International aid: some political, administrative and technical realities

RT Shand and HV Richter, editors
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Summary

This monograph brings together the invited contributions to the first of a series of seminars sponsored by the Development Studies Centre, the Australian National University. The contributors were chosen for their particular experience and expertise in the field of development assistance, and are drawn from academic life, public service, international foundations and the professions.

Papers in this volume range widely, but recurring themes include: the achievement of developmental objectives within essentially political motivated programs of aid; administrative alternatives for aid organization in donor countries in the context of political responsibility and bureaucratic control; and choices of appropriate forms of aid.
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<tr>
<td>ACEID</td>
<td>Asian Centre for Educational Innovation and Development</td>
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<td>ADAB</td>
<td>Australian Development Assistance Bureau</td>
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<td>CFTC</td>
<td>Commonwealth Fund for Technical Co-operation</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CIEC</td>
<td>Conference for International Economic Co-operation</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>ECAFE</td>
<td>Economic Commission for Asia and the Far East</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>ESCAP</td>
<td>Economic and Social Commission for Asia and the Pacific</td>
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<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IGGI</td>
<td>Inter-governmental Group on Indonesia</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>ITEC</td>
<td>International Technical and Economic Co-operation</td>
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<td>ODM (UK)</td>
<td>Ministry of Overseas Development</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<td>SIDA</td>
<td>Swedish International Development Authority</td>
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<td>SPC</td>
<td>South Pacific Commission</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>UNESCO</td>
<td>United Nations Education, Scientific and Cultural Organization</td>
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<td>Acronym</td>
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<td>UNICEF</td>
<td>United Nations International Children's Emergency Fund</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>WHO</td>
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Introduction

R.T. Shand

Each year the Executive Committee of the Development Studies Centre (DSC) of The Australian National University decides on a topic of major significance in the field of development studies for a seminar series in that year. This monograph brings together the invited contributions to the first of these series, held in 1977, and organized by E.K. Fisk, then Executive Director of DSC. The contributors were chosen for their particular experience and expertise in the field of international development assistance, and are drawn from academic life, public service, international foundations and the professions.

Papers in this volume range widely but recurring themes include:

- the achievement of developmental objectives within essentially politically motivated programs of aid;
- administrative alternatives for aid organization in donor countries in the context of political responsibility and bureaucratic control;
- choices of appropriate forms of aid.

Miller in the opening contribution identifies the various contexts in which politics of aid operate and sees aid simply as an extension of normal domestic political processes for donors and recipients. He downplays the importance of the economic factor in aid, partly because it is only one of several transfer processes and partly because aid has wrought no fundamental changes for recipients. For him, politics remains the dominant influence in shaping decisions on international aid.

Silcock's paper on the Pearson Commission reviews a major crisis period in international aid when the political will of donors, especially the USA, was wavering in the face of burgeoning need. He traces the changing political
context of aid and argues that the replacement of internationalist attitudes with the modern emphasis on national sovereignty in the Third World has greatly complicated the achievement of effective resource transfer through aid.

Arndt offers a recipient's view of the aid process. He reviews arguments against aid: ideological, economic, political and emotional, all of which, he suggests, are admissible but not sufficient to justify a policy of complete self-reliance. Given the need for aid, Arndt comments on the pros and cons of each of the major categories of development assistance.

Three major contributions then consider questions of aid administration. First, Viviani, in a survey primarily of DAC countries, examines the various locations of political responsibility for, and bureaucratic control of aid, and then considers alternatives. The characteristics of an aid program are seen to be influenced most crucially by the nexus between aid policy formulation and organization.

Second, Viviani and Wilenski present an Australian case study of the issues which had been considered by Viviani in an international context. They analyse the interactions of politicians and bureaucrats during the short life span of the Australian Development Assistance Agency (ADAA), when Australian aid was administered by an autonomous statutory body. ADAA's history is considered in the context of five arguments put forward for separating aid administration from its customary home in the Department of Foreign Affairs. It underlines the difficulty of adding power and leverage to aid simply by upgrading it in bureaucratic terms.

Ingram addresses the problem of administering aid effectively, and maximizing its contribution to the economic and social development of developing countries. This he considers within the setting of Australian aid (forms, direction, size) and its constraints, and focusses principally on bilateral project aid for the rural sector.

The common thread of these three papers is the problem of combining developmental objectives with those of foreign and trade policy. Viviani concludes that administrative isolation of the aid organization from these policy areas is not a solution. Viviani and Wilenski's analysis of ADAA experience bears this out. Ingram sees the aid administrator's task as being to further the process of socio-economic
development in developing countries as effectively as possible with an aid program that operates within certain local constraints.

Two useful sectoral contributions are provided by Garnaut and Retzlaff. Garnaut draws on his experience in Papua New Guinea to examine how a developing country might best augment government revenues and thus developmental expenditures, by extracting rent from rational exploitation of natural resources. Where foreign governments are involved in financing expenditures on such resource developments, Garnaut stresses the need for appropriate institutional arrangements that will avoid distortion of the country's development pattern and maximize revenue flows to the host government, or more broadly, will ensure compatibility of national sovereignty in developing countries with donor interests in large scale ventures for resource exploitation. Such arrangements, he argues, are largely lacking at present.

Retzlaff traces the changing focus of aid to the rural sector from the 1950s to the 1970s. He summarizes achievements and failures and discusses three key problem areas which he considers must be tackled if further gains are to be achieved:

(a) removal of local technical constraints on food production within these countries by national research systems,

(b) achievement of a more equitable distribution of rural income, and

(c) building of an appropriate institutional framework for the rural sector to facilitate achievement of rising and equitably distributed income levels.

Retzlaff then considers the donor's role in this process and offers advice on appropriate patterns of support. Echoing Miller, Retzlaff concludes by stressing the essentially political nature of bilateral assistance to rural development.

The next three contributors examine specific forms of aid. This writer's own paper is designed to clarify three broad strategies that are variously available to developing countries for development of the agricultural sector: enlargement of the exchange economy, extension of the land frontier and increasing resource productivity. Each is examined in terms of its contribution to achievement of
policy objectives, and for each, Australia's past and potential contribution is reviewed.

Jones documents the extraordinary growth of interest in and finance for population control over the past two decades, but especially since 1965. He stresses the influence of foreign aid in this field on the adoption of population control policies in developing countries in the 1960s. He then examines the role of foreign assistance in the new global context, in which developing countries mostly accept the need for control policies, and adequate international funds are available. Aid options are reviewed in the light of recent experience. Preference is expressed for provision of technical assistance, particularly in research and training, and in supporting pilot projects, and suggestions are offered for an Australian role.

Bridger is concerned with urgent problems of health in developing countries. The hazards to health, he argues, are such as to require new unconventional approaches if progress is to be made. The author illustrates the links between malnutrition and illhealth and stresses the need for measures in both areas. In food policy, supplies of both protein and staple foods must be augmented, and food utilization technology studied. Better nutrition, he argues, will further policies of population control. In the field of health transfer to developing countries, priority should be given to evolving medical treatment systems that benefit the rural majorities, with a better balance between curative and preventive medicine. Appropriate provisions of public health services, housing, water supplies and immunization programs with both curative and preventive components are required to reduce transmission of the major communicable diseases, while health planning is required to direct resources effectively into priority purposes. Various forms of aid to the rural sector are shown to induce negative health effects. Far more attention is advocated for integration of health measures in rural project planning.

