remained unchanged over the period, being to assist the development of skills of developing countries and to promote goodwill between Australia and these countries.⁶⁹ In 1971, there were 3,020 Australian sponsored students in Australia, 24 students for whom Australia paid to study in third countries, and 272 students in Australia sponsored by their home governments. The cost of these students in Australia was \$6.65 million, together with an indirect cost of maintaining them at Australian institutions of \$3.8 million.

3.6.8 Of the total of 3,000 Australian sponsored students and trainees here, 2,065 were at universities, and of these, 748 were pursuing higher degrees. In the last few years, there has been a trend away from undergraduate studies to practical training in other fields, and slightly more emphasis on post-graduate education.⁷⁰ The majority of sponsored students come from South East Asia, particularly from Malaysia, Thailand, Indonesia and Vietnam.⁷¹ The majority of students take courses in engineering, agriculture and education.⁷²

3.6.9 In the case of sponsored students, courses are chosen by their home government, and students are nominated for courses designed to fill particular needs. The Department of Education and Science has the responsibility for placement of students (as

69. Transcript, p. 224.

70. *ibid*, p. 226.

71. *ibid*, p. 258.

72. *ibid*

distinct from trainees) at Australian institutions although the universities themselves undertake admissions in accordance with general quotas, or special quotas for overseas students. Officials at overseas diplomatic posts administer English tests to students and make sure that their qualifications for entry to Australian educational institutions are sufficient. All sponsored students undertake to return home at the end of their courses and only about one per cent⁷³ of sponsored students do not, generally because of marriage in Australia. Students are only permitted to change courses with the agreement of their home governments.

3.6.10 With sponsored students, there is generally little problem with recognition of qualification, nor is there generally any undue delay before they can be employed in their own country, as their government has the responsibility for this. Until recently, evaluation of the sponsored students scheme has been made on the basis of reports from overseas posts and on replies to questionnaires. Such evaluation has not proved particularly detailed although the scheme appears to be justified.⁷⁴ This year the Department of Foreign Affairs has undertaken a detailed survey of the scheme together with an evaluation being made by the A.N.U. as part of an international survey.⁷⁵

3.6.11 In general, witnesses before the Sub-Committee believed that the sponsored student scheme had been reasonably successful, particularly because government selection in the home country and government supervision in Australia had been effective in maintaining good academic standards.⁷⁶ The Committee itself was of the opinion that the trend towards more practical training was a good development, and that more emphasis should be placed on post-graduate training and specialised experience, though not necessarily the kind that led to a degree.

3.6.12 Some witnesses felt that the "one way" process of training could now be developed into a system of interchange. Professor Wang Gung Wu from the Australian National University made two points on this aspect:

73. Transcript, p. 444.

74. Transcript, p. 228.

75. *ibid*

76. *ibid*, p. 1063.

"Chairman - Are you suggesting that Australian undergraduate students rather than post-graduate students should go to Asian countries.

Dr Wang Gung Wu - In fact I suggest both but there is no agreement at a higher level at which this is done systematically. It should be agreed to on both sides and not simply left too much to chance and, importantly, with the clear emphasis on the fact that these countries in Asia - particularly Malaysia and Singapore - are helping Australia give training and facilities for research or even undergraduate training to some of the Australian students. This should be not simply a curiosity and interest for Australian students to do research. Rather it should be a place where they will spend time learning..... The circumstances in South East Asia have been changing - some rapidly - over the last 20 years. I am convinced that there are many Australians who have been engaged in training Asian students who have not kept up with those changes. In fact, the longer they have been associated with Asian students they have kept their previous attitude towards the training of Asian students which are no longer justified. I feel that to enable the Asian students as well as the Australian trainers of Asian students to benefit there should be a systematic programme to keep them in touch both ways."77

B. Private Students

3.6.13 The Australian Government has allowed the entrance of private students for two reasons: it was believed that training in Australia would add to the skills needed in less developed countries, and that it would promote goodwill between Australians and the peoples of the region. The conditions now laid down for entry are that students should, in general, come only for courses not available in their own countries,⁷⁸ that there should be a demand for their qualifications in their own country, that they should have the requisite qualifications for entry to recognized courses in Australia, that they can pass an English test, and that they undertake to return home on completion of their studies. There are, at any one time, about 10,000 private students in Australia, of whom some 4,000 are at university with the majority

77. Transcript, pp. 966-967. Some Australian students already attend institutions in developing countries under the Commonwealth Co-operation in Education Scheme.

78. Transcript, p. 229.

pursuing undergraduate courses.⁷⁹ Together with sponsored students, these make up about 5 per cent of the Australian undergraduate population.⁸⁰ The Sub-Committee concentrated its attention on undergraduate private students because most evidence was forthcoming on this aspect, but believes that private students pursuing other non-university courses ought also to be examined thoroughly.

3.6.14 The Sub-Committee was informed that a major review of policy had been initiated in 1963 and brought into effect in 1967. Mr McGinness from the Department of Immigration, which is responsible for the entrance of private students, explained the reasons for the review:

"There were several considerations which had been causing concern for some time. An increasing number of students had been coming under our adverse notice for unsatisfactory academic progress. In many cases it was quite clear that these were not bona fide students but were, for example, young people whose fathers had come here under a temporary entry permit in various capacities and who were really bringing their sons here as part of a system of family reunion with a view to a permanent stay if possible. We were finding that students admitted for primary studies were staying on for secondary and tertiary studies and spending all their formative years in Australia and naturally at the end of these studies being very reluctant to return to their home country. There was also the point that qualifications obtained in Australia were not recognised in the home country. There had not been an evaluation of that aspect under previous policy and students, further to a remark I just made, were enrolling in lower standard courses merely to prolong their stay in Australia with a view to eventual residence. What was aimed at at the time in formulating the proposals was a more satisfactory balance."⁸¹

3.6.15 As a result of this review, several changes were made: provision for admission to primary schooling was eliminated; admission to secondary courses was restricted to the final two years of a pre-matriculation course; tertiary admission was made dependent on qualifications and academic standards; no student

79. *ibid*, p. 225.

80. *ibid*

81. Transcript, p. 726B.

was to be admitted whose proposed course was not of value to his own country, and greater attention was to be paid to students' progress while in Australia.

3.6.16 In terms of numbers, the review has meant that private student numbers have remained stable at some 10,000, whereas numbers had increased rapidly until 1966. Of the 1971 total of some 10,000 private students, 2,400 (or more than one-fifth) were in secondary schools, 2,900 were university undergraduates, 400 post-graduates with the majority of the remainder in certificate or diploma courses.⁸² The majority of those undergraduate students were doing courses in economics, medicine, science and engineering.⁸³ Of the total of 10,000 private students, some 6,000 came from Malaysia, 1,350 from Hong Kong and nearly 900 from Singapore.

3.6.17 The Sub-Committee heard evidence from a number of witnesses on private students and a consensus of opinion among witnesses emerged on a number of issues. First, it was agreed that due to long stays in Australia, extending in many cases from adolescence, students became alienated from their own societies. The Department of Immigration allowed some such students to remain in Australia, but this remained a significant problem⁸⁴ as indicated by the fact that one-third of students presently in Australia had arrived in 1966 or before.⁸⁵ This was partly because of the pre-1966 policy, but the present emphasis on students having acceptable matriculation qualifications means that many students now spend the latter years of secondary schooling in Australian schools so that the situation, with regard to length of stay and alienation, is unlikely to improve in future under the present system.

3.6.18 Secondly, while it was broadly shown that the academic performance of private students had improved since 1966,⁸⁶ the Committee felt when consideration of other factors such as length of time taken to complete courses, and results in particular courses

82. Transcript, p. 723B.

83. *ibid*, p. 1079.

84. *ibid*, pp. 961.

85. *ibid*, pp. 713B, 748B.

86. *ibid*, p. 714B.

were taken into account, the situation may be more equivocal. Evidence on particular university courses quoted to the Sub-Committee,⁸⁷ and from published accounts,⁸⁸ supported this conclusion.

3.6.19 The Sub-Committee was informed of the steps taken by overseas diplomatic posts to assess the demand for the qualifications proposed by particular students. Demand is assessed by collecting information from government and private sources, the media and professional institutions.⁸⁹ It appeared that demand was particularly difficult to assess accurately, especially as there was a time lag between the beginning of a course and the return home. Some witnesses gave evidence of "gluts" of particular types of qualifications in the past,⁹⁰ and other evidence was presented that showed that many private students suffered undue delays in obtaining employment. One witness suggested that due to the difficulty of Australian overseas posts assessing demand, that this should become the responsibility of the home government.⁹¹

3.6.20 The examination of demand for qualifications led the Sub-Committee to inquire into the relevance of Australian training for Asian conditions, a subject which has provoked some debate in the Australian media. The Sub-Committee was informed that in some cases courses were pursued by students that were seen as fashionable or considered profitable and that often these had little relevance to what was needed in the home country.⁹² It was also pointed out that some Australian university courses were not particularly relevant to needs in Australia. It was also claimed that many Australian courses, particularly in medicine, were irrelevant to the needs of developing countries especially in their rural areas where a high degree of sophistication was unnecessary.⁹³ Against this, it was argued that many countries had diverse needs, both for specialist trained people and for people to work at the grass roots level.⁹⁴ The Committee was of the opinion that, while

87. *ibid.*, p. 1020.

88. see for example *Vestes* XI 3, 1968, XIV 2, 1971.

89. Transcript, p. 718B.

90. *ibid.*, pp. 961, 972, 980.

91. *ibid.*, p. 973.

92. *ibid.*, p. 962.

93. *ibid.*, p. 994.

94. *ibid.*, pp. 988-989.

it was the responsibility of the home government to direct the available trained people to the areas of need, more thought should be taken in Australia as to the relevance of Australian courses generally to Asian conditions, and as to the relevance of particular types of training to rural and urban needs.

3.6.21 The problem of the return home provision which applied to private students was examined by the Sub-Committee. Since 1966, just over 3,000 students have been granted resident status: about one-third of these have been married in Australia; there was no demand in the home countries for the qualifications of 374 students; and the remainder were allowed resident status because of family reunion or the length of their stay in Australia.⁹⁵ The Sub-Committee was also informed that in 1970-71, 83 per cent of those students who left Australia returned to their home countries, 2 per cent went to Europe, 3 per cent to America, and 12 per cent to other countries, including 2 per cent to Canada, although the majority of these went to developing countries.⁹⁶ There was no way of ascertaining what proportion of private students subsequently left the developing countries to go to developed countries. One witness told the Sub-Committee that, although there was a formal requirement that students trained in Canada return home, provided the student had a job, he could remain. This witness was also doubtful whether the Singapore and Malaysian governments, for example, would object strenuously to some students remaining in Australia.⁹⁷

3.6.22 Members of the Committee approached the problem of return home of private students from three differing though related aspects. Some members stressed the cultural viewpoint: that the free flow of students between countries was a good thing in itself and, as this might be expected to contribute to inter-cultural awareness and understanding between Australians and people from Asia, this was a beneficial process. Other members stressed the aid aspect of bringing private students to Australia: as the cost

95. Transcript, p. 724.

96. *ibid*, pp. 714, 758.

97. *ibid*, pp. 976-977.

of their education was heavily subsidised by the Commonwealth and the aim of the scheme was to add to the skills in developing countries, then students ought to be required to return home except in special circumstances such as those which are operative at present. Some members saw private students from the point of view of Australia's immigration: while students educated in Australia should be encouraged to return home to work, should they wish to remain in Australia, they should be allowed if they were employed in a qualified position. One advantage of this was seen to lie in accepting as migrants, those who were already fluent in English and familiar with Australian conditions.

3.6.23 The Sub-Committee also directed its attention to the composition of the private student population. The large majority of Malaysian students was explained to the Sub-Committee in terms of proximity, a tradition of education in Australia,⁹⁸ and also because of the restrictions on admissions to universities in Malaysia.⁹⁹ Witnesses agreed that the majority of private students from Hong Kong, Singapore and Malaysia were from comparatively better-off families and questioned this aspect of the situation. Mr Reynolds of the Sub-Committee commented:

"It does seem to me now that the wealthier these countries are, the greater demands they seem to be making on Australia for more costly and lengthy educational programmes, such as at university level. And it is the other countries, the ones that are really economically lower down the scale of things, that are being satisfied by the short term courses of up to 10 weeks, or shorter terms. I think we might well have to get around to having a look at this business of a comparatively wealthy country like Malaysia, from whom we are probably getting students who are in the upper bracket of income."¹⁰⁰

3.6.24 As the Australian Government meets at least three quarters of the costs of private students,¹⁰¹ and considering the pressure on places at Australian educational institutions, the

98. Transcript, p. 970.

99. *ibid.* p. 1025.

100. *ibid.* p. 462.

101. Some \$7.2 million (Transcript, pp. 432, 1098) plus administrative costs in the region of \$700,000 (Department of Foreign Affairs).

Committee believed that it was probable that more benefit could be obtained by a greater emphasis on the home training of students, not by Australian financed and controlled institutions, but by using Australian aid funds to upgrade existing institutions in particular areas and by providing teaching and lecturing assistance where necessary.

