

maintain the most liberal terms possible (and to steadily increase the grant proportion) is critical.

190. As Professor Helleiner told the Subcommittee, "Canadian aid performs quite well on its loan terms. It performs quite badly on its procurement provisions". (35:318) A very useful CIDA position paper on the question of procurement (or "Aid Tying and Untying") was presented to the Subcommittee and may be found as Appendix F to the *Proceedings* of the Standing Committee for 4 February 1971.

191. As this paper points out, the practice of tying is now generally recognized to have resulted in serious problems and in a general reduction in the value and effectiveness of aid. Several witnesses have argued that tying requirements hamper the overall assistance process, lengthening the gap between allocations and disbursements, and greatly increasing the difficulties for recipient governments in finding and implementing suitable projects. These problems and extra costs aggravate the basic frictions which can occur between donor and recipient and can lead to considerable resentment. The Canadian commercial interest represented by tying requirements also leads many critics, at home and abroad, to question the basic motivations for Canadian development assistance.

192. As the CIDA position paper points out, Canada and a number of other DAC countries have steadily increased their efforts to untie development assistance. In the Policy Paper decisions were announced which could, in some cases, reduce the tied proportion of Canadian aid from two-thirds to somewhat less than half. A comparison with some other DAC countries, however, indicates that Canada has not been among the most forthcoming in this regard. A number of other countries have, at least, released their aid funds for procurement in third countries which are themselves in the developing category and the United States recently expanded an arrangement of this kind formerly limited to Latin America to encompass all developing areas. Other countries make similar provisions for third-country procurement, either on a selective or general basis, and a number of countries make special efforts to mitigate the adverse effects of tying.*

193. It is generally recognized that there are important dangers involved in unilateral or selective untying and that the best long-term solution would lie in agreement among donor countries on measures to untie aid on a multilateral basis. Agreement of this kind would permit global competitive bidding and the most efficient overall allocation of aid resources. Definite progress has now been made in negotiations among donor-countries and the possibility of eventual agreement now seems much brighter. The Subcommittee recommends, however, that if agreement on multilateral untying does not appear

imminent, the Canadian Government should proceed without delay to untie Canadian funds for procurement in other developing countries. With the proper safeguards on import-content, this step will not grant unfair advantages to competitive suppliers in other rich countries, and it should not impede agreement on generalized untying. Such a step would be an important demonstration of Canadian concern for liberalized procurement, and it could be of substantial tangible benefit to potential supplier-countries in the developing world.

194. As the position paper points out, a number of other recent changes in the Canadian program (such as the inclusion of shipping costs as a non-local component) have had the effect of further liberalization of procurement terms. Nevertheless, there is a need for further determined measures and particularly for energetic Canadian advocacy of multilateral action.

195. At the same time, Canadians must be vigilant about the possible side-effects of untying, some of which are mentioned in the position paper. Care must be taken to ensure that untying by all countries is "de facto" as well as "de jure" and that tying requirements are not replaced by harder financial terms or other restrictions such as project tying. Special efforts may be needed to maintain the continuing support of all sectors (including the commercial) in Canada for the development assistance effort and for further increases in its overall volume. With the removal of the special market access provided by tying, it will be necessary for Canadian suppliers to be more aggressive and competitive in international bidding. However, it should also be stressed that the overall opportunities will be much wider, and that with energetic salesmanship and sufficient official support, Canadian suppliers could obtain a greatly increased share of the burgeoning market in the developing countries for their goods and services.

196. With respect to counterpart funds, the Policy Paper announced that they will continue as a requirement for recipients of food aid and commodity aid. The conditions relating to use of these funds are, however, flexible, and these sums may, under certain circumstances, be released for the support of the country's general development program.

iii) New Challenges—

197. Throughout this report it has been stressed that the field of international development is undergoing constant change. Much of this change, the Subcommittee believes, reflects a more sophisticated understanding of the very complex problems involved, and a more progressive attitude toward their rapid solution. Many of the areas of innovation have been mentioned, with varying amounts of discussion. In this final section it is appropriate to reiterate a number of major points and open up discussion on some of those which may become crucial in the future.

* An up-to-date survey is the 1970 Review of the Development Assistance Committee of the OECD, especially pages 52 to 57.