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## CANADA'S AID TO DEVELOPING COUNTRIES

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It used to be called "foreign aid". It's more properly named "development co-operation" now and Canadians spend three cents out of every tax dollar on it. It is Canada's part in an international drive to reduce the poverty, under-nourishment and ill health that afflict three-quarters of the world.

There are many reasons why some countries are poor and others rich. In many ways they resemble the reasons for the disparities found within most industrialized nations, including Canada.

Many Third World countries depend on one major crop -- an unreliable economic base because of fluctuating world prices and competition from synthetics. Many are burdened by foreign debt and all suffer from the trade barriers erected by industrialized countries. Developing countries often have an unemployment rate of 20 to 25 per cent, but perhaps their greatest problem of all is the lack of skilled people, from plumbers to planners.

The idea that the more fortunate countries had better pitch in or face the consequences grew out of the various schemes to help put devastated European nations (and Japan) back on their feet after the Second World War.

Development assistance can, however, never fill more than a relatively small part of the developing countries' needs. They themselves have accepted the responsibility for their development and provide most of the resources needed. To do this they are making tremendous sacrifices in the form of economic self-restraint and often drastic changes in their societies.

Canada is one of that privileged group of 20-or-so rich countries able to supplement the developing nations' own resources with know-how and material. The assistance provided by Canada and others is meant to give that extra boost that makes the Third World's own sacrifices worthwhile.

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Why give aid? Apart from purely altruistic reasons -- one likes to think that Canada would still help its poorer relatives in the world community even if nobody else did so -- there are powerful political and economic motives for international development co-operation. Like any other nation, Canada depends on the goodwill of other countries. It needs to trade with them, it needs their recognition of Canada's sovereignty, their protection of Canadian citizens within their borders and their support on vital issues in the United Nations and at such conferences as the recent one on the environment in Stockholm.

To secure such support it must do its share in international efforts, including development co-operation. Moreover, as Paul Hoffman, former administrator of the UN Development Program, once put it, "What's good for the world is good for Canada". As a side effect, Canadian assistance to Third World countries produces important benefits to the Canadian economy, as most of the goods and services needed in Canadian-financed projects are bought in Canada.

Development co-operation is not a series of haphazard handouts to any visiting dignitary who wears a turban or a sombrero. It is a highly-organized, professionally-run operation and, being part of Canada's public expenditure, it is carefully directed, managed and audited. The government body responsible for running Canada's assistance program is the Canadian International Development Agency (CIDA), whose president answers directly to the Secretary of State for External Affairs. CIDA's budget for the 1972-73 fiscal year is \$491 million. Its program can be divided into eight main categories:

Project assistance The largest single kind of CIDA assistance is project aid. Under this program, development loans and outright grants are given only for specific projects, which the recipient government and CIDA have jointly identified and agreed upon. Of the \$332 million earmarked for bilateral (direct Canada-to-developing-country) assistance in 1972-73, over \$190 million is for project aid. Other forms of bilateral co-operation are food and commodity aid, of which more later.

Nearly all Canadian development loans are interest-free and run for 50 years, with a ten-year grace period (the first payment is not due until ten years after the loan is made). Usually, but not always, loans are used to finance the purchase of goods and materials needed for a project, while grants pay for technical assistance -- providing teachers and advisers or conducting feasibility studies -- and for food aid.



On the whole, bilateral assistance is tied to procurement in Canada. If a school is to be built or a bridge constructed, Canada is literally willing to give the easiest terms in the world, but the materials must come from Canada. The question of "tied aid" has been the subject of countless international discussions and papers. All industrialized countries tie their aid in varying degrees to procurement, either because of balance-of-payment problems or out of commercial motives, and sometimes for the more idealistic reason of identifying more closely with the recipient country.

However, with no possibility of "shopping around", recipient countries are often obliged to accept goods that could be obtained cheaper or better somewhere else. Long-distance shipping may also add to the cost. Also, such goods sometimes do not match existing material in the developing country -- for instance, attachments to machinery. The 1970 *Pearson Report* to the World Bank suggested that aid-tying had harmful effects on donor countries, too: "Foreign trade patterns are distorted, markets disrupted, and inefficient industries bolstered. A country's own reputation for competitiveness is undermined by its resort to tying." All in all, tied aid has become much criticized on this count and most donor nations are now taking steps towards untying their aid as much as possible.

Canada channels about 25 per cent of its development assistance through international agencies such as the United Nations and this is completely untied aid. Moreover, CIDA is empowered to untie up to 20 per cent of all bilateral assistance and pay for all shipping costs of goods provided under the official assistance program. Goods bought in Canada under the program may be up to one-third non-Canadian in content.

Of CIDA's 1972-73 bilateral appropriations, \$153 million, or 46 per cent, is allocated to Asia, \$118 million, or 35 per cent, to Africa (\$69 million to 21 French-speaking countries, \$49 million to Commonwealth Africa), \$19 million to the Commonwealth Caribbean and \$3 million to Latin America.

Multilateral assistance The second-largest slice of CIDA'S budget, \$131 million (or 26.7 per cent), is contributed to multilateral institutions such as the United Nations, the World Bank and the regional development banks.

The *United Nations Development Program* (UNDP) is, as its name implies, the international development arm of the United Nations. It finances most of the development-assistance activities of such UN Specialized Agencies as the Food and Agriculture Organization (FAO), the World Health Organization (WHO), the International Labour



Organization (ILO) and others. Canada has been a major contributor to the program since its formation in 1965 and is a founding member of the UNDP's Governing Council. CIDA's 1972 contribution to the UNDP was \$18 million. Canada also contributes to other UN programs, such as those of the United Nations Children's Fund (UNICEF) and the UN/FAO World Food Program (WFP).