Chapter Four

AID TYING

4.1.1. Most of Australia's bilateral aid (excluding aid to Papua New Guinea) is tied in two ways: the procurement of goods and equipment is tied to purchase in Australia, where a general rule of Australian content of $66\frac{2}{3}$ per cent is applied. In addition, food aid and nearly all technical assistance is tied to Australian sources. The attached table shows the extent to which Australian contributions and subscriptions to multilateral organizations are tied. Of a total multilateral contribution in 1970-71 of \$11.5 million, \$3.0 million is tied to procurement in Australia.¹ According to information from the Department of Foreign Affairs most other D.A.C. countries have national content and tying requirements for their bilateral aid: for example, Canada has a $66\frac{2}{3}$ per cent rule, Japan ties almost all her bilateral aid and the U.S. has a 50 per cent national content rule. Some countries completely untie all their multilateral aid, some tie portions of their aid to U.N. agencies only and contributions to the A.D.B. Special Funds are tied in varying degrees.

4.1.2. Because of a general belief among both donors and recipients that untying aid would have some political and economic benefits for recipient countries, aid tying practices have been under review both by D.A.C. members and at U.N.C.T.A.D. III. At a high level meeting in Tokyo in September 1970, members of the Development Assistance Committee (D.A.C.) of O.E.C.D. agreed "in principle" that contributions to multilateral organisations and bilateral development loans should be untied. Since that time, D.A.C. has been working to reach agreement amongst members on terms of a draft Agreement on untying. Work was, however, virtually brought to a standstill at the time of the international monetary crisis late in 1971, and has not proceeded because of the continuing balance of payments difficulties of the U.S.² The draft Agreement calls for DAC members to untie new bilateral loans and tied contributions to multilateral organisations. The Agreement does not apply to

1. See Table 9.

2. Transcript of Evidence, p. 691.

**AUSTRALIAN CONTRIBUTIONS TO
MULTINATIONAL ORGANISATIONS 1970/71
TYING STATUS \$'000**

/82. ...

| Organisation | Total Contribution | Tied | UNTIED | Comments |
|---|-----------------------|-------|--------|---|
| U.N. High Commissioner for Refugees | 262 | - | 262 | |
| U.N. Children's Fund | 825 | 660 | 165 | |
| U.N. Relief and Works Agency | 180 | 144 | 36 | |
| W.M.O. World Weather Watch | 50 | 40 | 10 | |
| World Food Programme (1) | 963 | 816 | 147 | |
| U.N. Development Programme | 1,785 | 392 | 893 | Not included in draft untying agreement |
| International Development Assoc. | 2,815 | - | 2,815 | |
| A.D.B. Capital (2) | 3,795 | - | 3,795 | Now fully paid-up. |
| A.D.B. Special Funds | 325 | 325 | | Not affected by draft untying agreement since it had already received "legislative approval". |
| South Pacific Commission | 276 | - | 276 | |
| International Red Cross | 15 | - | 15 | |
| Regional Projects for Economic Co-operation in Asia | 71 | 25 | 46 | |
| ASPAC Registry of Scientific and Technical Services | 59 | 59 | - | |
| ASPAC Food and Fertilizer Technology Centre | 27 | - | 27 | |
| | 11,458 | 2,971 | 8,487 | |

| Organisation | Total Contribution | Tied | UNTIED | Comments |
|--|--------------------|-------|--------|----------|
| Less items not included in current draft of proposed untying agreement Net Funds to be untied if agreement (as now drafted) had been in force | | 1,141 | | |
| | | 1,830 | | |

(1) Our bi-ennial pledge is 80 per cent tied and 20 per cent untied, but the rate of dispersion over a financial year does not necessarily follow this pattern.

(2) This represents the fifth convertible currency instalment to the A.B.B.'s capital. The fifth local currency instalment which was also for \$3,795,000 and which is tied, was made available to the Bank in the form of a promissory note, and was not encashed during the year. Under the current draft of the proposed untying agreement, it would not have been necessary to have untied the current local currency instalment as it was already committed, but any future subscriptions receiving legislative approval after the implementation of the agreement would have to be untied.

grants (i.e. almost all of Australia's bilateral aid), food aid or technical assistance, or tied aid for which legislative sanction had been given at the time that the Agreement comes into force.³

4.1.3. Statistical information on the status of D.A.C. member's tied aid is inadequate, but based on D.A.C. figures for 1970, untying of bilateral loans would effect a total of approximately \$US2,200 million per annum, of which roughly \$1,300 million per annum is lent in the Asian region. Total disbursements of multi-lateral organisations amounted to about \$1,000 million but the extent to which this is presently untied is not clear. In terms of the draft Agreement, Australia would have to untie approximately \$3 million per annum⁴ which would not include its contribution to A.D.B. Special Funds or other commitments which have already been given legislative approval.

4.1.4. The Sub-Committee was informed that Australia would gain if the draft Agreement came into force. Mr Duthie from the Department of Trade and Industry said:

"Mr Duthie - I understand that if aid were to be untied in the South East Asian region the estimate would be that there would be something like \$1,300 m of aid that could be sourced in any country. Therefore, if one were thinking philosophy, I think the extent of our tied aid is something like \$3m. So you perhaps have 2 schools of thought - whether you continue to pursue the philosophy of tying aid or perhaps try to pursue what is an international endeavour to have aid untied and perhaps give Australian consultancy firms, Australian engineering construction firms and Australian exporters the opportunity of sharing in a far bigger pool.

Chairman - With a general move towards the untying of aid or at least of part of aid - not just by us but by other countries as well - would we, do you think, tend to gain or lose by this?

Mr Duthie - I am simply expressing a personal view here, but I find it difficult to see how we could lose."⁵

3. Department of Trade and Industry.

4. See Table 9.

5. Transcript, p.614, see also Treasury opinion, p.687.

4.1.5. Departmental witnesses generally believed that a unilateral move by Australia to untie its aid would result in a loss of trade and would have an unfavourable effect on Australia's balance of payments.⁶ The Committee agreed with this, and also with the point that in the absence of a general agreement on untying, that it was not a good time to begin changing the present practices.⁷ However, considering that the original motive for tying aid to protect Australia's balance of payments⁸ had less force now with the present favourable balance of payments, and also Mr Duthie's evidence that Australia had some comparative advantages in trading in South East Asia,⁹ the Committee was of the opinion that some changes could be made. It appeared that, since U.N.D.P. already purchased more in Australia than Australia contributes to U.N.D.P., this contribution could be progressively untied without detriment. It also appeared that since the amounts tied to other U.N. Funds were small, these could be untied also.¹⁰ The Committee was informed that moves to untie Australia's contributions to UNICEF and UNWRA were under way. Since the original reason for tying the local currency portion of our A.D.B. capital subscription was less germane now, this could also be untied, particularly as other countries' capital subscriptions are untied. The Committee believed that A.D.B. Special Funds ought to be progressively untied.

6. Transcript, p.127.

7. *ibid*, p.486.

8. See above, p. 42.

9. Transcript, p.617.

10. See Table 9.

Chapter Five

TRADE, TARIFF PREFERENCES AND INVESTMENT

1. TRADE:

5.1.1. Developing countries took about 24 per cent of all Australian exports in 1970-71 and this share is the same as in 1966-67. Australian exports to developing countries in the South East Asian region have increased substantially in absolute terms in the last five years although in total their share of the Australian export market has not increased. Australia buys some 12 per cent of her import needs from developing companies of which only some 4 per cent comes from developing countries in South East Asia. Apart from imports from Indonesia which have fallen from \$56.6 million in 1966-67 to \$22.5 million in 1970-71 (largely due to a reduction in petroleum imports), imports from Malaysia, Singapore, Hong Kong and Thailand have increased.¹

5.1.2. It has been shown above that D.K. aid has had a marked effect on exports to Indonesia, and given the tying practices associated with Australian project aid and commodity aid, and the present method of financing which results in the purchase of capital intensive goods, it would be surprising if Australian aid giving had not resulted in substantial benefits to Australian manufacturers and exporters. In addition, as aid goods open the way to markets, benefits in the form of commercial orders can be expected. These benefits accrue to nearly all donors. The British Select Committee on Overseas Aid, 1971, stated that "commercial considerations alone would suffice to justify participation in the aid effort, both bilaterally and through international agencies".²

5.1.3. Yet, since the main objective of the Australian aid programme is development in less developed countries, the tendency to continue forms and types of aid which have substantial

1. See Table 10.

2. Report from the Select Committee on Overseas Aid, Session 1970-71, p. 12.

TABLE 10

TRADE WITH SELECTED DEVELOPED AND DEVELOPING COUNTRIES

1966/67 AND 1970/71

| | EXPORTS | | | IMPORTS | | |
|---------------------------|---------|------------|---------|------------|---------|------------|
| | 1966/67 | | 1970/71 | 1966/67 | | 1970/71 |
| | Value | % of Total | Value | % of Total | Value | % of Total |
| | \$m. | | \$m. | | \$m. | |
| Indonesia | 6.9 | 0.2 | 39.1 | 0.3 | 56.6 | 1.9 |
| Malaysia | 61.8 | 2.0 | 66.5 | 1.5 | 28.0 | 0.9 |
| Singapore | 56.5 | 1.9 | 118.4 | 2.7 | 8.7 | 0.3 |
| Hong Kong | 64.3 | 2.1 | 90.4 | 2.1 | 34.2 | 1.1 |
| Thailand | 23.7 | 0.8 | 32.3 | 0.7 | 1.7 | 0.1 |
| Other L.D.C. Countries | 513.3 | 17.0 | 706.9 | 16.2 | 330.8 | 10.8 |
| Total L.D.C. Countries | 727.0 | 24.0 | 1,053.6 | 24.1 | 460.0 | 15.1 |
| United Kingdom | 405.2 | 13.4 | 492.8 | 11.1 | 723.8 | 23.7 |
| E.E.C. | 396.4 | 13.1 | 405.3 | 9.3 | 373.2 | 12.3 |
| Japan | 586.5 | 19.4 | 1,190.7 | 27.1 | 296.0 | 9.7 |
| U.S.A. | 399.3 | 11.9 | 521.3 | 12.0 | 781.3 | 25.7 |
| Other Countries | 549.8 | 18.2 | 711.0 | 16.4 | 411.0 | 13.5 |
| TOTAL EXPORTS AND IMPORTS | 3,024.2 | 100.0 | 4,374.7 | 100.0 | 3,045.3 | 100.0 |
| | | | | | 4,150.0 | 100.0 |

SOURCE: Department of Trade

trade benefits, but whose development objectives may become subsidiary, has to be resisted. For example, while the proceeds of D.K. aid go into Indonesia's development budget and save its foreign exchange, the pressure to continue and increase this form of aid because of trade advantages, should not be allowed to cloud judgements arising from a reappraisal of other methods of conserving foreign exchange or other ways in which local costs of development could be financed. If other methods of local cost financing were to be considered, as a way of extending development projects further into the agricultural and social sectors, this might lead to less opportunity for the export of capital equipment. This factor should not be allowed to prejudice rethinking of aid aims and alternative uses of resources.

5.1.4. The Sub-Committee heard evidence on two other aspects in regard to trade. Although Australia does not provide official export credits, there has been a dramatic growth in Australian private export credits to less developed countries.³ This is part of a global increase and reflects the needs of developing countries to finance imports over longer terms which add to their debt servicing problems. The Department of Foreign Affairs said:

"The trend in rising export credits concerns authorities on international development who see them as an undesirable alternative resorted to by developing countries because concessional flows remain more or less static." 4

| | | | | |
|--------------|---|------|------|-------|
| 3. | <u>Australian Private Guaranteed Export Credits</u> 1968-1971 (\$US million) | | | |
| | 1968 | 1969 | 1970 | 1971 |
| Guaranteed | | | | |
| 1-5 years | 1.2 | -0.9 | 45.6 | 161.3 |
| Guaranteed | | | | |
| over 5 years | 0.5 | 2.8 | 24.5 | 4.0 |
| Total | 1.7 | 1.9 | 70.1 | 165.3 |

Source: Export Payments Insurance Corporation

4. Transcript of Evidence, p. 133.

5.1.5. Private export credits guaranteed by E.P.I.C. in 1971 totalled \$US165 million while it was estimated that non-guaranteed export credits excluding those to Papua New Guinea were \$131 million in 1971.⁶ The rapid growth in Australia's guaranteed export credits is largely due to credit sales of wheat, where competition among suppliers on terms is fierce. The Sub-Committee was told that moves were being made in O.E.C.D. to restrict credit terms in particular sectors, but these were not particularly effective.⁷ As far as E.P.I.C. is concerned, this tendency can increase the risks of default on their guarantees.⁸ Export credits guaranteed by E.P.I.C. are part of the statistical return to D.A.C. like other D.A.C. members and are included as part of the one per cent aid target, although they contain no concessional element.⁹

2. TARIFF PREFERENCES:

5.2.1. The importance of trade in the development of less developed countries was stressed to the Sub-Committee. Professor Hogan of the University of Sydney said:

"I have suggested that development aid cannot be divorced from issues in the trade fields

The question of opening up trade possibilities, which has been canvassed at UNCTAD 2 and recently UNCTAD 3 and in other international discussions, is relevant here. It is not simply a question of assisting the developing economies, which is almost a meaningless conglomerate term, but particularly the weaker and poorer among the developing economies, including that group referred to in UNCTAD discussions as the least developed of the developing economies. If we do think there are possibilities here for development which can be associated with benefits to us in trade terms, we can quite reasonably think in terms of the precedents already created in international trade and aid discussions to make special arrangements for some of the neighbouring economies." 10.