Finally, Kasper examines the aid-trade matrix of economic relations between donors and recipients, and concludes that the aid objectives will be frustrated if it is not increasingly supplemented by trade opportunities. Accordingly the author argues against protectionism in donor countries and in particular in Australia in recent years. He considers the costs and benefits of international co-operation and offers a design for accelerated adjustment in developed countries.
Chapter 1

The politics of international aid

J.D.B. Miller

The politics of international aid results from the fundamental problem of scarcity, which lies at the root of political effort just as it is at the root of economic effort. Politics manifests itself in four contexts: that of the individual state deciding how much of its revenue and resources to devote to aid, and in what manner; that of the recipient country, deciding how to distribute scarce aid among the many claims and needs which might be served; that of the multilateral agency for whose funds many countries compete; and that of the major and middle powers competing with one another for influence derived from aid programs which are never big enough to meet demand. These four contexts will be discussed in this paper. First, however, it is desirable to emphasize the relationship between scarcity and politics.

Wherever there is scarcity of money, resources, jobs or opportunity, there is the sort of competition which we call politics. Competition occurs, in formal and informal ways, to secure the favourable use of whatever institutions are available to provide rewards or retain existing positions. Politics is about the use of government, in one form or another, to help or not hinder the aims and circumstances of particular individuals or groups. The attempt to get government on one's side, or to control government altogether, arises largely from those phenomena which we variously call scarcity, diversity and inequality. If men were all the same, and all had what they wanted, there would be no politics. As things are, however, there is no sign that politics will ever stop (Miller 1962:Chs 1-2).

Economic inequality, the result of differential gains from basic scarcity, is probably the most powerful spur to political action, whether in a local, national or international context. It is not the only spur, and at times
others may be more immediate and prove more powerful. Moreover, economic inequality does not automatically lead to political action: men are not always aware of their inferior status, and, when they are, they do not always draw the conclusion that they should use governments to get what they might have. 'False consciousness' (a fashionable Marxist term which I use with caution and only in inverted commas) is often present: in a sense, men often do not know what politically-minded people think they ought to want. In the main, however, these situations occur in circumstances somewhat distant from government. The levers of power are not immediately apparent, or, if they are, they cannot be got at. In situations of international aid which are essentially governmental, everyone is likely to be familiar with the levers of power (whether able to get at them immediately or not), and to find it natural to try to use them. So aid is basically a political question in two respects: it occurs in situations of known scarcity, in which the need for competition for available funds is constantly apparent; and it occurs in a context in which governments are both the arenas and the principal actors.

Politics as an activity is capable of being carried on in a variety of ways, formal and informal, and individual and concerted. It can be a matter of long-term planning (never altogether successful, but involving questions of time which extend and modify political results) or of immediate ad hoc decision. It is thus flexible in method and in aim. As a flexible activity it necessarily involves flexible concepts. I can think of no term used in political study which cannot be stretched to cover a variety of situations: they are all like 'capital' in economics.

We can, however, use certain terms in a fairly constant way, so long as we remain aware of their potentially protean character. The one which I have found most useful in political study is 'interest'. Interests are the driving force of politics.1 They are those groups of people, organized or unorganized, clearly defined or lacking articulation, which have common concerns and wish to see these put into effect through governmental means. Where I can locate an interest (which can also be defined, confusingly,

1To say this is not to deny the importance of individuals, even in the most concerted aspects of politics. I have given due weight to individual political effort, I hope, in Miller 1962:Ch.6, and Miller 1976.
as a number of people with the same interests), I am prepared to find political consequences, in the shape of some attempt to change, reinforce or prevent some aspect of public policy. We see this clearly in the case of such people as farmers and trade unionists (whom we often call 'interest groups'), but somewhat less clearly in the case of those with less organization. Yet there may even be latent interests which become actual when some act of public policy brings their common concerns to the surface. States themselves constitute interests, although we should beware of their constant iteration of their 'national' interests: these may in fact be simply the expression of special interests as represented by particular politicians or the bureaucracy, or dominant sections of society, or particular industries, or given regions or areas. Indeed, one can view the competition amongst domestic interests to grab the flag of 'national interest', and hold it high on their own behalf against foreigners, as one of the most familiar aspects of foreign policy.

It should now be apparent that in each of the contexts listed in the introductory paragraph, I expect politics to emerge because there will be competition for the resources provided by governments. This competition is not necessarily ignoble. In politics people normally seek resources for what they have decided are good causes. Politics would be much less attractive if it did not involve the thought of a good job well done, or of a proper end properly achieved. Much of the intensity of politics derives from such feelings. International aid provides many examples of them.

We may now consider each of the four contexts, and then draw some conclusions about the politics of aid in general.

Politics of aid within individual states

There is no need to demonstrate in detail that there is a special politics of aid within donor countries like the United States, Britain, Canada, Sweden and Australia. The typical situation in the parliamentary democracies is that aid programs are supported by foreign offices and defence departments (because of the influence which it is hoped they will provide), by trade and agriculture departments (because it is hoped that aid will be used to buy local goods and in the long run stimulate demand for these on a commercial basis), by humanitarian and church groups (because they wish to improve the lot of their fellow men), and by those other,
more directly political, interest groups which are concerned to right some of the wrongs of the imperialist era. Opposition comes from domestic spending departments (which want the money for their own constituents), from treasuries and other agencies concerned either to limit government expenditure or to prune inefficiency, from nationalist-minded pressure groups, and from left-inclined persons who regard foreign aid as neo-imperialism. When government revenues and expenditures are booming, there may be relatively little debate; when the opposite is the case, then the foreign offices and the humanitarians may have to fight hard to sustain a previous year's level of aid.  

Within the aid program itself, there will be politics about the balance between defence and economic aid, about which recipients should get most aid, about the weight to be given to the wishes of recipient countries' governments, about the extent to which local interests (e.g. farmers and manufacturers) should be allowed to determine the form of the aid in particular cases, and about issues like the balance between project aid and technical assistance.

The politics within the donor country, whether it is the larger politics of the allocation of funds to aid as against other governmental activities, or whether it is confined to the agencies which specialize in aid programs, is natural and in a sense proper, although it may be repugnant to those people who think of aid as all-important, and who resent other claims on the budget. It is natural because each of the interests involved has a well-articulated view arising from its position in relation to the governmental machine, and regards this view as correct. Self-interest is directly involved, whether blantly or covertly, but it is self-interest absorbed in a cause. In any case the political system is normally accustomed to incorporating and moderating divergent interests: it would be unnatural if they all suddenly agreed with one another. (Such 'unnatural' behaviour does sometimes occur in the face of national catastrophe such as war; but what happens then is that the new situation produces its own interests, and 'natural' behaviour resumes in a different context. It is the unarticulated hope of many humanitarians that the

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2 As might be expected, the domestic politics of foreign aid has been most clearly documented in the United States. Two good books are O'Leary 1967 and Montgomery 1962.
parliamentary democracies will wake up one morning to find everyone suddenly agreed that aid has become the most urgent national need, transcending all others. The effect would be essentially that of a catastrophe.)

The propriety of such domestic politics is harder to establish. Whether one regards it as proper or not will depend upon one's view of monism and pluralism as social objectives. A monist believes, implicitly or explicitly, that society should display unity in important things, and that the weight of social effort should be directed towards this end. He will deplore the proliferation of interests, and call for their amalgamation in a united urge in a particular direction, whether to the right or the left. A pluralist will accept the inevitability of the proliferation of interests in a free society, and be mainly concerned that they should have free play. (The comparison is like that between monopoly and competition as ends in economic activity.) I am a pluralist.

Monists and pluralists must both take account of divergent interests in situations over which they do not have absolute control - that is, one must recognize plurality for the purposes of political analysis, even if one does not approve. The variety of interests displayed within the context of a donor country's aid politics, already described, is a guide to the sort of analysis we should attempt when assessing the politics of aid in this or any other context. We should ask such questions as these:

(a) Which interests are discernible both inside and outside the machinery of state, and how well are they organized, (that is, who is likely to want to be heard and be able to affect decisions)?

(b) How strongly will they press their case (that is, are they interests which will press hard on public opinion, politicians and officials; if officials, do they regard their lines of policy as vital)?