Another form of multilateral development assistance is Canada's contributions to the various development banks. The *World Bank Group* consists of the International Bank for Reconstruction and Development (IBRD), which alone is often referred to as the World Bank, the International Development Association (IDA), and the International Finance Corporation (IFC). All three make money available for selected development projects in the Third World. So far, the IBRD has lent well over \$20 billion to developing countries. Its current terms are 15 to 35 years at 7½ per cent. The IDA is the World Bank's "soft-loan window", where countries that cannot afford the IBRD's terms can borrow development funds interest-free for as long as 50 years.

World Bank loans are used mostly for huge power, transportation and other capital-intensive projects. Canada's contributions are pooled with those of other countries and it is, therefore, not possible to identify World Bank projects as "Canadian" or any other nationality. However, Canada and other countries sometimes grant direct loans, in addition to IBRD financing for large projects such as the Indus Waters Development System, in which one dam alone, the Mangla Dam in Pakistan, cost \$1,250 million.

The IFC invests in private companies in the Third World and withdraws as the enterprise starts functioning smoothly.

Canada is a member of three of the four major *regional development banks*: the Asian, the Caribbean and the Inter-American Development Bank. The fourth, the African Development Bank, limits membership to African countries, but Canada is participating with other donor nations in the creation of a special fund for this bank. As in the World Bank, Canada's equity capital in the regional banks and its contributions to special funds are pooled with those of other member countries.

Canadian voluntary agencies

An important part of Canada's aid effort is carried out by Canadian non-government agencies (NGOs), such as churches, universities, service clubs and voluntary agencies. They not only contribute significant sums of money (about \$37 million in 1971) but carry development co-operation to the grass-roots level by the personal involvement of thousands of missionaries, teachers and other volunteers working in the developing countries.



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CIDA subsidizes selected NGO projects up to 50 per cent of their cost. CIDA support ranges from modest grants, such as a recent contribution of \$150 to CARE Canada to buy convector pumps in Malaysia, to a \$140,000 grant towards a \$690,000 Canadian Jesuit Foreign Missions school and housing project in Darjeeling, India.

CIDA has put aside \$16.5 million for NGO support in 1972-73. Of this amount, up to \$6.7 million will go to the Canadian University Service Overseas (CUSO), which received \$4.85 million from CIDA in 1971-72 and which itself raised an additional \$8 million in funds, goods and services to field 1,250 volunteers in 40 countries.

**Food aid** Apart from contributions to the World Food Program, Canada gives about \$90-million worth of food direct to a dozen needy countries in Asia and Africa every year. It is a way of disposing of surplus wheat, flour, fish, milk powder and other foodstuffs by which Third World countries are helped and price-levels in Canada protected at the same time. The Canadian food is sold to the public in the developing country by its own government, which uses the revenue for further development purposes.

**Commodity aid** This is a drawing account against which a developing country may purchase definite and agreed-upon raw or semi-processed materials and fertilizers in Canada. Commodity loans are extended in principle to countries with a viable secondary-transformation industry. The materials save them foreign exchange and provide jobs at the same time. CIDA extends some \$50-million worth of commodity loans a year.

**Lines of credit** To some countries, Canada extends development credit the same way finance companies co-operate with retail stores in Canada. When an item is sold on the instalment plan, the store receives the full purchase amount from the finance company, which in turn collects from the customer over a period.

Under CIDA's line of credit, Canadian exporters can sell development-related items either to the public or private sector in a developing country. CIDA pays the exporter in full and extends an interest-free loan to the recipient country for the amount of the purchase. The buyer in the recipient country arranges reimbursement to his government in local currency. So far Canada has signed agreements for line-of-credit loans with India, Indonesia and Ghana for a total of \$15 million. Seven Caribbean countries have received grants instead of loans for line-of-credit operations, and negotiations with other Third World countries are under way.

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This newest form of development co-operation is extended to countries with a well-formulated development plan, an adequate infrastructure and a strong administration. It provides a good mechanism for supplying spare parts and other materials needed for projects previously financed by CIDA and makes it possible for a wide range of Canadian goods to become known in those countries that are not too far from making the step up from aid recipient to trading partner.

**Emergency relief** Natural and man-made disasters create sudden, desperate needs for medicines, food, shelter, blankets or other items. CIDA reserves \$600,000 a year for such occasions, but finds itself forced sometimes to shift funds from other programs to meet emergencies. This way, mainly because of the war that created Bangladesh, emergency relief commitments in 1971-72 topped \$7.5 million.

**Pre-investment incentives** One of the things developing countries are short of is investment capital. To encourage Canadian firms to establish or expand operations in the Third World, CIDA helps finance starter studies and feasibility studies undertaken by, or on behalf of, *bona fide* businessmen.

If a businessman wants to visit a developing country for a preliminary investigation into the possibility of branching out, CIDA can reimburse such expenses as air-fare, accommodation and living expenses, up to a total of \$2,500. Approved costs may include salaries of personnel engaged in the study, travel, accommodation and living expenses. Feasibility-study grants are available whether or not the applicant decides to go ahead with the overseas venture after the study.

One feature shared by all forms of Canadian assistance and accepted by Third World countries is that Canada is not trying to export ideas. Canada has no political ambitions in the developing world; the only aim of CIDA's development co-operation is to improve the quality of life everywhere.

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