5.2.2. Although Australia was the first country to introduce,

6. Department of the Treasury.

7. Transcript, pp. 559-560.

8. *ibid.*, p. 565.

9. Transcript, p. 573.

10. Transcript, p.1219.

in 1966, a list of items for which less developed countries could obtain preferential access to the Australian market, the share of developing countries' imports into Australia has fallen from 15 per cent in 1966-67 to 12 per cent in 1970-71.¹¹ The Sub-Committee examined a number of issues in connection with the Tariff Preference Scheme. The list of goods available for preferential entry includes specified manufactured and semi-manufactured goods, handicrafts, but no primary products. Handicrafts come into Australia duty free, there are no quota limits, and the list has been progressively extended. One hundred and thirty five countries have been declared eligible for the scheme, and the eligible products comprise some 240 groups of manufactures and semi-manufactures. In April 1972, the Minister for Trade and Industry announced that some 200 additional items will be added to this range. The total quota limits on these goods has been raised from some \$13 million in 1966-67 to \$47 million in 1970-71.¹² Each product on the list has a quota, usually set at some 10 per cent of all current imports, and may enter free of duty or at a reduced rate. The items on the list are arrived at in consultations with developing countries and there is a provision which enables Australian industries, which consider their interests are affected adversely, to seek a review of the preference before the Tariff Board thus inhibiting the widening of the list or the raising of the quotas to a significant degree.

5.2.3. In no year since the introduction of the scheme have quotas allocated taken in even a half of the quotas available.

Manufactured and Semi-Manufactured Quotas

| | <u>Available and Allocated</u> ¹³ | | | | | |
|-----------------|--|---------|---------|---------|---------|---------|
| | \$'000 | | | | | |
| | 1966/67 | 1967/68 | 1968/69 | 1969/70 | 1970/71 | 1971/72 |
| Quota Available | 13,320 | 20,435 | 30,062 | 36,210 | 47,035 | 44,000 |
| Quota Allocated | 3,732 | 9,079 | 14,622 | 17,669 | 22,713 | 21,700 |

11. Department of Trade and Industry.

12. Transcript, p.508.

13. *ibid.*, p.508.

Mr Duthie, from the Department of Trade and Industry, gave an explanation of the failure to take up the total quotas in the following terms:

"We have been endeavouring to find out the reasons for the shortfalls, some of which I have already mentioned, but our trade commissions report that there is basically - if you look at the list of countries - a lack of selling experience and general commercial know-how. There is no export entrepreneurial class developing except of course in the ones that are diving into the quotas, such as the Indias, the Taiwans and the Hong Kongs where you get a strong sort of commercial class and they are taking advantage of the quotas." 14

5.2.4. It appeared from evidence before the Sub-Committee that, in certain of the major items under the scheme - cotton piece goods, carpets, tubes, etc. - the quotas were filled very rapidly and the exporting countries continued to export such goods under normal tariff rates. Of total imports into Australia from developing countries in 1970-71 of \$484 million, only some \$12 million or 2.5 per cent was brought in under preference (apart from handicrafts). 15 Of the \$12 million brought in under preference, Hong Kong exported \$2.6 million, India \$3.4 million, and Spain and Taiwan about \$1.6 million each. It appeared to the Committee that the scheme acted to the benefit of countries who were already competitive in these manufacturing fields as evidenced by their willingness to export under normal tariffs. There is provision in the regulations of the scheme, for some countries and products to be excluded if they are already competitive, and it was suggested to the Sub-Committee that such provisions could be invoked to give the lesser developed countries a chance at entry, 16 although this of itself may not guarantee an increase in imports from these countries.

14. *ibid.* p.581.

15. C.B.C.S., Highlights of Overseas Trade Statistics, No.825.

16. Transcript, p.1236.

5.2.5. That the kinds of items on the list inhibited exports from some of the lesser developed countries was illustrated in a comment by the Chairman:

"Is not the real explanation of this disparity between the advantage that is taken by countries like India and Taiwan of the quotas, on the one hand, and Indonesia and other countries on the other hand, that the Indians and the Taiwan people produce things, subject to quota, that we want; and Indonesia is not permitted to bring in, under quota, the kinds of things that Indonesia, for example, can supply. I can imagine that timber is a product which Indonesia might well supply, but we do not permit a quota for timber because we protect our own industry, which I understand is ALP policy as well as the policy of the Government party. If you permitted timber to be brought in free of duty, then you would find that Indonesia is able to take advantage of that quota." 17

5.2.6. The Sub-Committee was informed that at the Second UNCTAD Conference in 1968 there was agreement in principle that the developed countries should introduce tariff preferences for developing countries. By the Third Conference recently concluded in Santiago, the major industrialised countries, apart from the United States of America and Canada, had introduced preference schemes for developing countries. Canada at Santiago announced its intention to do so and is in the process of implementing that decision. The United States of America stated that it would introduce such a scheme at some future date when Congressional approval would be likely to be forthcoming. Australia has had strong reservations about an "across the board" approach to tariff reductions because of the difference in size and stage of development of its manufacturing sector in comparison to those of Japan or the E.E.C.¹⁸ As Mr Duthie put it - "Our secondary industries are nowhere near as big or as integrated, or as efficient, if that is the word, as those of Japan and the E.E.C."¹⁹ If it is true that "Australia has a profound interest in the equitable working of the world's economic system",²⁰ then perhaps some greater degree of sacrifice will be required.

17. Transcript, p.589.

18. *ibid*, p. 577.

19 *ibid*.

20 The Hon.Nigel Bowen, Statement on Australian Foreign Aid, H. of R. Hansard, 21 September 1972 page 1749ff.

5.2.7. Professor Hogan, of the University of Sydney, suggested a policy alternative, that of adjustment assistance, to the Sub-Committee:

"If levels of protection are to be reduced, adjustment assistance schemes for re-training and relocation of workers are essential to the spirit as well as the success of the policy. If the economy gains significantly from the transfer of resources, those most affected by the change must be compensated out of these overall gains. This feature points to the inadequacy of international comparisons of aid flows. An economy which spends resources on the re-training of its work force and the adapting of its industrial structure to changing external circumstances is contributing at least as much to developing countries as governments dispensing funds directly to such countries.

One policy alternative open to the Australian authorities would be to combine the provision of adjustment assistance with a foreign aid programme.....

Adjustment assistance to Australian-owned firms could be directed to the shifting of some labour-intensive activities from Australia to specific neighbouring economies. But this policy would have to be supported by trade agreements permitting the offering of preferred entry to products from these economies. The basis of this policy would be founded in the general systems of preference negotiated through UNCTAD." 21

This suggestion opened a veritable Pandora's Box of political and economic problems which the Sub-Committee was unable to examine in any depth. It does appear that there may be long term merit in the suggestion although this would need to be carefully assessed as to the benefits to the developing countries and the costs to Australia.

3. INVESTMENT:

5.3.1. Australian aid is linked to direct overseas private investment by Australian companies in two ways: first, in specific cases by the use of aid projects in conjunction with investment projects as in the case of the Tjilatjap project in Indonesia, where some infrastructure works will be carried out to facilitate the proposed industrial estate there.²² Second, insofar as goods exported under aid open up new markets for

21. Professor Hogan, Development Themes.

22. Other works, including the deepening of the harbour, are being undertaken at Tjilatjap to service the area generally. /93. ...

Australian goods, investment may follow to protect markets thus entered and to avoid tariff walls. In addition, to the degree that E.P.I.C. (being Government-financed) guarantees private investment overseas, this is a government incentive to investment.

5.3.2. Australian direct overseas investment in developing countries has increased rapidly in the last five years.²³ In Asia, it has grown from \$1 million in 1966-67 to \$5.6 million in 1970-71 per annum and seems likely to continue to grow in future in view of the recent relaxations on direct investment overseas. In cumulative terms there is now about \$29 million invested in South East Asia. Two of the criteria taken into account in approving such investments are: the balance of payments situation which is favourable at present, and the investment's contribution to production and marketing in developing countries.²⁴ The Sub-Committee had before it evidence on only that part of investment guaranteed by E.P.I.C. Of these investments, a large majority were joint ventures which appeared to satisfy these criteria.

23. See Table 11.

24. Transcript, p.497.

TABLE 11

AUSTRALIAN DIRECT PRIVATE INVESTMENT-DEVELOPING COUNTRIES
1966/67 to 1970/71 (\$A'000)

| REGION | 1966-67 | 1967-68 | 1968-69 | 1969-70 | 1970-71 |
|----------------------------|---------|---------|---------|---------|---------|
| Asia - | | | | | |
| Hong Kong | 114 | 1059 | 1851 | 499 | 2413 |
| Malaysia | -22 | 1143 | -609 | -1310 | 339 |
| Singapore | 589 | 1181 | 1140 | -165 | 705 |
| Indonesia | .. | 102 | 1159 | 1785 | 1442 |
| Other Asia | 330 | 3595 | 2302 | 1449 | 696 |
| Total Asia | 1011 | 7080 | 5843 | 2258 | 5595 |
| Oceania - | | | | | |
| PNG | 16697 | 19432 | 31969 | 88010 | 29012 |
| Other | 1146 | 2248 | 2366 | 1135 | 2837 |
| Total | 17843 | 21680 | 34335 | 89145 | 31849 |
| Other developing countries | -919 | 2040 | 967 | 2683 | 3419 |
| GRAND TOTAL | 17935 | 30800 | 41145 | 94086 | 40863 |

Source: Bureau of Census and Statistics.

CHAPTER SIX

VOLUNTARY AID

6.1.1 The Sub-Committee received a number of submissions from individuals, from voluntary aid organisations and from other organisations. All submissions were considered, but due to constraints of time the Sub-Committee was able to hear oral evidence from only a representative sample. Several common points of view emerged from these submissions and from evidence heard. Most importantly, it was submitted that while development involved concepts of economic growth, trading opportunities and so on, the most important aspect of development was that it is about people: their basic needs for food, shelter, education and employment. The implication of this was that aid should be centered on the provision of basic amenities for the largest number of people and this would involve a more equitable distribution of resources.¹ In this context it was submitted that less Australian aid should be directed to the modern sectors of developing countries' economies and more to agriculture and social welfare where "grass roots" change could occur.

6.1.2 The voluntary organisations and the Australian Council for Overseas Aid (A.C.F.O.A.) submitted that Australia should try to meet U.N. aid targets for Official Development Assistance, and that more aid should be directed through multilateral agencies because the foreign policy considerations attached to aid had less force in these institutions. On the question of trade, it was suggested that goods from developing countries (including raw materials and processed goods) should have easier access to markets in Australia than at present, that the present tariff preference scheme could be expanded, while measures ought to be taken to assist those industries affected by such moves.

6.1.3 It was suggested that as population growth has perhaps the major problem in developing countries, Australia should assist by granting funds to the U.N. Population Fund or to the International Planned Parenthood Foundation.

1. Transcript of Evidence, p. 923.

6.1.4 Mr W.V. Hinton, from A.C.F.O.A., pointed to the problem of Australians perceiving development in these countries as an image of Western models:

"It is our belief that in government efforts in the last two decades there has been, on too many occasions, an assumption that development aid will lead to the introduction of Western styles of life in the developing countries. We would simply point out that we do not believe this to be so and that, believing it not to be so, we would say that development aid therefore needs to be oriented and structured in ways which are not always obvious to those in the Western donor countries and that the economic and social goals being pursued by the developing country have to be seen as quite distinctive in their processes from those that the Western countries adopt in their economic and social development. We would point also to the fact that participation in development programmes does represent some degree of interference by the donor country and that, for this reason, a great deal of sensitivity is required in the whole operation of the development assistance programme."2

6.1.5 On the general question of administration of aid in Australia, witnesses believed that with Papua New Guinea approaching independence, an autonomous body, responsible to the Minister for Foreign Affairs, should be set up to administer all aid, supported by an Institute for Development Studies (for research) and an Advisory Council of people interested in aid from the community. The aspect of the specialised role of aid administrators was stressed and it was suggested that those controlling aid should be trained in development economics or an allied discipline.

6.1.6 The Sub-Committee inquired into the relationship between the Government and the Voluntary Aid Organisations. The voluntary organisations claimed that the relationship could be improved in a number of ways. They believed that the Government should support education programmes in Australia on development and aid, as it was only through these that an informed public opinion could be created. It was submitted that the refusal of the Government to grant tax concessions for donations to voluntary organisations placed them at a disadvantage, vis-a-vis domestic charities, and

gave the public the impression that the Government did not approve of their activities.³ The Sub-Committee was told that voluntary aid organisations were disadvantaged particularly in relation to donations from large companies. It was argued that many other countries gave tax relief of this kind, and that concessions could be related to particular projects or to donations of a certain size.