(c) What means can they use to get their way (that is, if outside government, can they use the media, church groups, political parties, etc.; if inside, do they have access to ministers, caucuses, cabinet committees and the like)?
(d) How is the state machinery likely to reconcile them so that a policy eventually emerges (that is, what are the means by which compromises and decisions are hammered out – interdepartmental committees, cabinet, prime ministerial decree, etc.)?

(e) What major political impulses are likely to guide the general direction of policy (for example, in US aid policy, to what extent is anti-Communism likely to be moderated by the needs of detente; in French policy, how are obligations to former colonies to be reconciled with obligations to partners in the European Economic Community)?

Questions like these are readily applicable to the aid policies of parliamentary democracies; even though we may not have all the facts at our finger-tips, we can see that these are the questions that ought to be asked if we are to make sense of an aid program. It is less obvious that similar questions ought to be asked about the aid policies of authoritarian countries such as the Soviet Union, China and Saudi Arabia. We have become accustomed to a deafening row from contending interests when the US decides its aid policy, and a deafening silence when the Russians and Chinese decide theirs. Yet it would be naive to assume that this difference in noise-level represents a total difference of character. Monist though the authoritarian regimes claim to be, they are subject, like others, to the pressures of scarcity. Their budgets represent decisions about priorities which must have been argued over at length: there is no form of divination which can decide immediately how much will be allotted to foreign aid as against wheat or steel production, or whether Somalia should get more than Ethiopia. The difference from the democracies lies in the absence of public politics – of that appeal to public and governmental opinion which is so characteristic of the United States, though somewhat less so of countries like Australia. Within the machinery of state (which includes the Communist Party), however, much the same sort of process goes on, and could be elucidated by much the same questions – though the answers are so much harder to obtain.

It is thus possible to construct a framework for analysis of the politics of a donor country's aid program, even though it must be a flexible one. Is the same true of a recipient country's politics?
Politics of aid in recipient countries

It must be borne in mind that many of the countries receiving aid are small and are relatively simple in their politics compared to the donor countries.\(^3\) This is less true of large states with highly developed political systems, like India and some of the Latin American countries, than of many in Africa and the Pacific. Tonga, for example, has a simpler polity than the United States: if one has any access at all to the state machine, it is relatively easy to work out who gets what, together with when, how and why. In a small, relatively backward country like Nepal or Botswana, the degree of organization of interests outside the machinery of state is slight, and the range of interests within that machinery is necessarily limited. In many recipient countries there is a concentration of ultimate power in the hands of an individual, his family and his immediate entourage; this means that the analysis to be applied is that of traditional 'court politics', which would have been equally understood in the Florence of Machiavelli and the Paris of Louis XIV as in present-day Kampala or Nairobi.

Given such local limitations, it is important to recognize also that economic aid is as political for a recipient country as for a donor. What is the immediate impact of aid upon a recipient country? It is to make someone, or some social group, or some area, better off than before. When an international transfer of resources takes place, it is reflected in greater welfare in some part of the recipient country, even if this is confined to better technical training for a few people, higher proceeds from rented houses for some landlords, and jobs for more officials. We do not have to postulate any lasting or significant improvement in general standards (indeed, we should be very foolish to do so) in order to recognize that some people gain from international aid. This is the aspect most obvious to those in the recipient country. They would be less than human if they did not want to participate in the process. Western observers are often shocked by the 'corruption' revealed when the procedures of aid distribution are exposed; the matter looks different within the political structures of underdeveloped countries, where concrete gains for individuals and families are readily appreciated, while

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\(^3\) For a comprehensive account of the interests likely to be found in recipient countries, see Esman 1966.
the abstract goals of 'development', which seem natural to many western theorists, have little or no meaning. While we can reasonably expect to see that goals of western policy-makers reflected in certain parts of the governmental machinery of recipient countries (for example, by military men and western-trained economists, in their different ways, in Indonesia), other parts of the machinery will be quite indifferent to these goals, and will view the business of receiving aid as largely a matter of pecuniary opportunity.

Some of the questions we might ask of the politics of a recipient country are:

(a) Which groups and individuals participate in negotiations with potential donors?

(b) Which parts of the political and governmental machines are involved?

(c) What are the associations, within the recipient community, of the groups under (a) and (b)? Is some direct benefit likely?

(d) What countervailing pressures exist within the recipient community, and can they be felt at the seat of power?

(e) Who is in ultimate control of aid negotiations and the distribution of the proceeds? Are there brokers who operate on behalf of the ultimate controllers?

These questions are designed to elucidate the process by which aid proposals are put forward and their proceeds distributed. Just as no one would believe that donor countries' policies are decided solely in terms of specialist economists' assessments of what is most likely to lessen poverty and stimulate economic growth in poor countries, so in the poor countries it would be foolish to assume that a similar sense dictates either the planning or the execution of an aid program. Such ideas are always present in some degree at both ends of the aid transaction. They are, however, not the only ideas present, and the people holding them are not the only ones who count at either end. The people whose identity might be discovered by asking the questions just posed could be either idealists or self-seekers, or something of both. What is more important than making moral judgments about them is deciding how they operate, and
what sort of system exists, either implicitly or explicitly, to enable them to do what they do.

The political framework for multilateral aid

The third context in which we can discern the politics of international aid is that of the multilateral agency, which may be universal, as in the case of the United Nations, or may consist of a relatively small number of donors, as does the European Economic Community (EEC). One would expect to find differences of political atmosphere between agencies of which both donors and recipients are members, and those consisting only of donors. In the former case there is the likelihood of the recipients forming a coalition on the one hand and donors on the other (as has happened in the United Nations Conference on Trade and Development, though here the issues go well beyond aid in the accepted sense), with ample opportunity for recipients' propaganda to be exerted within the donor community. Such an adversary situation means, in essence, confrontation over the more emotional issues, and a degree of compromise over those in which vital interests of the donor countries are involved (for example, shipping costs, rescheduling of debts, stockpiling of commodities).

The latter case (that of OECD's Development Assistance Committee (DAC), and of some of the bodies involved in the EEC's aid mechanism) is politically the more interesting, though less can be found out about it, on account of the confidential nature of the discussions and the lack of participants whose interest might lie in continually leaking details to the press. It seems likely, however, that the politics of these bodies involves keeping as much of a united front as possible, while leaving scope for some members to exert pressure on others. In respect of the DAC, for example, it is widely believed that the USA and the Western European countries have put pressure on Japan to increase aid and to make it look more humanitarian and less businesslike in character. In the EEC's aid structures it is fairly clear that ex-French dependencies got the lion's share of aid, and that those which are closest to France in policy get the most of the lion's share, because of France's effective dominance of EEC processes (Jones 1973).

For good analyses of the politics of several UN agencies concerned with aid of one form or another, see Cox and Jacobson 1973. There is a not very satisfactory account of the DAC in Rubin 1966.
In all analyses of the politics of international aid, especially those involving direct allocation (whether by individual donor countries or by multilateral bodies), attention must be paid to the influence of professionals, that is of those whose lives are wholly spent in negotiation, calculation, disbursement, oversight and execution of aid projects and programs. Like diplomats and soldiers, these people have much in common in their experience, lifestyle and objectives, whatever country they come from. Indeed, they may become so absorbed in the techniques which they are operating as not to seem very national at all. At the same time, again like diplomats and soldiers, they are normally bound to a broad sense of their countries' national interests. They do not become 'internationalist', in the sense of moving away from national interest to a concept of what is good for the world at large, unless they become permanently associated with bodies such as the United Nations, the International Labour Office or the World Bank — though even here they will still be subject to accusations that they are serving the interests of their countries. Whether they work in a bilateral or a multilateral context, however, their concerns will be practical in character (that is, related to aid possibilities) though self-supporting in the long run (so that they are in favour of aid in the same way as professors are in favour of education: it is their universe and their livelihood).

