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AID POLICIES AND PROGRAMMES

An Address by the Secretary of State for External Affairs, the Honourable Paul Martin, on July 20, 1966, to the Ministerial Meeting of the Development Assistance Committee in Washington, D.C.

First, Mr. Chairman, I should like to congratulate you on your report, which once again provides us with objective comments on the merits and shortcomings of our collective aid effort. You have also given us guide-lines that will be useful in pursuing the fundamental aid objectives that are the subject of today's discussion.

We meet in new surroundings, having accepted the invitation of the Government of the U.S.A. to conduct this year's deliberations in Washington, D.C. We welcomed this invitation as providing an opportunity to pay tribute to the generosity and leadership of the Government and people of the U.S.A. in the collective effort to promote economic development and ameliorate the lot of the developing countries. Our presence here also suggests the extent to which we necessarily look to the U.S.A. in the future expansion of this effort and in evolving new and imaginative measures for dealing with problems of development, old and new.

I take great pleasure in welcoming to this ministerial meeting a fellow Commonwealth member, Australia, a country which was seated with us at the founding conference of the Colombo Plan. It is encouraging to see the growth of this circle of nations committed to increase and improve their aid through the process of consultation and co-ordination.

The performance - both individually and collectively - of our group has over the past five years or so provided overwhelming evidence of our determination to play our full role in bridging the gap between rich and poor countries. As the minister responsible in my own country for the conduct of both foreign and aid policies, I am reminded every day that aid not only plays a crucial role in the complex process of economic development but is also a major factor in relations between nations. For this reason, I am today profoundly disturbed by apparent stagnation in our collective efforts to mobilize greater aid resources and put them to effective use. Without a renewal of the upward trend in this effort, there is little chance that we shall succeed in establishing the foundation of lasting peace and stability in the world. This is the opportunity and challenge of today's meeting.

During our deliberations, we have an opportunity to make an objective, and, I should hope, a critical, review of our aid policies and programmes. I have come to this meeting with the conviction that such an appraisal should not be conducted against a narrow background of progress achieved over the past year or so in specific sectors. Rather, it is essential, in my view, that we measure the adequacy of our effort against the general background of the long-term position and requirements of developing regions of the world and of our common ability and determination to meet those requirements over a period of time.

If we look at the situation now facing us, we cannot but be struck by certain disquieting facts. In spite of the 5 percent growth target of the UN Development Decade, it has not been achieved to date and average growth rates are, in fact, lower than in the 1950s. In spite of international concern about the growing debt burden, debt-servicing liabilities are now as high as \$35 billion, and continue to increase. In spite of our common objectives to raise living standards, there are some 40 developing countries where, because of population growth, per capita income has been increasing by only 1 per cent or less a year. In spite of our desire to build a healthier world, we find, as we shall be discussing later, that nutritional standards have even been going down in some countries and that many are unable to feed themselves. I should not suggest that aid by itself can hope to provide answers to these problems of continuing under-development. I should say, however, that the volume of our assistance should at all times be measured against the ability of the developing world to use more aid, and that terms of our assistance should correspond to the economic realities of the developing world.

In short, I should subscribe to your view, Mr. Chairman, that, while our record for 1965 represents no small achievement, it offers no basis for complacency. There are unfortunate indications that, while some donor countries are moving rapidly towards higher levels of aid, other member countries which in earlier days could rightly be considered as pace-setters in foreign aid seem now to be satisfied with maintaining their aid at current levels. As a result, the total flow of official aid resources has not really left the plateau it has maintained in recent years. Yet it would seem that international circumstances have never been more propitious for a significantly larger and improved aid effort. Developing countries have proved that they are capable of absorbing more aid more rapidly; there are promising new channels, as well as expanded facilities placed at our disposal by long-established institutions, through which additional development assistance can be offered. Finally, we now have available to us a considerable body of knowledge on the complex ingredients of economic development and also new and comprehensive patterns of co-ordination in the field of development assistance which permit us to offer to our respective parliaments positive evidence that larger aid-flows can be effectively used.

The Canadian Government has, for its part, engaged, over the past year, in an extensive review of its aid policies and the needs of the developing world, in the light of the considerations which I have just outlined in broad terms. As a result, a number of decisions have been taken which will affect significantly the future of our programmes.

One of the major needs of developing countries is, of course, for more assistance. The total amount available from Canada during the current fiscal year will be about \$300 million. Appropriations for outright grants and long-term, low-interest-rate loans alone stand this year at \$220 million, having increased, on the average, by \$50 million a year since 1963-64. Subject to economic and other relevant circumstances, we expect the Canadian programme to continue to expand and we are thus making good progress toward the aid target of 1 per cent of the national income established by the first UNCTAD....

In our assessment, the needs of developing countries for aid on appropriately "soft" terms remain one of the essential problems. The Canadian Government has, therefore, decided to make further adjustments in the terms on which Canadian development assistance is to be made available. To "soften" further our long-term, interest-free loans, the Canadian Government has decided to abolish the service charge of $\frac{3}{4}$ of 1 per cent. This will mean that the bulk of Canadian development lending will be interest-free at 50-year maturities and ten-year grace periods. There are, of course, certain countries which can accept harder terms, and it has been decided to introduce an intermediate lending facility under which we would, in these few cases, be able to lend on 30-year terms, including a seven-year grace period and an interest rate of 3 per cent per annum. These intermediate loans would be used only in cases justified by the current and prospective economic and balance-of-payments situation of the recipient.

In mentioning the need for appropriate terms of aid, I should also point to the Canadian view that more is required to achieve harmonization of terms so that donors can pursue similar lending policies in specific cases. There is accumulating evidence that the terms on which aid is being extended to a number of developing countries, including India and Pakistan, are considerably harder than those which their economic circumstances would demand. As an example, the weighted average interest rate in the consortium for India has climbed from 2.8 per cent to 3.1 per cent. The Canadian average rate of interest in the case of India is below 2 per cent. It is our belief that DAC countries as a group could make more rapid progress in achieving their stated objective of harmonization, particularly within the framework of consortia and consultative groups.

As is the case with other DAC countries, we have also found that the need for local cost financing is becoming more important. Certainly, we have found that the rigid enforcement of the rule under which Canadian bilateral aid must be tied to procurement in Canada has inhibited, in certain cases, the effectiveness of our programme. We have found it desirable, therefore, to introduce an element of flexibility. We do have balance-of-payments problems of a long-term nature. Nevertheless, in appropriate cases, we are now prepared to finance a portion of local costs not exceeding 25 per cent of the Canadian aid commitments to specific projects.

In summary, more aid, on softer terms with better techniques, is required. It is, of course, for each member to determine its share of the collective aid effort and the terms on which its share is extended. We have noticed with regret, as I have mentioned, that the volume of aid provided by certain countries has been decreasing and that terms have been hardening. So far as we in Canada are concerned, however, the terms as well as the volume of our aid will be determined less by what other DAC countries are doing and more by our assessment of the needs of the developing countries.