6.1.7 Witnesses from the Treasury estimated that the cost of tax concessions would be about one quarter to one third of the total contributed (which was some \$16 million in 1971) although it was impossible to give a precise figure because of the differences in income tax rates.⁴ Dr Whitelaw from the Treasury explained the policy:

"In terms of Government policy this matter has come up many times and the attitude that the Government has taken has been that it is not prepared to make this particular tax concession. The Government makes a contribution to aid and this contribution is assessed each year at Budget time on the basis of various considerations. To the best of its ability the Government estimates what the contribution out of revenue will be. One of the arguments why the Government has not in the past been anxious to get involved in these concessions is that this is a gradual process which can erode the taxation base. It can result in a contribution by Australia in general to some specific purpose which is not readily estimable in terms of cost."⁵

6.1.8 Mr Parsons, from the Department of Foreign Affairs, told the Sub-Committee that before 1967 some Government assistance had been given to voluntary organisations for projects. He explained why this practice had been discontinued:

"Our experience was that this sort of project raised many practical difficulties. There was always a tendency for giving this sort of assistance to generate other requests which would lead to projects which became almost solely reliant on official aid. The thing grew rather like Topsy. It became fairly uncontrollable and tended very quickly to drift away from the main intention of the voluntary effort. I think the conclusion was reached that there was considerable merit in making a fairly watertight division between private aid, which we thought should

3. Transcript, p. 856.

4. *ibid*, p. 790.

5. *ibid*, p. 791.

be completely self-reliant, and the use of official aid funds being limited pretty much to official development purposes in recipient countries."6

6.1.9 It was also pointed out that in 1970-71 the Government had given A.C.F.O.A. \$16,000 to subsidise its administrative expenses.⁷ The witnesses from voluntary organisations told the Sub-Committee that other countries, particularly Canada, gave funds for voluntary projects on a matching basis, and it was argued that social objectives of development could be achieved more effectively through such arrangements. Mr Morrison of the Sub-Committee asked:

"Mr Morrison - Would you see this as the basic role for the voluntary agencies, to undertake tasks which governments because of the curious situations in which they are involved cannot directly bring about changes within another country? In terms of social justice, income redistribution and social welfare work for particular minorities which may not be acceptable to governments or which governments have ignored in the past, do you see this as the fundamental role of the voluntary agencies in an aid programme?

Mr Hinton - Yes, I do. I would also emphasise that voluntary agencies at many points have the opportunities to take risks, to experiment, to do things that perhaps more formal agencies cannot do because of the constituency they have or because of the responsibilities they have."<8

6.1.10 The Committee believed that the role of voluntary agencies within Australia and in development overseas was significant. Within Australia, they represent the core of public awareness of these problems and frequently act as a public conscience and a spur to government action. In developing countries their emphasis on people to people projects, their flexibility and their ability to act in circumstances where the government cannot, brings important benefits in a process which frequently appears impersonal to people both in developing and developed countries.

6. Transcript, p. 420.

7. ibid, p. 422.

8. ibid, pp. 875-876.

6.1.11 The principal Conclusions and Recommendations of the Committee are to be found on pages (iv) to (ix) at the front of the Report.

H. B. TURNER

Chairman

Canberra,

24 October 1972.

A P P E N D I C E S

- A. List of Witnesses.
- B. Budget Statement No. 8, 1972-73.
- C. Allocation of Multilateral Funds.
- D. Administrative Costs of Australian Aid.
- E. Glossary.

(a)

APPENDIX A

LIST OF WITNESSES AND THEIR DESIGNATIONS
AT THE TIME OF GIVING EVIDENCE

BESLEY, MR M.A., First Assistant Secretary, Central Secretariat Division, Department of External Territories.

BRECHER, PROFESSOR I., Department of Economics, McGill University, Quebec, Canada, and Visiting Fellow, Research School of Pacific Studies, Australian National University.

BYRNE, MR W.C., National Executive Director, Australian Catholic Relief.

COTSELL, MR G., Chief Migration Officer, Students Section, Department of Immigration.

DUTHIE, MR L.P., First Assistant Secretary, Export Services Division, Department of Trade and Industry.

FERGUSON, DR I.S., Senior Lecturer, Department of Forestry, Australian National University.

FLORENCE, DR R.G., Senior Lecturer, Department of Forestry, Australian National University.

HEINRICH, MR H.G., Assistant Secretary, International Relations Branch, Overseas Economic Relations Division, Department of the Treasury.

HINTON, MR W.V., Hon. Secretary, Australian Council for Overseas Aid.

HINTON, MR W.V., Executive Secretary of the Joint Secretariat on Action for World Development.

HOGAN, PROFESSOR W.P., Professor of Economics, Sydney University.

LLOYD, MR A.W., Assistant Secretary, Marketing, Grains and Miscellaneous Crops Branch, Department of Primary Industry.

LOVEGROVE, DR M.N., Reader, Centre for Comparative and International Studies in Education, La Trobe University.

MCMAULEY, MR J.P., Hon. Federal Treasurer, United Nations Association of Australia.

MCCLINTOCK, MR E.P., Chairman, Export Development Council.

MCGINNESS, MR H., First Assistant Secretary, Department of Immigration.

MICHELL, MR F.C., Chairman, Crooks, Michell, Peacock and Stewart, Consulting Engineers.

(b)

O'BRYAN, MR J.F., Assistant Secretary, Marketing, Livestock Division, Department of Primary Industry.

OVINGTON, PROFESSOR J.D., Head of Department of Forestry, Australian National University.

PARSONS, MR A.R., First Assistant Secretary, Development Division, Department of Foreign Affairs.

PERCIVAL, MR G.M., Acting Assistant Secretary, External Relations Branch, Department of Primary Industry.

PRIOR, REV. A.C., National Director, Austcare.

ROLFE, MR E.S., Director, National Training Section, Department of Education and Science.

SHEEHAN, MR B., Chairman, Centre for Comparative and International Studies in Education, La Trobe University.

SHEPHERD, DR K.R., Senior Lecturer, Department of Forestry, Australian National University.

SMITH, MR A.P., National Executive Officer, Australian Freedom From Hunger Campaign.

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WANG, PROFESSOR GUNG WU, Professor of Far Eastern History, Australian National University.

WEBB, MR J.B., Director, Community Aid Abroad.

WHITELAW, DR R.J., First Assistant Secretary, Overseas Economic Relations Division, Department of the Treasury.

WOLFSOHN, PROFESSOR H.A., Professor of Politics, La Trobe University.

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(c)
APPENDIX B
STATEMENT No. 8—EXTERNAL AID

As indicated in the table on the next page, a total of \$220,066,000 has been provided for expenditure on economic aid to developing countries in 1972-73. This is \$20,262,000, or 10.1 per cent, greater than actual expenditure in 1971-72.

The totals shown in this table differ from those quoted in Statement No. 4—Estimates of Expenditures, 1972-73 by virtue of the inclusion of direct expenditures of an economic nature by various Commonwealth Departments and instrumentalities in or in connexion with Papua New Guinea (which are subsumed under other headings in the Budget); the inclusion of the voluntary contribution which Australia makes towards the technical assistance activities of the International Atomic Energy Agency; the exclusion of expenditures on the training of military personnel under Special Aid to the Khmer Republic; and the exclusion of expenditures relating to developed countries under the Commonwealth Co-operation in Education Scheme.

Multilateral Aid

Expenditures on multilateral aid programmes are estimated to increase by \$6,201,000 to a total of \$17,901,000 in 1972-73.

Although the agreement governing the third replenishment of the resources of the International Development Association has still not entered into effect, calls on Australia's previous contributions to the Association, including the voluntary contribution of \$US16 million made in November 1971, are expected to total \$8,398,000 this year, or \$1,534,000 more than in 1971-72. An amount of \$3,036,000 has been provided in the Budget to meet the first instalment of the paid-in portion of the proposed increase in Australia's subscription to the capital stock of the Asian Development Bank as set out in the Asian Development Bank (Additional Subscription) Bill now before Parliament: no similar payment was made in 1971-72. Total calls on Australia's existing contribution to the Multi-Purpose Special Fund of the Asian Development Bank and a proposed further contribution of \$US250,000 to its Technical Assistance Special Fund this year are together expected to result in expenditures \$1,223,000 greater than in 1971-72. The estimates also provide for increases in Australia's pledges to the U.N. Children's Fund, the U.N. High Commission for Refugees and the U.N. Development Programme in 1973. The estimated increase of \$283,000 in expenditure on the International Rice Research Institute at Los Banos in the Philippines in 1972-73 relates to the design, purchase and installation of a phytotron to assist research activities at the Institute.

Bilateral Aid (excluding Papua New Guinea)

Expenditures on bilateral aid programmes (excluding bilateral aid to Papua New Guinea) are estimated to increase by \$6,042,000 to a total of \$57,446,000 in 1972-73.

The provision for expenditure on multifarious aid projects undertaken in developing countries in South and South East Asia under the Colombo Plan will be increased by \$5,271,000, while that for the training of overseas students and officials from these countries in Australia will be \$423,000 greater than in 1971-72. Special Aid to Indonesia, which is basically used to finance ad hoc gifts of commodities, Devisa Kredit (D.K.) aid and the costs of shipping to Indonesia the large quantities of wheat and flour given to that country as part of Australia's commitment under the Food Aid Convention of the International Wheat Agreement, will be increased by \$2,051,000 to \$12 million in 1972-73 to complete the current three-year aid commitment to that country. Plans are underway for the CSIRO to help establish a major animal husbandry research institute in Indonesia in the near future.

In all, bilateral aid worth more than \$20 million will be provided to Indonesia in 1972-73, compared with \$17,824,000 in 1971-72, making that country by far the largest recipient of aid from Australia at the present time, excluding Papua New Guinea.

Expenditures on the South Pacific Aid Programme and the Commonwealth Co-operation in Education Scheme are estimated to increase by \$604,000 and \$152,000, respectively, in 1972-73 in accordance with the programme to provide a total of \$15 million in bilateral aid to developing countries in the South West Pacific in 1972-73 and the following three financial

(d)

years. Fiji is expected to be the major recipient. A total of \$2 million, or \$485,000 more than in 1971-72, will be provided for Rehabilitation and Relief Aid to Bangladesh in 1972-73;

| | 1971-72 Actual | 1972-73 Estimated | +Increase -Decrease on 1971-72 |
|--|-------------------|----------------------|--------------------------------------|
| | \$'000 | \$'000 | \$'000 |
| Multilateral | | | |
| International Development Association | 6,864 | 8,398 | + 1,534 |
| Asian Development Bank—Capital Subscription .. | .. | 3,036 | + 3,036 |
| Asian Development Bank—Special Fund Contributions .. | 662 | 1,885 | + 1,223 |
| UN Development Programme | 1,735 | 1,850 | + 115 |
| UN High Commission for Refugees | 175 | 188 | + 13 |
| UN Relief and Works Agency | 180 | 180 | .. |
| UN Children's Fund | 550 | 558 | + 8 |
| World Food Programme | 843 | 880 | + 37 |
| South Pacific Commission | 331 | 343 | + 12 |
| Regional Projects for Economic Co-operation in Asia .. | 103 | 140 | + 37 |
| International Red Cross | 35 | 20 | - 15 |
| World Meteorological Organization—World Weather Watch .. | 50 | 10 | - 40 |
| ASPAC Registry of Scientific and Technical Services .. | 73 | 57 | - 16 |
| ASPAC Food and Fertiliser Technology Centre | 26 | 26 | .. |
| International Rice Research Institute | 17 | 300 | + 283 |
| International Trade Centre | 31 | 5 | - 26 |
| International Atomic Energy Agency—Technical Assistance .. | 25 | 25 | .. |
| Total Multilateral | 11,700 | 17,901 | + 6,201 |
| Bilateral (excluding Papua New Guinea) | | | |
| Colombo Plan | | | |
| Projects, Experts and Equipment | 11,245 | 16,516 | + 5,271 |
| Training | 6,007 | 6,430 | + 423 |
| Special Aid to Indonesia | 9,949 | 12,000 | + 2,051 |
| Special Aid to South Vietnam | 110 | .. | - 110 |
| Special Aid to Khmer Republic | 1,196 | 1,330 | + 134 |
| International Wheat Agreement—Food Aid Convention .. | 11,788 | 11,600 | - 188 |
| SEATO Aid Programme | 1,999 | 2,000 | + 1 |
| India Waters Scheme | 2,021 | 1,400 | - 621 |
| Foreign Exchange Operations Fund—Laos | 643 | 643 | .. |
| Special Commonwealth African Assistance Plan | 548 | 610 | + 62 |
| Commonwealth Co-operation in Education Scheme .. | 790 | 942 | + 152 |
| South Pacific Aid Programme | 996 | 1,600 | + 604 |
| Australian International Awards Scheme | 47 | 70 | + 23 |
| Disaster Relief | 50 | 75 | + 25 |
| Australian/Asian University Aid and Co-operation Scheme .. | 200 | 230 | + 30 |
| Emergency Relief for Pakistan Refugees | 2,300 | .. | - 2,300 |
| Rehabilitation and Relief Aid for Bangladesh | 1,515 | 2,000 | + 485 |
| Total Bilateral | 51,404 | 57,446 | + 6,042 |
| Total Multilateral and Bilateral | 63,104 | 75,347 | + 12,243 |
| Papua New Guinea | | | |
| Grant-in-aid | 30,000 | 30,000 | .. |
| Development Grant | 39,875 | 48,500 | + 8,625 |
| Allowances and Other Benefits for Overseas Officers .. | 38,294 | 42,800 | + 4,506 |
| Drawings on Arawa Loan | 11,700 | .. | - 11,700 |
| Repayable Advance for purchase of shares in Commonwealth New Guinea Timbers Ltd(a) | .. | 3,000 | + 3,000 |
| Special Assistance to facilitate transfer of functions to Administration(b) | .. | 3,500 | + 3,500 |
| Miscellaneous budget items and other direct expenditure in Papua New Guinea | 16,851 | 16,939 | + 88 |
| Total Papua New Guinea | 136,720 | 144,739 | + 8,019 |
| Total | 199,824 | 220,086 | + 20,262 |

(a) To the extent that these expenditures relate to the purchase of Commonwealth assets in Papua New Guinea their effects on the Budget in 1972-73 will be offset by equivalent receipts.

in addition, at least \$2 million worth of food aid in the form of wheat or flour will be provided to that country this year. Finally, the provision for Special Aid to the Khmer Republic has been increased, by \$134,000 to cover the cost of supplying earthmoving machinery, telecommunications equipment and other aid items to that country, as well as the pledge by Australia to contribute \$US1 million in 1972 to the Exchange Support Fund which was recently set up to help stabilise the Khmer economy. Other aid will also be provided to the Khmer Republic under the Colombo Plan in 1972-73.