In essence, the politics of multilateral aid reflects world politics at large. The associations and alliances of world politics reproduce themselves to a large extent at the multilateral aid level, though there are at least two modifications which arise from the special conditions of multilateralism:

(a) Since it is an understood condition of multilateral aid that there must be something for everyone, and

5 Unfortunately, as in other aspects of aid politics, nearly all the study has been done in the United States and confined to US experience. There is a useful picture of aid personnel in Benveniste and Ilchman 1969. In this regard as in others it would be unwise to ignore the hostile account of foreign aid processes in such books as Weissman 1974, in spite of their obviously partisan nature.

since internationalist professionals are likely to have a greater say in the distribution of aid than in a national program, there are greater prospects of concentration on need;

(b) Since multilateral aid is decided by a form of consensus and is not tied to the same degree of bilateral aid, it is less susceptible to direct pressure from donors. This is presumably the main reason why major donors have regarded multilateral aid as largely window-dressing, and have allotted comparatively small sums to it.\(^7\)

**Donors' competition for influence**

We need not spend much time on the fourth context of international aid, that of competition between the major powers for influence. It is too obvious to require explanation. The United States, the Soviet Union and China provide much aid as direct competition (the associates of the first two sometimes doing the work for them, but essentially in the context of competition), and view aid to a large extent as a means of either pre-empting influence within a given country, or preventing monopoly influence on the part of one of the others. One of the most potent arguments of those urging a continuance of US aid is that the Russians will move in if US aid ceases, and presumably the same things are said in Moscow and Peking. The sophisticated answer that this may be no bad thing, and that the Russians (or the Americans, or the Chinese) will find themselves in more trouble than they can cope with, has only recently begun to gain ground, especially in respect of the Indian sub-continent. Competition of the knee-jerk variety has been customary for a long time.

There is much to be argued about whether 'influence' is ever gained in proportion to the aid given. On the general plane, it can be suggested that a great power cannot count on the subservience of a smaller power unless (i) it can effectively threaten invasion and subjugation in the event of disobedience, or (ii) the smaller power's economy is so heavily dependent on the greater power's that economic threat (for example, of the suspension of aid) can bring immediate acquiescence. The Soviet Union has been able to operate under (i) in respect of some East European states, as has

\(^7\)Not only major donors. Australia is a case in point.
the USA in the Caribbean and Central America, but neither appears to have been notably successful with (ii), which the Soviet Union tried in respect of China and Yugoslavia, and which the USA has attempted from time to time with various Latin American countries. So far as the threat of withdrawal of aid is concerned, one would need to consider a good many cases before deciding how effective the threat can be. My guess is that it is sometimes effective in small matters, rarely in large.

In any event, the purpose of competitive aid is usually negative rather than positive, to the extent that it is designed to nullify someone else's influence, not to make one's own totally dominant. Clearly there are cases in which a recipient country has been regarded as strategically or symbolically so significant that not only had the adversary to be excluded but also the recipient made subservient: US aid to South Vietnam, Cambodia and South Korea was at times of this order. More often, however, the situation has been less dire, and the major powers have cheerfully co-existed as aid donors, confident that neither was exerting exclusive influence. Afghanistan is a case in point. Perhaps (who knows?) some of the Pacific islands will achieve this happy condition.

What is of major importance, however, is the extent to which aid by the great powers has become a matter of short-term political influence, rather than of the longer-term political aims which the two super-powers once had. Simplifying outrageously, one can say that 25 or 30 years ago, at the beginnings of US and Soviet aid to Third World countries, each power had a broad sense of what aid was supposed to do. US policy, mistakenly using the analogy of successful aid in Western Europe, looked to rapid economic growth as a result of aid, with enterprise spreading widely, and a consequent bourgeoisification of the politics of states emerging from colonialism. Liberal politics was to flow from economic growth and liberal economics. In contrast, Soviet theory (a misreading of Lenin?) was that newly independent states were already under bourgeois control, and that rapid industrial development was needed in order to proletarianize a working class capable of responding to Communist leadership. (Both were chary of theorizing about

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8 A valuable account of the connection between American doctrines on aid and political development is given by Packenham 1973.
the rural masses.) Common to both was the view that massive transfers of resources would produce acceptable political results through fundamental economic change.

Nowadays these visions have largely disappeared. Hardly anyone believes that the transfer of resources to any country will be sufficient to make fundamental changes in its economy or its society. Aid has proved to be too predictable in its effects, and to be far too expensive. The result has been to shrink the great powers' conceptions of aid to something closer to what they should probably have always been in realistic terms. Out of the experience of how little aid can affect a basic economy has arisen the conviction that aid need not be massive but must be strategically directed to the groups, movements and areas, and at times the individuals, most likely to be sympathetic to the great power in question, and to see that its interests are not harmed. This is an intensely political view of aid, with which economists may well struggle in vain. It is, however, now commonplace in disputed areas in Africa, Asia and the Middle East, and may well become so in the Pacific.

Conclusions

The first conclusion is that the politics of international aid, in spite of its exotic connections, is not basically different from other forms of politics. Within a donor country, the processes of struggle for portions of the budget or the national income are not noticeably different from those of other calls on the nation's purse. Within a recipient country, the struggle for funds from abroad is much the same as that for funds derived from domestic sources. Whether economists or politicians take the initiatives, the processes are much the same in these two cases. Similarly, in international relations aid is simply one amongst many means of furthering one country's cause with another or a number of others.

The second is that we cannot realistically regard aid as primarily an economic question. It can, of course, be treated as such in the abstract (in the sense that there can be speculation about what would be the economic result if aid to a particular country were of this or that character over given periods of time); but in practice aid is only one of a number of transfers of resources between countries, and is often dwarfed by others. It is, however, the most directly political of the transfers, because, unlike those
involved in trade and investment, it is made from government to government, and is subject to all the pressures of inter-governmental connections. In realistic terms it is best seen, like war, as an extension of politics through other means.

Thirdly, this point has been heightened in recent years by the tacit recognition that aid will not perform the economic and social miracles which were once expected of it. Donors will not spend enough to make major changes in the economies of recipients. The escalating expectations of the common man in the donor countries combine with the disappointing results in recipient countries to produce both reluctance and scepticism in donor governments. Aid has stabilized as a minor aspect of international economics, enlivened now and then by minor political crises.

Fourthly, at the same time as aid has stabilized as more or less a constant in the budgets of both donor and recipient countries, it has emerged as an established institution or vested interest in its own right, having its own professionals who bulk large in the domestic discussions which ultimately shape aid programs. Aid has become, in a sense, both middle-aged and respectable; stability suits it.

Fifthly, aid has become, through the circumstances just described, a matter of propaganda and influence rather than of economic change. Instead of the professionals being involved in large-scale planning for significant increases in national income, they are more likely to be working on relatively small-scale projects which are concrete and have immediate value in terms of influence and propaganda. This is economically sensible in many cases, since for recipient countries major economic achievements are out of reach, and only small-scale operations can be effectively mounted. But it also encourages the sense of short-term political gain at both ends of the donor-recipient connection.

If these conclusions are correct, what then remains for the two archetypal figures who have attracted so much of the limelight in western countries in respect of aid—the humanitarian and the economist? Sometimes they have had different approaches, but they have been basically united against those politicians, military men and officials to whom the purpose of aid has been essentially instrumental. Humanitarians have wanted people in the poor countries to get more food, clothes, shelter, health and education,
through sacrifice on the part of the rich. Economists have wanted poor countries to increase their consumption of these things through improvement of the bases of their economies, this improvement to be assisted by effective foreign aid. In both cases the aim has been only tenuously connected with the political objectives of the donor countries, as formulated by the politicians, soldiers and officials. Yet those political objectives have been the ones most ardently pursued.

