

to absorb and effectively utilize development assistance. One reason is that the requirement fails to account for "indirect foreign exchange costs", (that is, the cost of imported materials which are used in the provision of support services, e.g. gasoline, vehicles and spare parts, lumber and building tools, etc.). These added costs can be substantial for countries with narrow industrial and resource bases. The other main problem results from the inclusion of the shipping cost of aid materials as a local cost. Since much of the material received by these countries is bulky, the shipping expense alone can sometimes take up a large part of the 25% margin.

The Committee recommends that the Government consider relaxing further the restrictions on the use of the Canadian contribution to cover local costs and adopt the practice of treating shipping costs as a non-local component.

## 8. *Encouragement of Private Activity*

### a. *General*

In recent years, the Canadian Government has shown an increasing interest in the stimulation of non-official activities to complement the work of official international development assistance in promoting economic and social development. These new activities have resulted in the establishment, within CIDA, of a Business and Industry Division and a Special Programs Division, with the latter having responsibility for encouraging and supporting development-oriented projects undertaken by voluntary groups and agencies. As part of the overall review of aid policy, the Government also commissioned a study of ways of increasing Canadian private involvement in developing countries.

The Committee is convinced of the particular value of using official development assistance funds as "seed money" to stimulate perhaps much larger efforts and outlays in the private sector. The Committee believes that the Canadian Government can do a great deal in the "profit-seeking" sector (both Canadian and Caribbean) and in co-operation with voluntary agencies. The latter will be discussed in the separate section on "the Work of Voluntary Agencies".

### b. *The "Profit-Seeking" Sector*

#### i) *Canadian Exports and Investments*

The financing of Canadian exports to developing countries has been undertaken since 1961 by the Export Credits Insurance Corporation which was succeeded in 1969 by the Export Development Corporation. Since the export-development operation is intended primarily as a trade-promotional service to the