Offsetting these increases to some extent, there will be reductions of \$621,000 in estimated calls during 1972-73 on Australia's contribution to the Indus Basin Development Fund; of \$188,000 in the provision for Australia's food aid commitment under the International Wheat Agreement, reflecting the fact that slightly more than 225,000 metric tons of wheat or flour equivalent was shipped in 1971-72 with consequential savings this year; of \$2,300,000 in Emergency Relief for East Pakistan Refugees in India, since this item is no longer required following the cessation of hostilities and the return of the refugees to their homes; and of \$110,000 in Special Aid to South Vietnam, since the project for which this item was originally created (viz. the construction of houses for dependants of members of the Regional and Popular Forces in Phuoc Tuy province) has now been completed—other aid will, of course, continue to be provided to South Vietnam under the Colombo Plan and SEATO Aid programme in 1972-73.

Papua New Guinea

Normal grant aid to the Administration of Papua New Guinea will be increased by \$13,131,000, or 12.1 per cent, to a total of \$121,300,000 in 1972-73.

The basic Grant-in-aid will remain constant at \$30 million but the Development Grant will be \$8,625,000 greater and the provision for Allowances and Other Benefits for Overseas Officers employed in the Papua New Guinea Public Service will be increased by \$4,506,000 to permit an expansion in recruitment and also allow for the flow-on effects of recent wage increases granted in Australia. There will be no payments in respect of the Arawa loan in 1972-73 as this was fully drawn last year. However, an interest-free loan of \$3 million repayable over 15 years including a grace period of three years will be provided to the Administration in 1972-73 to enable the Papua New Guinea Investment Corporation to purchase the shares in Commonwealth New Guinea Timbers Ltd (a plywood manufacturing concern at Bulolo) which were previously held by the Commonwealth. In addition, special financial assistance estimated at \$3,500,000 will be provided to the Administration this year to enable it to take over the functions previously performed in Papua New Guinea by certain Commonwealth Departments and instrumentalities which are being withdrawn as the move towards self-government and eventual independence proceeds: a large part of this amount will be devoted to the purchase of Commonwealth assets in Papua New Guinea. The provision for on-the-job training of Papua New Guineans in Australia has been increased by \$212,000 to a total of \$450,000 in 1972-73 and a further \$500,000, or \$414,000 more than in 1971-72, has been provided for the training of Papua New Guineans in administrative principles and procedures etc., at the Australian School of Pacific Administration (ASOPA), which was recently adapted for this purpose. Finally, expenditure on flying training scholarships for indigenous pilots in Papua New Guinea is estimated to be \$50,000 greater in 1972-73.

Other Aid Expenditures

No allowance has been made in the foregoing table for the large subventions which the Commonwealth and State Governments provide each year for various educational institutions in Australia which are attended by several thousand overseas students, most of whom come from developing countries. The imputed costs involved in this 'hidden aid subsidy' are estimated to exceed \$10 million per annum at the present time.

Similarly, the figures in the table do not allow for the fact that parts of Australia's contributions to the regular budgets of a number of international organisations (included elsewhere in the Budget) are used to finance aid projects in developing countries—the annual amounts involved here are currently estimated to approach \$1 million.

Nor has any allowance been made for the costs incurred in administering Australia's various external economic aid programmes. In all, these costs, which are subsumed in Departmental Running Expenses, are tentatively estimated to be about \$8 million per annum at the present time.

Defence Aid

Australia is also providing increasingly large amounts of defence aid to developing countries in South East Asia, not counting expenditures directly related to the presence of Australian forces in certain of those countries.

In 1972-73, for example, in addition to the substantial amounts being expended to develop Papua New Guinea's Defence Force, a total of \$13,547,000 will be provided for defence aid and co-operation with certain South East Asian countries. This figure includes estimated expenditures on the training of military personnel under Special Aid to the Khmer Republic. The principal recipients will be Malaysia, \$6,200,000; Indonesia, \$3,800,000; South Vietnam, \$2,164,000; and Singapore, \$963,000. An amount of \$250,000 has also been provided for military training in Australia of personnel from other countries.

To the extent that this defence aid releases domestic resources that the recipient countries would otherwise have used for the same purpose, it may indirectly help them to achieve faster rates of economic growth and development.

HISTORICAL GROWTH IN EXTERNAL ECONOMIC AID

The following table summarises the growth in expenditures on economic aid to developing countries, including Papua New Guinea, since 1962-63.

| | Multilateral Programmes | Bilateral Programmes | Papua New Guinea | Total |
|--------------------------|-------------------------|----------------------|------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 1962-63 | 10,058 | 14,897 | 49,782 | 74,737 |
| 1963-64 | 10,672 | 14,029 | 61,098 | 85,799 |
| 1964-65 | 5,159 | 24,136 | 67,998 | 97,293 |
| 1965-66 | 8,018 | 25,719 | 75,167 | 108,904 |
| 1966-67 | 12,571 | 28,169 | 83,784 | 124,524 |
| 1967-68 | 14,001 | 34,251 | 91,645 | 139,897 |
| 1968-69 | 12,712 | 37,489 | 99,376 | 149,577 |
| 1969-70 | 10,558 | 40,148 | 115,475 | 166,181 |
| 1970-71 | 11,458 | 43,274 | 121,968 | 176,700 |
| 1971-72 | 11,700 | 51,404 | 136,720 | 199,824 |
| 1972-73 Estimate | 17,901 | 57,446 | 144,739 | 220,086 |

AUSTRALIA'S RELATIVE AID PERFORMANCE

International comparisons of aid performances by different donor countries are subject to numerous reservations because of conceptual problems and statistical difficulties. Some of these were outlined in Statement No. 8 attached to the 1971-72 Budget Speech.

Nevertheless, leaving defence aid on one side as this does not necessarily contribute to economic growth and well-being in recipient countries, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development regularly publishes data on this subject in an attempt to provide some measure of burden-sharing and to compare the relative aid efforts by its member countries, including Australia, in helping to raise living standards in developing countries.

The following table compiled by the DAC shows the performance of member countries in recent years in terms of the net flow of total official and private resources to developing countries expressed as a percentage of Gross National Product. On the basis of that yardstick, Australia, with a provisional figure of 1.27 per cent in 1971 (compared with 1.22 per cent in 1970) is currently ranked third in the world. However, as the figures for Australia itself and for other countries confirm, such flows can and do fluctuate widely from year to year, largely for reasons beyond the influence and control of governments. In Australia's case, for example, the sharp jump in the figures for 1970 and 1971 resulted principally from the large private capital flows to Papua New Guinea associated with the Bougainville copper project and from a substantial growth in private export credits, primarily related to wheat sales to developing countries, much of which has been officially insured. For reasons which are well illustrated by these examples, this method of assessing relative aid performances leaves much to be desired.

NET FLOW OF TOTAL OFFICIAL AND PRIVATE RESOURCES TO DEVELOPING COUNTRIES AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

| Countries | 1968 | 1969 | 1970 | 1971 |
|------------------------|----------|----------|----------|----------|
| | Per cent | Per cent | Per cent | Per cent |
| Australia | 0.73 | 0.74 | 1.22 | 1.27 |
| Austria | 0.65 | 0.63 | 0.67 | 0.56 |
| Belgium | 1.17 | 1.12 | 1.23 | 1.03 |
| Canada | 0.46 | 0.50 | 0.76 | 0.82 |
| Denmark | 0.67 | 1.08 | 0.55 | 0.80 |
| France | 1.35 | 1.22 | 1.24 | 1.02 |
| Germany | 1.23 | 1.32 | 0.80 | 0.88 |
| Italy | 0.73 | 1.03 | 0.73 | 0.85 |
| Japan | 0.74 | 0.76 | 0.93 | 0.96 |
| Netherlands | 1.09 | 1.31 | 1.46 | 1.63 |
| Norway | 0.65 | 0.77 | 0.59 | 0.51 |
| Portugal | 0.95 | 1.71 | 1.07 | 1.56 |
| Sweden | 0.50 | 0.75 | 0.70 | 0.69 |
| Switzerland | 1.41 | 0.64 | 0.67 | 0.93 |
| United Kingdom | 0.74 | 1.04 | 1.06 | 1.14 |
| United States | 0.63 | 0.52 | 0.64 | 0.67 |
| DAC Average | 0.80 | 0.75 | 0.80 | 0.80 |

Note: The figures for 1970 and 1971 include estimated contributions by voluntary aid organizations and are, to that extent, not strictly comparable with those for earlier years.

A far more meaningful way of assessing relative aid performances is to compare only the *official development assistance* provided by each donor country expressed as a percentage of Gross National Product. This concept excludes private investment flows as well as export credits (whether official or private) extended to developing countries and contributions by voluntary aid organizations, etc. It has certain deficiencies, from the point of view of a grant aid donor like Australia, in that it still lumps grants and loans together as if they were the same—which, of course, they are not—and fails to deduct interest payments by developing countries. Nevertheless, it is widely used as a measure of burden-sharing, etc. at the present time.

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On this basis, Australia ranked fourth in the world in 1971 with a figure of 0.52 per cent. Comparable figures for all DAC countries in each year since 1968 are shown in the following table:—

**NET OFFICIAL DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES
AS A PERCENTAGE OF GROSS NATIONAL PRODUCT**

| Countries | 1968 | 1969 | 1970 | 1971 |
|------------------------|-----------|-----------|-----------|-----------|
| | Per cent. | Per cent. | Per cent. | Per cent. |
| Australia | 0.57 | 0.56 | 0.59 | 0.52 |
| Austria | 0.20 | 0.12 | 0.13 | 0.06 |
| Belgium | 0.42 | 0.51 | 0.48 | 0.49 |
| Canada | 0.26 | 0.34 | 0.42 | 0.37 |
| Denmark | 0.23 | 0.39 | 0.38 | 0.43 |
| France | 0.67 | 0.68 | 0.68 | 0.68 |
| Germany | 0.41 | 0.38 | 0.32 | 0.34 |
| Italy | 0.19 | 0.16 | 0.16 | 0.17 |
| Japan | 0.25 | 0.26 | 0.23 | 0.23 |
| Netherlands | 0.49 | 0.51 | 0.63 | 0.60 |
| Norway | 0.29 | 0.30 | 0.32 | 0.33 |
| Portugal | 0.54 | 1.02 | 0.61 | 0.75 |
| Sweden | 0.28 | 0.43 | 0.36 | 0.45 |
| Switzerland | 0.14 | 0.16 | 0.15 | 0.12 |
| United Kingdom | 0.40 | 0.39 | 0.37 | 0.41 |
| United States | 0.37 | 0.33 | 0.31 | 0.32 |
| DAC Average | 0.38 | 0.36 | 0.34 | 0.35 |

The apparent deterioration in Australia's performance in 1971 resulted from a bunching of expenditures in the previous year which had the effect of distorting the underlying trend. Thus, the comparable figure for the financial year 1971-72 was 0.56 per cent. There seems little doubt that the figure for Australia in 1972 will be higher than that for 1971, given the further increases in aid which have been provided for in the Budget.

In addition to volume, increasing emphasis is now also being placed on international comparisons of the terms on which official development assistance is provided, in view of the serious external debt servicing problems which many developing countries face at the present time.

Australia's aid has always been provided on extremely 'soft' terms. Indeed, until a few years ago it was all given in grant form. Early in 1970, however, a loan of \$20 million on concessional terms was approved for the Administration of Papua New Guinea to help finance the construction of a new township at Arawa in connexion with the Bougainville copper project. As previously mentioned in this Statement, a further loan of \$3 million will be provided to the Administration in 1972-73.