Presumably there is still scope for the humanitarian and the economist in modifying programs which are basically political in aim. The humanitarian can induce some sense of necessary sacrifice, and the economist some awareness of likely economic effects. Since they are natural candidates for positions as professionals, their influence in these directions may often be considerable. Each is to be seen, however, as operating in what is basically an inhospitable environment. Politics will out.
This chapter has been prepared mainly from a review of notes and documents collected or written while the author was a member of the staff of the Pearson Commission on International Development, 1968-69. It begins by an appreciation of the work of the Pearson Commission under three heads: the type of motive to which it appealed, the type of action it suggested, and the effects on institutional structure that it envisaged. The rest of the survey considers two other topics, each broadly under the divisions of motive, action and institutions: first, the changes that have occurred in the attitudes to aid and development, and next the present problems of development in a world community, with specific implications for Australia.

The setting-up of the Pearson Commission was, in a way, a political act, and its Report (Pearson 1969) a political document. George Woods, and later Robert McNamara, Presidents of the World Bank, realized – as was indeed well known among those interested in aid – that more independent countries had recently come into being, with a strong desire for development, little skill in achieving it, and a conviction that the terms on which aid was given should be improved (Pearson 1969:vii and Byres 1973:introduction). At the same time the aid-donors, and particularly the USA, were becoming disillusioned about the effectiveness of aid, which was given for often incompatible objectives by many different countries. The composition of the Commission was clearly designed to achieve two related objectives: to increase the willingness of developed countries to go on giving aid and to eliminate undesirable aid practices by showing where and how aid could be most effective; and to focus the new demands of developing countries for reforms in aid on what was both practicable and likely to be effective.
This was not the brief officially given to the Commission, which was asked to conduct a 'Grand Assize', making a general study of international development and reporting on it in one year. However, the appointment of Lester Pearson, a devoted internationalist and shrewd politician, as chairman, and the subsequent selection of commissioners and staff, virtually ensured that we should study development questions with an emphasis on aid and on improving the flow of aid both quantitatively and qualitatively.

So far as the staff was concerned, we were well aware that the time available would not allow more than a survey based mainly on pooling our existing knowledge, trying to reach consensus and to meet the Commission's questions. We had less than one year, with four full commission sessions and six partial sessions collecting evidence from governments of developing countries (largely to be able to sense the state of feeling toward different types of development activity). We had to consider to what motives the Commission should appeal, who were our principal targets, and what modifications in the quantity and character of aid and related contributions to development we could propose with any reasonable hope of success. It was clear from the beginning that both commissioners and staff had been chosen primarily to have an impact on developed countries: the aim was to generate the political will in them to expand aid, but at the same time make recommendations that would be regarded as acceptable, even if inadequate, to most developing countries.

The focus on motivation

Our main target was the United States Congress. This was a battlefield on two fronts. The simultaneous attacks, both from liberals disillusioned with the Vietnam War and local commercial interests that had always been isolationist, against any promotion of development by the United States in the Third World, threatened a situation in which (it appeared) starvation and disease on an unthinkable scale would ravage most of the poorer developing countries. What we argued about was how we could affect American behaviour. And it ultimately seemed clear that any attempt to influence the United States Congress directly would be counterproductive. The Commission has been criticized for not coming out with any new arguments for aid: presumably because we did not spend our time trying to provide more detailed statistical evidence that - as we believed from what evidence we had - aid was often given from confused and incompatible motives, and often to ineffective
and self-seeking governments, and that these and other facts irregularly reduced its effectiveness. Further, that if aid were directed to development, using skills learnt from much hard experience, it could assist it, often considerably. We were not writing for academics but for reasonable people in aid agencies, planning ministries and voluntary bodies, who had to be convinced and also provided (if possible) with some backing of international consensus which they could use to convince politicians. We could not, however, appeal to electorates any more than to academics: we had to handle the press as best we could, and provide a comprehensible package that governments, both donor and recipient, would support in their own interest for the sake of consensus.

The motives to which we appealed were those of the 'global village': not so much world solidarity as the increasing interaction and mutual awareness of humankind and hence the impossibility of insulating, within national states, the political ideas of intervention 'to reduce disparities and remove inequities' (Pearson 1969:7). One might fairly paraphrase Pearson's statement of objectives by saying that, within the world which had been 'shrunk' by improved communication and transport, disparities had become more obvious and some direct transfer was necessary to reduce them; some of the causes of inequality had become so glaring that there was enough political consensus to condemn these as 'inequities', and these the transfer system should remove. We clearly did not suggest that all inequality was inequity.

The Report attempted to give the impression that if the aid targets (1 per cent of Gross National Product overall transfer, 0.7 per cent official and on concessional terms, and 0.14 per cent multilateral) were met and if the other conditions in trade, population, education, research, co-ordination etc. could be met, an average growth rate of 6 per cent could be achieved, with an increasing proportion of it in agriculture. It was expected that, by the end of the century, this would create a situation in which disparities would be lessened and direct interstate transfers dwindle to insignificance.

What were the other conditions, related to aid, that the Commission recommended, and how honest and factual was the suggestion that they would lead to a time limit of this kind on international income transfers?
Interrelated actions to increase aid flows were recommended. These recommendations on conditions can be analysed in several ways. One, which is relatively simple, is to follow the chapter divisions of the Report itself, which divided them into: Trade Policy; Private Investment; Partnership in Development; Development Debts; More Effective Aid; Population, Education and Research; and International Framework. This is not a particularly logical arrangement for analysis, and was selected mainly as a compromise. There were different staff pressures for presentation within a tight time schedule; a desire to group matters according to action requirements; and a desire for good sequence in the argument. Under trade the recommendations were mainly concerned to secure greater access for goods from less developed countries, at a pace depending on prevailing political constraints; on commodity agreements the Commission showed more awareness of the need to consider how supply could in fact be restricted than is now fashionable, but even the oil cartel is running into difficulties on this problem.

Under Private Investment the Report is chiefly concerned to favour avoidance of restrictions on private investments from rich countries, and has been rightly much criticized for this. This was due neither to a lack of balance in the Commission nor to unawareness by the staff of the elements of monopoly, political intervention, corruptibility and the like, which are so lightly handled in the Report and so necessary to a fair assessment of this issue. But in the final session in which this chapter was discussed, Arthur Lewis was absent on medical grounds, and without effective opposition the reasonably balanced staff paper was savagely mauled by the two banker commissioners.

The recommendations on Partnership in Development and on the International Framework were the most significant part of the Report, and the part which unfavourable circumstances in the immediate aftermath have most seriously damaged. These were that there should be adequate professional assessment of both recipient and donor performance, in groups chaired by the World Bank and the International Monetary Fund, with adequate symmetry between recipient and donor representation. These conditions were regarded as important by most of the staff - and the commissioners appeared to have been persuaded of this.
The chapters on Development Debts and More Effective Aid make recommendations which, while still allowing transfers to take place mainly as concessional loans and on a bilateral basis, would— if supervision has been of the kind envisaged— have greatly strengthened the civil servants concerned, in attempting to develop strategies that would handle both balance-of-payments problems and debt-rescheduling and the finance of IDA. It was suggested that this could be done by methods which would involve joint action, and would simultaneously hamper collusion against recipients, but could do it without subjecting the whole operation to the present spate of mass slogans, introduced as bargaining counters.

We may, however, consider the Commission's recommendations in terms of a different analytical structure. We may consider the Commission as attempting to persuade a group of separate free (though not equal) agents to engage in a related set of actions for a particular objective. The persuasion can, in such conditions, (i) be directed to each separate action or each separate agent, using known interests, likely results and rational argument; (ii) use the interrelations between the acts or the need for consensus, or both, as part of the persuasion; or (iii) propose related actions, each of which depends for its success on machinery to bring pressure on all to play their part, and can simultaneously propose that this machinery be created.