Currently, Australia ranks first in the world with regard to the terms of its aid.

LIST OF MULTILATERAL AID ORGANISATIONS AND FUNDS, GEOGRAPHIC ALLOCATIONS

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | |
|---|--|----------------------------------|--------------------------------|------------------|--------------------|--|---------------------|--------------------|
| | | | Total \$US\$ % | S. Asia \$US\$ % | S.E. Asia \$US\$ % | N.E. Asia \$US\$ % | S. Pacific \$US\$ % | E. Africa \$US\$ % |
| International Bank for Reconstruction and Development | Development lending to (mainly) developing members and associated technical assistance | 530.0 2.3 ⁽¹⁾ | 16,089.5 | 2,340.0 14.6 | 1,032.6 6.2 | 597.1 3.2 | 46.5 0.3 | 582.1 3.5 |
| | | | 1,886.4 | 105.0 0.7 | 88.6 4.7 | 154.5 8.1 | 35.0 1.8 | 133.3 7.0 |
| | | | | | | (Cumulative net IFD loans at 31.6.71) | | |
| | | | | | | (Principal of IFD loans signed in 1970-71) | | |
| International Development Association | Soft-term development lending and associated technical assistance to lowest income members | 64.0 2.2 ⁽²⁾ | 3,300.4 | 2,043.4 61.2 | 271.4 8.8 | 78.0 2.3 | 11.0 0.3 | 251.1 7.8 |
| | | | 584.4 | 238.9 51.1 | 95.9 16.4 | 7.0 1.2 | - | 68.5 1.2 |
| | | | | | | (Cumulative net IDA credits at 31.6.71) | | |
| | | | | | | (Principal of IDA credits signed in 1970-71) | | |
| International Finance Corporation | Financing productive enterprises in (mainly) developing members by loans or purchase of equity | 2.2 2.1 ⁽³⁾ | 272.1 | 50.0 18.4 | 50.5 18.6 | 16.2 6.0 | - | 22.7 8.3 |
| | | | 101.4 | 4.5 4.4 | 31.3 29.9 | 2.6 2.6 | - | 0.6 0.6 |
| | | | | | | (Value of IFC loans extended and equity purchased in 1971) | | |
| Asian Development Bank | Ordinary or Special Funds (soft) loans and associated technical assistance to developing members | 85.0 7.4 ⁽⁴⁾ | 531.3 | 62.0 11.8 | 232.9 44.0 | 228.6 43.0 | - | - |
| | | | 202.5 | 4.2 2.0 | 97.9 48.3 | 100.5 49.6 | - | - |
| | | | | | | (Cumulative net ADB Ordinary loans at 31.12.71) | | |
| | | | | | | (Principal of ADB Ordinary loans approved in 1971) | | |
| | | 10.0 5.6 ⁽⁵⁾ | 107.2 | 31.4 29.3 | 68.6 64.0 | - | 7.7 7.2 | - |
| | | | 51.5 | 8.1 15.7 | 38.6 74.9 | - | 4.8 9.4 | - |
| | | | | | | (Cumulative net ADB Special Funds loans at 31.12.71) | | |
| | | | | | | (Principal of ADB Special Funds loans approved) | | |
| Caribbean Development Bank (limited membership) | Ordinary or Special Funds (soft) loans and associated technical assistance to developing members | - | 7.2 | - | - | - | - | - |
| | | | | | | (Carib. Bank loan commitments from July 1971) | | |

- NOTES
- (1) Percentage of IFD Subscriptions at 31.6.71
 - (2) Percentage of IDA subscriptions and replenishments at 31.6.71
 - (3) Percentage of IFC subscriptions at 31.12.71
 - (4) Percentage of ADB subscriptions at 31.12.71
 - (5) Percentage of contributions pledged to ADB Special Funds at 31.12.71

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | | |
|--|--|--|--------------------------------|----------|-----------|-----------|------------|-----------|---|-------------|
| | | | Total | S. Asia | S.E. Asia | N.E. Asia | S. Pacific | E. Africa | | |
| | | | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | | |
| Inter American Development Bank (United membership except Special Funds) | Development lending on Ordinary and Soft terms and associated technical assistance to developing members | - | 2,016.0 | - | - | - | - | - | - | - |
| | | | | | | | | | (Cumulative net IDB Ordinary and Special Funds loan disbursements to 31.12.71) | |
| African Development Bank (United membership) | Development lending on Ordinary or Soft terms, investment and technical assistance to developing members. | - | 482.0 | - | - | - | - | - | - | - |
| | | | | | | | | | (Net IDB Ordinary and Special Funds loan disbursements in 1971) | |
| European Investment Bank (United membership) | Development lending by EEC members to themselves, their Territories and Associated States. | - | Units of Account 3.2 | - | - | - | - | - | - | 1.2 37.3 |
| | | | | | | | | | (Cumulative net A.E.D.P. Ordinary disbursements to 31.12.70) (N.B. A.E.D.B. has provision for, but actually no Special Funds) | |
| European Development Fund (United membership) | Development loans or grants by EEC members to their Territories and Associated States | - | Units of Account 1,900.0 | - | - | - | - | - | - | 2.0 0.1 |
| | | | | | | | | | (EIB outstanding loans as at 31.12.71) | |
| Commonwealth Programme for Technical Co-operation Voluntary Fund | Grant technical assistance to developing Commonwealth countries and their territories | - | Units of Account 982.0 | - | - | - | - | - | - | 16.0 1.4 |
| | | | | | | | | | (Gross disbursements at 31.12.71) | 122.2 12.4 |
| Special Commonwealth Programme for Rhodesian Africans Outside Rhodesia | Mainly bilateral scholarship programme. One donor (Canada) has granted funds under control of Commonwealth Secretariat | - | 0.075 | - | - | - | - | - | - | 0.075 100.0 |
| | | | | | | | | | (Canadian grant 1972) | |
| International Planned Parenthood Federation | Grants to family planning programmes | - | 15.2 | 1.8 | 12.0 | 1.7 | 10.9 | 0.6 | 4.1 | 0.007 0.4 |
| | | | | | | | | | (IPPF estimated expenditure 1971) | 0.7 4.8 |
| Organisation of American States (United) | Grant technical assistance to American developing members | - | 19.0 | - | - | - | - | - | - | - |
| International Centre for Advanced Mediterranean Agronomic Studies | Grants for research by three research institutes in Spain, France and Italy | - | (Fr. Fr) 7.4% | - | - | - | - | - | - | - |
| | | | | | | | | | (Estimated OAS expenditure on assistance programmes in 1970-71) | |
| | | | | | | | | | (Mediterranean Centre expenditure in 1971) | |

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | | | | | |
|---|---|---|--------------------------------|--|-----------|-------|-----------|------|------------|------|-----------|-------|------|
| | | | S. Asia | | S.E. Asia | | M.E. Asia | | S. Pacific | | E. Africa | | |
| | | | \$US\$ % | % | \$US\$ % | % | \$US\$ % | % | \$US\$ % | % | \$US\$ % | % | |
| GATT/UNICHO International Trade Centre | Grants for training and technical assistance in export promotion and marketing | 0.03 ⁽¹⁾ (ad hoc contribution 1972) | 1.3 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| United Nations Development Programme | Grant technical assistance and pre-investment surveys | 2.0 0.8 ⁽¹⁾ | 1,184.4 | 140.8 | 12.0 | 98.9 | 7.6 | 30.3 | 2.6 | 8.9 | 0.6 | 104.9 | 9.0 |
| | | | | (Cumulative Special Fund allocations to 31.12.70) | | | | | | | | | |
| | | | 53.0 | 9.5 | 18.0 | 7.0 | 13.2 | 0.2 | 0.4 | 1.2 | 2.4 | 6.1 | 11.5 |
| | | | | (Special Fund approvals in 1971) | | | | | | | | | |
| | | | 1,275.0 | 171.0 | 13.0 | 122.5 | 9.6 | 35.5 | 2.8 | 18.5 | 1.5 | 116.0 | 9.1 |
| | | | | (UNEP Indicative Planning Figures 1972-76) | | | | | | | | | |
| World Food Programme | Grant food for payment in kind on development projects and for feeding programmes including emergencies | 7.1 1.0 ⁽²⁾ | 1,084.2 | 119.5 | 11.0 | 50.7 | 4.7 | 35.6 | 3.3 | 81.0 | 7.5 | 99.3 | 5.5 |
| | | | | (WFP Commitments approved January 1966 - April 1972) | | | | | | | | | |
| | | | 87.7 | 6.4 | 7.3 | 2.8 | 3.2 | 0.4 | 0.5 | - | - | 11.3 | 12.9 |
| | | | | (WFP commitments approved in 1971) | | | | | | | | | |
| United Nations Children's Fund | Aid for schools and other children's facilities and for emergencies (grants) | 0.6 1.5 ⁽³⁾ | 77.5 | 24.5 | 31.6 | 6.7 | 8.6 | 2.0 | 2.6 | 1.1 | 1.5 | 5.4 | 7.0 |
| | | | | (UNICEF programme disbursements in 1970) | | | | | | | | | |
| United Nations High Commissioner for Refugees | Rehabilitation and resettlement of refugees (grants) | 0.2 3.2 ⁽⁴⁾ | 11.4 | 1.0 | 8.5 | 1.2 | 10.3 | 0.8 | 7.2 | - | - | 5.1 | 44.4 |
| | | | | (UNHCR programme disbursements in 1970) | | | | | | | | | |
| United Nations Relief and Works Agency | Grant rehabilitation of Palestinian refugees | 0.2 0.05 ⁽⁵⁾ | 48.0 | - | - | - | - | - | - | - | - | - | - |
| | | | | (UNRWA expenditure in 1970) | | | | | | | | | |

NOTES (1) Percentage of UNDP donor governments' pledges in 1972.

(2) Percentage of cumulative WFP pledges to 31.12.71

(3) Percentage of UNICEF donor governments' contributions in 1970.

(4) Percentage of UNHCR donor governments' contributions in 1970.

(5) Percentage of UNRWA donor governments' contributions in 1970.

... Indicates geographic breakdown is not available.

| Name of Organisation or Fund | Purpose and Functions | Geographic Distribution of Aid | | | | | | | | | |
|--|--|-------------------------------------|----------|--|-----------|----------|-----------|----------|------------|----------|-----------|
| | | Australian Contribution \$US\$ % | S. Asia | | S.E. Asia | | M.E. Asia | | S. Pacific | | E. Africa |
| | | | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | \$US\$ % | |
| United Nations Industrial Development Organisation (Special Industrial Services Fund and General Trust Fund) | Grant technical assistance for industrial development | - | 4.5 | 0.3 6.7 | 0.3 6.7 | 0.1 2.2 | 0.04 0.9 | 0.1 2.9 | - | - | 0.7 54.8 |
| | | | | (UNIDO Special Industrial Services Fund disbursements in 1971) | | | | | | | |
| | | | 1.3 | 0.02 1.5 | - | - | - | - | - | - | |
| | | | | (UNIDO General Trust Fund disbursements in 1971) | | | | | | | |
| United Nations Institute for Regional Development | Grant seminars and courses in development administration | - | 0.6 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UNIRD Expenditure in 1971) | | | | | | | |
| United Nations Trust Fund for Development Planning and Projections | Grants to improve UN and specialized activities in field of development planning (Netherlands and Canadian grants) | - | 1.2 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UN Development Planning Fund expenditure in 1970) | | | | | | | |
| United Nations Research Institute for Social Development | Research into economic and social factors in development and social planning (mainly Netherlands grants) | - | 0.4 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UNRISD expenditure in 1970) | | | | | | | |
| United Nations Social Science Research Institute and Trust Fund | Research into methods of protecting society from social problems (Italy and Sweden are main donors on grant basis) | - | 0.2 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UNSSRI expenditure in 1970) | | | | | | | |
| United Nations Trust Fund for Social Development | Swedish grant for two projects in social field | - | 0.1 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UN Social Development Fund expenditure in 1970) | | | | | | | |
| United Nations Institute for Training and Research | Grant training programmes for diplomats from developing countries and for research | - | 1.3 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UNITAR expenditure 1970) | | | | | | | |
| United Nations Volunteers Programme - Voluntary Fund | Grants to finance Secretariat and some programme costs of UN Volunteer Programme | - | 0.3 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (Cumulative contributions to 30.4.71) | | | | | | | |
| United Nations Capital Development Fund | Development finance for developing countries | - | 0.004 | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | (UNCDF expenditure 1970; programme not yet operational) | | | | | | | |

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US | Geographical Distribution of Aid | | | | | | | | | | | |
|--|---|------------------------------|----------------------------------|---------|--|-----------|-----|-----------|-----|------------|-----|-----------|-----|-------|
| | | | Total \$US | S. Asia | | S.E. Asia | | N.E. Asia | | S. Pacific | | E. Africa | | |
| | | | | \$US | % | \$US | % | \$US | % | \$US | % | \$US | % | |
| United Nations Fund for Population Activities | Grants to multilateral agencies and to developing countries for population programmes | - | 37.4 | - | 6.9 | 18.4 | 4.5 | 12.1 | 1.0 | 2.6 | 1.1 | 3.0 | 1.8 | 4.7 |
| | | | | | (Cumulative disbursements to 31.5.72) | | | | | | | | | |
| United Nations Programme of Assistance and Exchange in Field of International Law | Grants for promotion of teaching, study awards and publicity of International law | - | 0.00% | - | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | | (UN Assistance and Exchange in Law Fund expenditure 1970) | | | | | | | | | |
| United Nations Trust Fund for Water Desalination | Grant fund for desalination research, financed by British | - | 0.002 | - | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | | (UNEP Water Desalination Fund expenditure in 1970) | | | | | | | | | |
| United Nations Fund - In - Trust Programme for Zaire | Grant fund for economic and social development in Congo (Kinshasa) (main donors are Belgium, USA and Zaire) | - | 1.2 | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | (UNEP Zaire Fund allocations in 1971) | | | | | | | | | |
| United Nations Trust for Operational Resources - Lesotho and Swaziland | Grant fund for expert assistance to Lesotho and Swaziland, financed by Sweden | - | 0.2 | - | - | - | - | - | - | - | - | - | 0.2 | 100.0 |
| | | | | | (UNEP Trust Fund Lesotho and Swaziland expenditure in 1971) | | | | | | | | | |
| United Nations Trust Fund for South Africa | Humanitarian grants to victims of discrimination in South Africa, Southern Rhodesia and Namibia (S.A. Africa) | - | 1.5 | - | - | - | - | - | - | - | - | - | 1.5 | 100.0 |
| | | | | | (Cumulative expenditure from UN Fund for South Africa to 31.3.72) | | | | | | | | | |
| United Nations Fund for Namibia (S.A. Africa) | Grant programme to prepare Namibians for independence | - | 0.05 | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | (Established December 1977 with \$US50,000 earmarked from UN budget) | | | | | | | | | |
| United Nations Consolidated Education and Training Programme for Southern Africans | Grant training awards for Africans from Rhodesia, S.A. Africa and Portuguese territories | - | 0.7 | - | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | | (UN Southern African Training Programme expenditure 1970) | | | | | | | | | |

NOTE ... indicates geographical breakdown is not available

| Name of Organisation or Fund | Purpose and Functions | Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | | | | |
|--|---|--------------------------|--------------------------------|-----|---|-----|-----------|-----|------------|-----|-----------|-----|
| | | | S. Asia | | S.E. Asia | | M.E. Asia | | S. Pacific | | E. Africa | |
| | | | \$US\$ | % | \$US\$ | % | \$US\$ | % | \$US\$ | % | \$US\$ | % |
| Fund of United Nations For Development of West Irian | Grants for development of West Irian (financed by Netherlands and Indonesia) | - | 25.1 | - | (Cumulative FUNM allocations to 31.12.71) | | | | | | | |
| FAD Associate Experts Scheme | Grants for training of young people attached to FAO headquarters on technical assistance activities | 3.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| FAD Freedom From Hunger Campaign | Grant projects (and feeding programmes) to increase food production | 5.1 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| IAEA Voluntary Fund | Grants to supplement IAEA technical assistance and for research at centres in Mexico and Trieste | 2.8 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| ILD International Centre for Advanced Technical and Vocational Training, Turin | Grants for advanced training of technicians and managers. Italy is main donor | 0.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| UPU - Special Fund for Training | Grant financing of training and seminars in postal services | 0.2 ^a | (Sa,Fr) | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| WHO Voluntary Fund for Health Promotion | Grants supplementing WHO regular health programmes e.g. malaria eradication | 1.7 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| WHO Voluntary Assistance Programme | Grants for technical assistance and equipment to improve weather forecasting | 0.011 2.4 ⁽¹⁾ | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |

NOTE (1) Percent of donor governments' contributions to WHO Voluntary Fund, 1971
... Indicates geographical breakdown is not available

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | |
|---|--|-------------------------------------|--------------------------------|---------------------|---|-----------------------|------------------------|-----------------------|--|
| | | | Total \$US\$ | S. Asia \$US\$ % | S.E. Asia \$US\$ % | N.E. Asia \$US\$ % | S. Pacific \$US\$ % | E. Africa \$US\$ % | |
| ECDFE - United Nations Trust Fund for Industrial Development | Grant fund to finance long-term perspectives for industrialisation and regional co-operation in ECDFE region | - | 0.003 | (-) | (\$US\$ 100.00m (100%)) | | | | |
| ECDFE - Asian Productivity Organisation | Training courses and seminars on grant basis to improve productivity techniques | - | 0.9 | (-) | (\$US\$ 9m (100%)) (Asian Productivity Institute expenditure in 1971) | | | | |
| ECDFE - Asian Institute for Economic Development and Planning | Training courses, research and seminars on grant basis in development planning | 0.02 2.0 ⁽¹⁾ | 2.1(est) | (-) | (\$US\$ 2.1m (100%) (est)) (Estimated Asian Economic Development Institute expenditure in 1970) | | | | |
| ECDFE - Asian Statistical Institute | Training courses and seminars on grant basis in field of official statistics | 0.02 1.3 ⁽²⁾ | 1.7 | (-) | (\$US\$ 1.7m (100%)) (Estimated Asian Statistical Institute disbursements to 31.12.71) | | | | |
| ECDFE - South East Asian Iron and Steel Institute | Co-ordinates training and research in the iron and steel industry in S.E. Asia on grant basis | 0.007 0.7 ⁽³⁾ | 0.1 | (-) | 0.1 100.0 (S.E. Asian Iron and Steel Institute budget 1971-72) | | | | |
| ECDFE - Mekong Cadre Scheme | Training, on grant basis, of engineers and administrators for Mekong Basin Projects | - | 0.4 | (-) | 0.4 100.0 (Estimated Mekong Cadre annual expenditure; actual expenditure not available until completion of first year) | | | | |
| ECDFE - Mekong Pioneer Projects Scheme (Preliminary Stage) | Feasibility studies, on grant basis, of pilot model agricultural projects | - | 2.0 | (-) | 2.0 100.0 (Estimated Mekong Pioneer projects annual expenditure; actual figure not available until completion of first year) | | | | |

NOTE (1) Percentage of donor's extra-budgetary contributions in 1971.

(2) Percentage of estimated ASI disbursements to 31.12.71.

(3) Estimated percentage of SEAF budget 1971/72.

... Indicates Information not available

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US | % | Geographic Distribution of Aid | | | | | | | |
|--|--|---------------------------------|---|--------------------------------|---------|---|------------|-----------|------|------|------|
| | | | | Total | S. Asia | S.E. Asia | S. Pacific | E. Africa | | | |
| | | | | \$US | \$US | \$US | \$US | \$US | \$US | \$US | \$US |
| <u>S.E. ASIAN MINISTERS OF EDUCATION ORGANISATION (SEAMEO)</u> | | | | | | | | | | | |
| SEAMEO Educational Special Fund | General grant fund to finance operations of SEAMEO projects | - | - | 0.5 | - | 0.5 100.0 | - | - | - | - | - |
| | | | | | | (SEAMEO Special Fund expenditure in 1970-71) | | | | | |
| SEAMEO Regional English Language Centre (RELC) | Courses, on grant basis, on English as foreign language | 0.010 | - | 0.4 | - | 0.4 100.0 | - | - | - | - | - |
| | | | | | | (ad hoc contribution in 1971/2) | | | | | |
| SEAMEO Regional Centre for Tropical Biology (REOTROP) | Tropical biology research, on grant basis | - | - | 0.1 | - | 0.1 100.0 | - | - | - | - | - |
| | | | | | | (REOTROP expenditure in 1970-71) | | | | | |
| SEAMEO Regional Centre for Education in Science and Maths (RECSAM) | Courses to improve teaching of science and maths, on grant basis | - | - | 0.3 | - | 0.3 100.0 | - | - | - | - | - |
| | | | | | | (RECSAM expenditure in 1970-71) | | | | | |
| SEAMEO Regional Centre for Graduate Study and Research in Agriculture (SEARGA) | Agricultural research and scholarships, on grant basis | - | - | 1.1 | - | 1.1 100.0 | - | - | - | - | - |
| | | | | | | (SEARGA expenditure in 1970-71) | | | | | |
| SEAMEO Regional Centre for Educational Innovation and Technology (INNOTECH) | Research into educational techniques, on grant basis | - | - | 0.2 | - | 0.2 100.0 | - | - | - | - | - |
| | | | | | | (INNOTECH expenditure in 1970-71) | | | | | |
| SEAMEO Tropical Medicine and Health Project (TROPMED) | Research and publicity of health techniques, on grant basis | - | - | 0.3 | - | 0.3 100.0 | - | - | - | - | - |
| | | | | | | (TROPMED expenditure in 1970-71) | | | | | |
| <u>MINISTERIAL CONFERENCE FOR THE ECONOMIC DEVELOPMENT OF S.E. ASIA</u> | | | | | | | | | | | |
| Min. Con. - S.E. Asian Fisheries Centre | Development of fishing industry | - | - | 0.6 | - | 0.6 100.0 | - | - | - | - | - |
| | | | | | | (S.E. Asian Fisheries Centre budget expenditure 1971) | | | | | |
| Min. Con. - S.E. Asian Promotion Centre for Trade, Investment and Tourism | Trade, investment and tourism promotion | - | - | 0.5 | - | 0.5 100.0 | - | - | - | - | - |
| | | | | | | (Promotion Centre budget for 1972) | | | | | |

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution \$US\$ % | Geographic Distribution of Aid | | | | | | |
|--|---|-------------------------------------|--------------------------------|---|-----------------------|-----------------------|------------------------|-----------------------|---|
| | | | Total \$US\$ | S. Asia \$US\$ % | S.E. Asia \$US\$ % | N.E. Asia \$US\$ % | S. Pacific \$US\$ % | E. Africa \$US\$ % | |
| | | | | | | | | | |
| ASIAN AND PACIFIC COUNCIL (APC) | | | | | | | | | |
| APC Registry of Scientific and Technical Services | Compiles inventories of technological institutes, personnel and studies. | 0.07 45.0 ⁽¹⁾ | 0.1 | - | ... | ... | ... | - | - |
| | | | | (Registry budget for 1971-72) | | | | | |
| APC Food and Fertiliser Technology Centre | As above, in field of food and fertilisers | 0.03 15.0 ⁽²⁾ | 0.2 | - | ... | ... | ... | - | - |
| | | | | (FFTC budget for 1972) | | | | | |
| APC Economic Co-operation Centre | Research into promotion of economic co-operation between and economic development of APC countries (Thai grant) | - | Built 0.9m | - | ... | ... | ... | - | - |
| | | | | (ECCC expenditure in 1971) | | | | | |
| Asian Institute of Technology | Courses in technology, especially engineering | 0.03 0.6 ⁽³⁾ | 3.6 | - | ... | ... | ... | - | - |
| | | | | (\$US\$ m) (Gross AIT expenditures in 1970-71) | | | | | |
| Asian Vegetable Centre | Research into vegetable cultivation technology (mainly R.O.C. grant) | - | 7.5 | - | - | - | 7.5 100.0 | - | - |
| | | | | (Initial projected expenditure 1971-76; Centre began operations only in 1971) | | | | | |
| International Civil Aviation Training Centre, Bangkok | Training courses in civil aviation for S.E. Asian region (financed by Thailand) | - | Built 9.1m | - | 9.1 100.0 | - | - | - | - |
| Law Association of Asia and Western Pacific - Credit and Security Research Project | Examination of legal systems in nine regional developing countries | 0.006 8.4 ⁽⁴⁾ | 0.07 | ... | ... | ... | ... | - | - |
| | | | | (Cumulative project costs to 30.6.71) | | | | | |

NOTES (1) Percentage limit of Australian contribution to Registry

(2) Percentage of FFTC budget in 1972

(3) Percentage of gross AIT expenditure in 1970-71

(4) Percentage of UNRWA cumulative expenditure to 30.6.71

... Indicates geographical breakdown is not available

| Name of Organisation or Fund | Purpose and Functions | Australian Contribution | Geographic Distribution of Aid | | | | | | |
|------------------------------|---|-------------------------|--------------------------------|--------------------------------------|-----------|-----------|------------|-----------|--|
| | | | Total | S. Asia | S.E. Asia | M.E. Asia | S. Pacific | E. Africa | |
| | | | US\$ | US\$ | US\$ | US\$ | US\$ | US\$ | |
| South Pacific Commission | Technical assistance (mainly seminars) for Pacific Islands on grant basis | 0.3 31.0 ⁽¹⁾ | 1.0 | - | - | - | 1.0 100.0 | - | |
| | | | | (SPC budget for 1972) | | | | | |
| University of South Pacific | Tertiary education | 0.009 ... | 1.3 | - | - | - | 1.3 100.0 | - | |
| | | | | (OSP recurrent expenditures in 1971) | | | | | |

NOTES (1) Percentage share of SPC budget.

... indicates figure not available.

APPENDIX DADMINISTRATIVE COSTS OF AUSTRALIAN AID

The Development Assistance Committee (DAC) of the OECD considers the administrative costs of running aid programmes to be part of the overall aid effort but, for practical reasons, has so far not included such costs in its statistics on aid performance.