An example of the first kind of persuasion would be the attempt to influence all countries to make birth control knowledge more widely available and develop institutions (in education and social security) to make large families less of an asset and more of a liability to parents, as they have become to society. The argument for this is that death rates have fallen and a high growth-rate of population tends to reduce capital per head by using too much saving on widening, not deepening, capital; but that this pressure does not fall on the individual family.

An example of the second kind is the attempt to persuade each country not to tie its aid because this puts strong pressure on others, particularly on small donors, to preserve their balance of payments by tying their own aid and so makes all aid much less effective, while the original countries gain little or nothing.

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1 The International Development Association, a World Bank affiliate handling 'soft' loans.
An example of the third kind would be the recommendation for the World Bank to hold a special session of the Board of Governors in which all member countries would be asked to outline their programs for reaching an agreed aid target.

Structure of supervision and complementarity envisaged

A high proportion of the Pearson Commission recommendations were intended to be presented in a form in which endorsement of the Report would imply endorsement of a whole set of recommendations clearly intended as a package, and with machinery for supervising implementation, which would be both professional and multilateral. This has not been widely recognized. It was hoped that the strong interest which other developed countries would have in putting pressure on the United States to accept the aid targets, and which most of the less developed countries would have in securing professionally backed support for monitoring a number of their UNCTAD aims, would lead governments to accept the Report as a whole. It was realized that the United States Congress would probably not accept the whole package, but it was felt that external leverage of this kind was the most hopeful instrument to persuade it to go part of the way.

Some idea of the kind of structure that would have been proposed can be derived from a study of the final pages of Chapters 6 and 11. The keystone is missing from the arch that these were to form. This was the creation of an International Development Council, which was to have provided a supervisory function. The reason why the Council was omitted, and the recommendations were not presented for adoption as a single package, presented first and supported by the detailed argument of the Report, is that the British Government indicated that it intended to give strong support to the Report as a whole (and has indeed continued to do so) but could do it only if these two features were omitted. With only moderate support from France, the role of Britain was essential; but the removal of these two features of the creation of supervisory machinery and a package of complementary

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2 Byres (1972:Ch.3) sees the report in terms of leverage and attacks this as neo-colonialism. The chapter can be recommended - provided it is read in conjunction with the Report itself - as an indication of the lengths to which ideological misrepresentation can go on this issue.

3 United Nations Conference on Trade and Development.
reforms made it almost inevitable that every country would judge each recommendation wholly in terms of its national interest. Many of the detailed targets and recommendations remain as targets today, but the package deal has changed.

The paramountcy of national interest leads to the major question whether it was rational and honest to hold out the hope that implementation of the system of recommendations proposed would lead to a rate of self-sustaining growth in most of the less developed countries, and to structural changes within them, that would allow concessional aid largely to disappear within a generation.

Structures, of course, help to change motives. In the context of 1969 it was by no means unreasonable to predict that an economic structure of the kind recommended could have secured substantial growth and a momentum towards change in various components of the quality of life in the less developed countries. If this had happened it is almost inconceivable that - with effective machinery in existence for transfer of funds from rich countries to generate new potentialities in poor ones - the political will to reduce the gap still further would have given way to a revival of national separateness. However, in spite of strenuous efforts, it proved impossible to persuade Pearson - who drafted the introductory chapter himself - to leave the future more open. People need to be persuaded in terms of their existing motives, not those which (once they do in fact act) will later emerge.

**Attitudes to aid and development**

It must be emphasized at this point that the whole aid system, the whole question of development, is about national sovereignty, and about very little else. Complex cooperative activity is needed to apply some of the resources and skills that have made rich countries rich, to raising the living standards of people in poor countries. This can take place only if those in international and national institutions who are interacting and carrying out such activity can exert some leverage on the great majority whose awareness is briefer and narrower; and in general the obstacle to this is a quite irrational weight given by the majority to even trivial and short-term interests of one set of strangers - nationals of one's own country - in comparison with important interests of other strangers, who are foreigners. To make international development effective it
is necessary to give political muscle to those who, by actually working together, have learnt and are learning some of the techniques that can be effective.

Since World War II, internationalism has been counter-balanced by the enormous increase in the importance of the ideology of national sovereignty, at a time when this particular organization of our mental framework seems, at first sight, totally inappropriate. Large-scale governmental conferences take place almost every month, and conferences involving representatives of the whole planet two or three times a year. But in addition functional gatherings - for professional, social, cultural, economic, athletic or other purposes - continue to be held, with participants representing regional or national organizations. There is increasing awareness of issues that can be tackled only on a planetary scale: effects of human activities on the atmosphere and the oceans, the control of satellite communication and space exploration, the control of the activities of multinational corporations, scientific and economic activities in polar regions and their possible effects on ice and climatic balance, money and the system of international liquidity, and many other matters. Moreover, appreciation is growing that the relative stability provided for a quarter of a century by the cold-war nuclear-threat system can hardly last another decade, both because of increase in the number of nuclear powers and because of diffusion of knowledge of nuclear technology beyond military control.

In these conditions it is obviously necessary to develop effective political institutions which can transfer resources, both to create inducements and to impose sanctions, over the planet as a whole, and such institutions, once created, can also promote both development and redistribution. National sovereignty is, in this sense, a barrier to be surmounted. The concept - if treated as an absolute - is an outdated one, and the fact that the poor and deprived are, as individuals, a majority of the world's inhabitants is much more significant than the fact that governments with very limited resources are a majority of all governments. It is necessary to bear this in mind in order to retain a framework of thought within which ideologies of different nations or groups may be considered. Yet it is clear both that the sense of sovereignty within a defined territory is regarded as an important political weapon in the hands of the deprived majority, and that the creation of an ideology within a territory is an important tool for creating identity and security within
defined frontiers. 4

This requires us to take a fresh look at the concept of leverage. The kind of leverage envisaged by the Pearson Commission was meant to be leverage by those who were concerned with development, and were learning by experience to persuade those with more limited awareness to act with a longer time-span in view and in terms of wider interests. Essentially it was concerned mainly with expertise rather than with conflict of interest. There was no denial that such conflict could exist, but rather a concentration on matters in which a broader awareness would produce consensus on ends, and on means to achieve them.

The 'substitution of political for economic leverage' (Haq 1976) can mean that the prevailing popular ideology of a group becomes a part of the negotiation system. Increasingly leverage is being used in terms of oversimplified ideologies employed to generate consensus and weaken opposition. Yet the process of communication is only partly one of mutual confrontation and manipulation. It is partly one of mutually modifying motives so that they can lead to agreed results, and this involves adjusting the ideological structure.

The main motive to which appeals are now being made is that of a New International Economic Order based on complete national sovereignty, and sovereign equality, but involving a charter of the rights and duties of states (United Nations 1975a, 1975b, 1975c). But rights and duties imply a code of behaviour, and this can only be operative if it is either universally and continuously accepted or if there are institutions that can enforce it. So long as there is such strong emphasis on sovereignty, majority decisions have no effect unless the actions of the majority bring enough economic or other pressure to induce the rest to conform. There was some alarm before the Sixth Special Assembly of the UN of 1974 that, if the expected confrontation between less developed and industrialized countries came about, the UN would be so weakened that it would be virtually destroyed. This alarm was not, of course, shared by the electorates of industrialized countries and the pressure had little effect in modifying their governments' stance.

4Some indication of this can be found in the section on Africa in the appendix to the Pearson Report.
In the Seventh Special Session it was recognized by the Group of 77 that whatever may have been decided by majority vote in the 1974 General Assembly in adopting the Charter of Economic Rights and Duties of States — actions that had to be taken towards a New International Economic Order were plainly within the sovereignty of the industrialized countries and could be taken only by their governments. The attempt therefore was to use the session in what Mr Peacock has described as 'a struggle for the agenda'.\textsuperscript{5} A large number of detailed resolutions were in fact agreed which committed the industrialized countries not to actions but to negotiations. However, the leverage used in the negotiations themselves still takes very little account of the realities of national sovereignty in industrial countries. President Nyerere may say that the people of the rich countries speak like poor people, but are in fact rich, and that an increase in their price of sugar is only a minor inconvenience compared to its importance to the genuinely poor producers; but a rise in the price of sugar causes a reduction in real incomes, clearly seen as such by many unions which are well able to bring pressure to bear on governments. It appears to be a fact of life in the present politics of most industrial countries that pressure from quite a small number of powerful unions or industrial groups — if unmatched by other internal pressures — will suffice to offset almost any risk in foreign policy short of nuclear war. The bargaining resources available to less developed countries to force industrial countries to give up unambiguous national interests are in fact still very limited.

Much more significant are arguments, for example by Mahbubul Haq and Paul Streeten, that the Group of 77 should make common cause with particular pressure groups within the industrial world, on individual issues. It is noteworthy too that Michael Manley, Prime Minister of Jamaica, gave as one of the key issues in a new world order 'the problem of political leadership accepting a redefinition of the exercise of sovereignty'.

One should not, however, hope for too much immediate willingness, on either side of the debate, to limit national sovereignty. Both sides see in national sovereignty their necessary protection from the other side. This makes progress toward any international commitment difficult.

\textsuperscript{5} Speech at the National Press Club, Canberra, on 'The Emerging Agenda', 18 November 1976.
However, there is some evidence that, since the Seventh Special Session of the UN General Assembly in 1975, there has been some movement towards identifying the areas in which progress is possible. Institutions need to be modified to make growth possible in the limited areas in which this can be achieved.

In exploring how this can be done we can look at the bargaining role of national sovereignty on both sides of the debate. In the less developed countries sovereignty has - for the most part - been recently won within an area usually defined in terms of former colonial rulers' administrative convenience and possessing little inherent national identity. The possession of the national territory was, in the early days of independence, seen as a sufficient condition for rapidly eradicating the poverty from which its people suffered. The fact that this has not happened has therefore to be attributed to neocolonialism in the rest of the world - which certainly still exists but is hardly now significant - rather than to any error in the original expectations; for these countries correctly see that they need to exert pressure, and their territorial sovereignty is their major weapon and itself needs to be maintained against external pressures. They are, in Myrdal's terms (1971:Ch.7), 'soft' states, in which particular interests, like multinational corporations or even individuals, like corrupt civil servants, can render public policy ineffective rather than simply influence its direction; and their power to act at all depends on mobilizing national will against excessive outside threats by techniques learnt from totalitarian states of the right or left.

The Pearson Commission, because of its composition, clearly overestimated the possibility that it could mobilize pressure to generalize, to the world as a whole, the existing concern for social justice within nation-states, merely by emphasizing the fact that this concern would wither within our nation-states themselves if it were not so generalized. We can accept the fact that the Commission expected too much even if we believe - as I do - that the bargaining power of less developed countries, based on territorial sovereignty (even if combined with all attainable solidarity among such governments), is hopelessly inadequate, and their own professional commitment and technique far too weak, to have much impact on world poverty without the type of additional pressure which the Pearson Commission hoped to rally.
In the industrialized countries national sovereignty is a different kind of bargaining counter. These are, on the whole, 'hard' states, in Myrdal's terms. Government policy does not extend to every area of national life, but in those areas to which it does extend it is carried out pretty effectively. Internal pressure from particular interests can operate at either the political or the bureaucratic level, but it results in a reasonably articulated and agreed policy and does not to any considerable extent operate to weaken the effectiveness of the state machine. There are, of course, many individual citizens and independent institutions which have interests abroad, but these tend to influence political policy through appropriate channels, giving rise to a perceived system of national interests that the government tries to protect by force, diplomatic pressure and political interaction with other states. Clearly the smaller and weaker a 'hard' state is, the more likely it will be to sacrifice something of its national interest to secure a system which is predictable, in which it can enjoy some freedom of action. But all 'hard' states value some order and predictability in their environment which will protect their freedom to preserve an orderly way of life.

The area in which negotiation that will limit national sovereignty is most likely to be effective is in modifying the structures of international relations - in trade, finance and transfer of knowledge and skills - so that it will help to diminish poverty in poor countries but do it in an orderly manner. In so far as these structures are controlled by international bodies, any multilateral system is likely to be related to the United Nations in which less developed countries have a large majority. Moreover in this area some kind of international system is necessary, so that there are already restrictions on national sovereignty in the form of institutions with coercive powers (in finance) and networks of agreements (in trade). Nevertheless relatively little progress has been made, with three exceptions: some expansion and extension of non-reciprocal preferences for manufactures from less developed countries, but without international machinery to enforce this; some progress in initiating negotiations on the financing of buffer stocks to stabilize commodity prices; and a small step by the International Monetary Fund (IMF) towards automacity through a trust fund for loans to less developed countries financed not by
contributions but by a sale of gold.  \^{6}

Limited success in these fields might have been extended by better understanding of political constraints on both sides. It is very difficult for industrialized countries to make a system of preferences for less developed countries automatic unless the ground has been prepared by appeals to internal pressures, for example, by consumers; but more emphasis on cost reductions and less on transfers might have helped towards acceptance of a sanctioned general agreement. On the other hand it would be unreasonable to expect consensus on the side of the Group of 77 if there were no stress on transfer of wealth to poorer countries, but this might have been expressed with more political sagacity.

On the questions of buffer stocks and monetary reform, there are reasonably valid technical reasons for resisting the pressures of the less developed countries. Differences in elasticities of supply and demand almost certainly make it inefficient to stabilize prices of all commodities of interest to less developed countries in a uniform manner; but it is unreasonable to expect the Group of 77 to accept the weakening of its position which a completely piecemeal approach would imply. Similarly there are serious difficulties in creating a firm link between Special Drawing Right (SDR) creation and financing development of less developed countries unless there are very strong barriers which prevent this from leading to creation of SDRs merely so as to redistribute income, when additional liquidity is not needed. However, the effects of short-term pressures exercised by the IMF, in the past, on some countries' development plans, make it unreasonable to expect less developed countries to abjure any chance of exercising influence on the IMF merely because it it creates some liquidity.

Control of the IMF and the World Bank introduces the problem of international institutions in relation to sovereign equality of states. Since Bretton Woods - when the IMF and World Bank were founded on a basis of weighted voting - the UN system and all its affiliated agencies have worked on the principle of one nation-state one vote (except for veto arrangements on the Security Council). This gives the average

\footnote{The less developed countries had, of course, hoped for automatic transfers by a link between the creation of Special Drawing Rights and the financing of development of less developed countries.}
Cypriot about a thousand times as many votes as the average Chinese, and is patently inconsistent with any ideas of human equality.

From the point of view of industrialized countries, any international organizations which engage in operations, and not simply consultations, should be run mainly by professionals qualified in the tasks that have to be undertaken. This was, on the whole, the Pearson Commission pattern of international operations, though at least the Pearson Report envisaged bilateral monitoring of donor and recipient performance. The pattern today is to envisage at least some international activities, such as those of UNCTAD and UNIDO, as trade-union type actions, articulating pressure through the United Nations on behalf of less developed countries. Such pressure, however, can be compatible with some degree of national sovereignty only if it can lead to automatic action, in accordance with defined circumstances, by professional bodies that have powers defined by agreement.