The two main problems are those of defining the costs and of separating them from operational costs or other administrative costs. Inevitably some administrative costs are included in aid returns where operation of aid programmes is contracted to specialist organisations. In Australia's case, State Government departments, statutory authorities and private companies to which aid contracts are awarded include administrative costs in their invoices and the whole of the costs is charged against the aid vote. The practice of Commonwealth Departments is that the costs of procuring particular items of equipment are charged against the aid vote, but other administrative costs, such as the costs of planning and coordinating projects, normally form part of regular departmental recurrent and capital administrative expenditures.

Estimates have been made of the administrative costs incurred in 1970/71 by Commonwealth Departments, including costs charged against the aid vote and costs forming part of regular departmental administrative expenditures. A summary is attached. The figures do not represent all administrative costs, as they exclude costs of State Departments, statutory authorities and private organisations.

There is no simple means of comparing all the costs of administering Australia's aid with the costs incurred by other countries in respect of their aid programmes, but Australia was one of 11 of the 16 members of the Development Assistance Committee to calculate personnel and travel costs of full time aid staff in 1969. This survey showed that personnel and travel costs of full time aid staff in Australia were equivalent to 2.0 per cent of the then total Australian official development assistance, including aid to Papua New Guinea. The personnel and travel costs of the DAC members which provided information (not Canada, Italy, Japan, the Netherlands and Portugal; and not the United States in respect of the PL480 programme) averaged 3.5 per cent of their total official development assistance. In Australia's case the percentage reflected a relatively high proportion of inexpensive programme aid, principally the grants to Papua New Guinea and food aid under the International Grains Arrangement.

Department of Foreign Affairs,
 CANBERRA. A.C.T.
 August, 1972.

AUSTRALIAN AID :
ADMINISTRATIVE COSTS 1970/71

The administrative costs of Commonwealth Departments concerned with aid programmes in 1970/71 comprised the following main items of expenditure :-

- (a) direct and indirect personnel costs of staff engaged full time or part time on aid in Australia and at overseas missions;
- (b) travel costs of such staff;
- (c) office services (rents, communications, office requisites, utilities, registry services, libraries, etc.) used by such staff.

The administrative costs of Commonwealth Departments involved in 1970/71 in administering capital project aid, excluding Papua New Guinea, are difficult to estimate, but were probably in the region of \$1 million. The administrative costs of Commonwealth Departments involved in 1970/71 in the sponsored training programmes, excluding Papua New Guinea, are estimated to have been \$1.7 million; those of Commonwealth Departments engaged in administering the private student programme in 1970/71 are estimated to have been about \$0.9 million. Excluding the administrative costs of Departments concerned with Papua New Guinea programmes, aid administrative costs in 1970/71 were about \$3.5 million, equivalent to 6.4 per cent of all other aid (again excluding Papua New Guinea). These administrative costs, unlike the figures used for the DAC survey, include office expenses, personnel costs of staff engaged part-time on aid and costs overseas.

The total administrative costs of Commonwealth Departments involved in aid programmes in 1970/71 (including aid to Papua New Guinea) are estimated to have been :

| | |
|------------------------------|---------------|
| Departments in Australia | \$6.4 million |
| Australian Overseas Missions | \$1.2 million |
| Total | \$7.6 million |

These administrative costs, which again are much broader than those used in the DAC survey, were equivalent to 4.3 per cent of Australia's official development assistance in 1970/71.

(u)

APPENDIX E

GLOSSARY

A.A.U.C.S.

A.D.B.

A.I.A.S.

A.S.P.A.C.

bilateral

Capital project aid

C.C.E.S.

"C.K.D." cars

D.A.C.

Devisa Kredit (D.K.) aid

E.S.F.

F.E.O.P.

F.A.C.

G.N.P.

hard loans

I.B.R.D.

I.D.A.

I.W.A.

infrastructure

Kennedy Round

L.D.C.

Marshall Plan

multilateral

O.D.A.

Programme aid

Point Four

S.E.A.T.O. aid

soft loans

South Asia, South East Asia - countries defined in these regions.

S.C.A.A.P.

S.P.A.P.

technical assistance

turnkey

Transcript

W.P.P.

(v)

A.A.U.C.S. - Australian/Asian University Aid and Co-operation Scheme began in 1969 on the initiative of Australia to provide a base for closer co-operation between Australian universities and those of Indonesia, Malaysia and Singapore.

A.D.B. - Asian Development Bank was established in August 1966 under an agreement adopted at the second Ministerial Conference on Asian Economic Co-operation (convened under the auspices of the United Nations Economic Commission for Asia and the Far East). Its main objective is to promote investment in the Asian region of public and private capital for development purposes, particularly in the smaller or less developed member countries. Australia was a foundation member.

A.I.A.S. - Australian International Awards Scheme provides some twenty training awards a year for students from countries which are not covered by other Australian aid programmes.

A.S.P.A.C. - Asian and Pacific Council : A regional organisation whose members are Australia, the Republic of China, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Thailand and Vietnam. Among its activities, A.S.P.A.C. administers three regional centres:

Food and Fertiliser Technology Centre, Taipei.
Registry of Scientific and Technical Services,
Canberra.
Cultural and Social Centre, Seoul.

The centres specialise in the aspects of economic and social development of member countries indicated by their titles.

Bilateral - A direct transaction between any two Governments or agencies is termed a bilateral transaction. A bilateral aid commitment constitutes an agreement whereby a donor Government agrees to supply a recipient Government with a specific amount of assistance.

Capital Project Aid - The aim of project aid is to provide finance, equipment and/or associated services for the construction of facilities in developing countries which will, after completion, contribute directly to economic growth. Such projects may consist of anything from the provision of equipment only to providing a finished undertaking which is legally owned by the donor up to the time when the completed project is formally handed over to the donor. Joint projects requiring co-operation between donor and recipient are very common.

C.C.E.S. - Commonwealth Co-operation in Education Scheme was introduced in response to recommendations of the 1959 Commonwealth Education Conference. The Scheme is a channel for Australian educational assistance to Commonwealth countries in Asia, Africa, the Pacific and the Caribbean.

"C.K.D." Cars - Cars whose major components are separated or "completely knocked down" for shipping and which are reassembled at their final market.

D.A.C. - Development Assistance Committee, one of the specialised committees of the Organisation for Economic Co-operation and Development. Its 17 members have agreed to expand the aggregate volume of resources made available to less developed countries and to improve their effectiveness - D.A.C. was established in 1960 and Australia joined in 1966.

Devisa Kredit (D.K.) aid - Indonesia : D.K. aid is a form of balance-of-payments support provided by Western donors which, since 1967, has contributed markedly to the stabilisation of the Indonesian economy. At the same time, it has also promoted the expansion of Indonesia's private domestic production inasmuch as D.K. funds have been used to import essential raw materials, machinery and spare parts.

E.S.F. - The Exchange Support Fund for the Khmer Republic came into being in May 1972. It operates in basically the same way as the F.E.O.F. The Fund is designed both to provide foreign exchange and to help curb inflationary trends in the economy. The Khmer Government has been a contributor to the Fund since its inception. Foreign contributors are Australia, the U.S., Japan, the United Kingdom, Malaysia, Thailand and New Zealand.

F.E.O.F. - The Foreign Exchange Operations Fund, Laos, was established late in 1963 to help stabilise the Laotian economy. The five donor countries are Australia, the United Kingdom, France, Japan and the U.S. The Fund sells (and buys) foreign exchange on the Laotian money market.

F.A.C. - Food Aid Convention. Since 1968/69, most Australian bilateral food aid has been provided under the Food Aid Conventions of the International Grains Arrangement and the International Wheat Agreement (I.W.A.). Australia's annual undertaking under the present convention is for a minimum of 225,000 metric tons of grain, e.g., wheat, wheat products or grains for human consumption. The Food Aid Committee, composed of representatives of signatories of the Convention, meets twice a year to review the discharge of obligations.

G.N.P. - Gross National Product is the total value of the factor costs of production of the goods and services in an economy.

Hard loans - Those loans made at commercial, or near to commercial, rates.

I.B.R.D. - International Bank for Reconstruction and Development (popularly known as the World Bank) was established in July 1944 by the forty-four Allied nations attending the United Nations Monetary and Financial Conference at Bretton Woods. The first loans, made in 1947, were for reconstruction purposes but with the advent of the Marshall Plan, the I.B.R.D. turned its attention mainly to development lending. Australia joined the I.B.R.D. in December 1947.

(x)

I.D.A. - The International Development Association was established in 1960 as an affiliate of the World Bank to provide development finance on terms more lenient and bearing less heavily on the balance of payments of developing countries than the Bank's loans. Its membership of 108 includes most developed and many developing countries. Australia has been a member since its inception.

I.W.A. - International Wheat Agreement (See F.A.C. - Food Aid Convention).

Infrastructure - The network of facilities which enable the efficient running of a nation's economy and community services is generally considered to be the "infrastructure", which would include road and other transport systems, all communications systems, water supplies, gas and electricity supplies.

Kennedy Round - The Kennedy Round of negotiations under the General Agreement on Trade and Tariffs (G.A.T.T.) sought increased international trade through reductions in tariffs and other barriers to trade to give improved access for industrial and agricultural products on the world market.

L.D.C. - Less developed countries : The list of less developed countries was originally compiled by the United Nations and was later adopted also by the Development Assistance Committee. Generally it includes all non-D.A.C. countries, except Iceland, Ireland, Luxembourg, New Zealand, the Union of South Africa, Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the U.S.S.R., the Peoples' Republic of China and Kuwait.

Marshall Plan - A plan outlined in 1947 by George Marshall, former U.S. Secretary of State, in which the U.S. proposed to assist in the economic reconstruction of Europe after the Second World War. The European Recovery Program proposed in the plan was administered by the Organization for European Economic Co-operation, with 16 member states. The Communist bloc did not participate.

Multilateral - A transaction between three or more Governments or international agencies is termed a multilateral transaction. A multilateral aid commitment constitutes an agreement whereby three or more donors assist one or more recipient. Funds contributed multilaterally are usually administered by an international aid agency on behalf of contributors.

O.D.A. - "Official development assistance" is defined by the Development Assistance Committee of the Organisation for Economic Co-operation and Development as "all official flows to less developed countries provided by official agencies, including state and local governments, which meet the following tests:

(y)

- (a) the flows are administered with the promotion of economic development and welfare of developing countries as their main objective; and
- (b) their financial terms are intended to be concessional in character."

This definition does not include bilateral transactions which are not concessional or which are primarily export-facilitating in purpose. Such flows are termed "other official flows".

Programme aid - Programme aid is a term increasingly used to describe general financial backing for a recipient government's domestic expenditures, especially those of a developmental nature, including the provision of foreign exchange for a developing country's import programme. (Some examples of programme aid schemes are the Devisa Kredit Scheme for Indonesia, F.E.O.F. for Laos and E.S.F. for the Khmer Republic.) Bilateral gifts of commodities or semi-processed materials not directed to a donor's aid projects are also counted as programme aid.

Apart from serving general development purposes, programme aid is usually aimed at easing balance-of-payments problems, or at general economic stabilisation.

Point Four - One of four basic programmes of the United States Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) under which surplus American foodstuffs are made available as aid to developing countries. Title IV provides for the sale of surplus commodities for dollars, on ten years supply, on credit terms of up to twenty years.

S.E.A.T.O. aid - Article III of the Manila Treaty establishing the South East Asian Treaty Organization (S.E.A.T.O.) provides for signatory countries to co-operate in development assistance for the economic progress and social well-being of its members. To meet this obligation the Australian Government introduced its S.E.A.T.O. economic aid programme in 1956.

Soft loans - These are loans made on concessional terms which carry interest rates generally significantly lower than commercial loans.

South Asia and South East Asia

South Asia

Afghanistan
Bangladesh
Bhutan
Burma
Sri Lanka

India
Iran
Maldivé Is.
Nepal
Pakistan
Sikkim

South East Asia

Brunei
Indonesia
Khmer Republic
Laos
Malaysia

Philippines
Singapore
Thailand
Viet-Nam

(z)

S.C.A.A.P. - The Special Commonwealth African Assistance Plan emerged from initiatives taken at the Commonwealth Prime Ministers Conference in 1960. It provides a framework for bilateral assistance to the African member countries of the Commonwealth. Australia provides assistance under the Plan.

S.P.A.P. - The South Pacific Aid Programme was initiated in 1965 by the Australian Government in recognition of the special development needs of the South Pacific Region.

Technical assistance - Technical assistance consists of training programmes, expert services, research and equipment for demonstration and training purposes. Some cultural programme expenditures are also counted by the D.A.C. as technical assistance, although Australia has not identified any as aid.

Turnkey - This term describes projects in which the donor provides all the equipment, labour and services necessary to complete the whole project. On completion, the project is then handed over to the recipient country.

Transcript - This refers to the record of the submissions made to the Committee and the evidence heard in public session.

W.F.P. - The World Food Programme is administered by a Secretariat in Rome responsible to an Inter-Governmental Committee of representatives of 24 governments participating in the programme. Each two years the Inter-Governmental Committee draws up a target level for contributions for its next two years operations.