I feel convinced that pressure does indeed need to be exercised, mainly by the less developed countries themselves. This I base on my involvement with the Pearson Commission, and later the signing of the Columbia Declaration (Ward, D'Anjou and Runnalls 1971:10). I realise that our Report neither went far enough nor was it even allowed to appear in the form intended. Most of us who are concerned with aid would wish such pressure to succeed in greatly diminishing existing disparities. However, we would not necessarily wish it to succeed in achieving the kind of changes towards which it is now being directed, nor that such charges are a practical reality.

The industrialized nation-state is not particularly well designed for responding to minor pressures from its political environment. It has teeth and claws, a well-developed roar, quite efficient sensors for reacting to its enemies, but is not a very effective social animal; it is apt to be quarrelsome and dangerous when provoked. We need to try - on the way to eliminating the dangerous beast from our planet - to help it to be more sensitive and responsive.

However, while some of us would - for the sake of improved distribution and improved relations - be willing to

7United Nations Industrial Development Organization.
put such weight as we could behind some of the UNCTAD demands, few who have read the Lima declaration would wish to strengthen UNIDO in its present form (UNIDO 1975). Not content with repeating some of the industrialization idiocies of the early 1950s, it seems to have spent its time hunting out new examples of impracticality. There is much negotiating to be done, and we need to inquire whether our existing institutions, especially in Australia, can be modified to enable this task to be carried out more effectively.

To what motives do we wish to refer, here in Australia, dealing with institutional aspects of international development in the world of the last quarter of the twentieth century? Most academics and aid officials feel an obligation to persuade Australians to accept sacrifices in living standards if these would raise living standards in the less developed countries. The conviction that sacrifices would help, however, is essential.

The ethical case that needs to be furthered in developed countries seems to me a twofold one: first, to attempt to explain that the rhetoric of less developed countries is by no means wholly without foundation and is necessary to their solidarity and pressure; and secondly to welcome the pressure, without wholly yielding to it, as a means of getting agreements made and institutions established which will genuinely reduce disparities and mitigate inequities in the world economic system.

How can we set about doing this in institutional terms? First of all, we need to strengthen institutions by which those attending international gatherings bring some feedback to their own country. It is of very great importance that the electors, especially of small countries, should be exposed as much as possible to the subject matter of international conferences. This seems to imply that placing an Overseas Development Bureau within the Ministry of Foreign Affairs is missing an important opportunity, unless we wish all the conduct of foreign policy to be democratically run, which is unlikely.

The Ministry of Foreign Affairs has highly complex interests to negotiate, often involving the secrecy that is essential for interactions in small groups within larger groups. It will, in some degree, look upon the interests of citizens of related countries - Commonwealth countries or Papua New Guinea for example - as important, though less
important than Australian ones. If aid officials are in this Ministry they will either be merely play-acting when they take part in international conferences, or, if they are influenced, they will try to influence their Ministry. This, however, is what Foreign Ministries have to guard against in their embassies, which must report the country's problems but maintain their own national interest. It is only in so far as a particular concern has become, say, a sufficiently popular cause in Sweden to be a Swedish interest that it is appropriate for the Swedish Foreign Ministry to press it.

If those engaged in international development activities participate in sessions where they are under some moral pressure, they should indeed be limited in the actual negotiations by briefs reflecting the current state of opinion and current interests; but they should be members of a semi-independent agency, with powers to mobilize and articulate local response if they consider the response inadequate.

There is not, however, much point in having an independent agency, represented in Cabinet through some other Ministry than Foreign Affairs, unless some political support from opinion-forming bodies could in fact be mobilized. Would there be any stance that Australia could adopt that might carry some bargaining power internationally and at the same time attract popular support here?

Other small, but relatively rich, countries like Sweden, the Netherlands and Canada have been able to capture useful initiatives: a small country is normally less constrained in external policy by the need to reconcile a large number of internal issues. Australia, by its very name, position in the heart of the 'South' in the North-South dialogue, and ex-colony status should not be taking such a low profile.

In the immediate future it might be able to take an initiative on the issue of commodity-price support. This is an issue on which the industrialized countries have a good technical reason for opposing a comprehensive scheme covering commodities of interest to less developed countries as a whole; this is that it is always difficult to avoid making such a scheme an instrument for stabilizing prices upwards, and different commodities would have very different long-run elasticities of supply. This factor would be likely to wreck the scheme if it were mainly organized, as it at present appears to be proposed, with an eye to political
consensus among the group of less developed countries, rather than to effective operation. The main reason for the opposition of industrialized countries, however, is no doubt the fear that the resultant long-run raising of commodity prices would create further inflationary pressure on their economies unless they did in fact take politically unpopular steps to limit their own rate of income-growth. That, however, is what the proposed scheme of price control is all about: it is intended to redistribute income and not merely to smooth it over time.

It would probably not be impossible for Australia to propose a buffer stock and control scheme that would cover at least a range of commodities, with provisions for relative adjustment of prices in accordance with technically determined criteria, that could effectively produce some income transfer if discipline was observed by the participating countries.

It is possible to imagine an Australian Development Assistance Agency, which had developed along the lines of the Canadian International Development Agency, seeing an opportunity to mobilize support for such a scheme, working it out in detail, and putting it forward in the negotiations.

Since politically this would be incurring bad marks in the United States and Britain in return for good marks in most of the less developed countries, the 'internationalist' countries, and possibly France, there is virtually no chance that it could be proposed by our existing aid machine, which would have to argue the case, without articulate outside support, within the Ministry of Foreign Affairs. However, with a different internal structure, an initiative of this kind could be a first step in a series of initiatives for professionally operated, automatic, disciplined activities, gaining international political support because they were, on the one hand, transferring income from the minority of rich countries to the majority of poor ones and on the other increasing the effectiveness of international co-operation.

This may be, like our work on the Pearson Commission, a frustrated daydream, because the political base, combining popular pressure with technical discipline, is still lacking. Unless, however, our institutions can change so that they are responsive both to changing political pressures and new technical knowledge, we may leave our grandchildren a choice between a world run by totalitarian commissars or one
dominated by increasingly harsh controls administered by a 20 per cent rich minority; if, indeed, the alternatives do not destroy one another and most of the world.
Chapter 3

Problems of the aid recipient country

H.W. Arndt

Most of the contributions collected here naturally look at problems of aid from the point of view of the donor country. The concern in the main has been with the difficulties of giving aid. This chapter will focus on the difficulties of receiving aid, on the problems faced by the recipient country. For the evidence of the less developed countries' (LDC) point of view I must rely largely on what I have read and on what I have observed at fairly close quarters in Indonesia.

One preliminary point to clear the ground: I shall be writing almost entirely about official aid, that is to say, government-to-government bilateral aid and multilateral aid to governments. This is, in practice and inevitably, much the larger part of international aid. There are only two exceptions. One is voluntary aid, by churches and other charitable organizations, which is often given to private groups and agencies but always with at least the tacit approval of the recipient country's government. The other is aid to political opponents of the country's government, rebels or insurgents, such as the aid given by Hitler and Mussolini to Franco during the Spanish civil war, by the Allies to the European underground during World War II and by Hanoi to the Vietcong during the Vietnam War. It is sometimes suggested that, if aid is to promote development in countries ruled by reactionary governments, it may need to aim at 'shifts in political power and leadership styles' (Retzlaff, below:p.166). But this is at best a romantic notion and at worst a recommendation of warfare. It is certainly not what we are concerned with. For all practical purposes, we may therefore take it for granted that aid is aid to governments, good or bad. To a large extent, the problems of the recipient country are the problems of its government, or at least to the nation as seen by its government. This means, incidentally, that there is one objection to aid that need not trouble us. That all foreign aid in various ways
strengthens the government in power in the recipient country is true but irrelevant in our context.

We may conveniently consider the problems for the recipient country under two broad headings. First, the problems presented by the aid relationship as such; and second, problems presented by particular kinds of aid.

Self-reliance: the case against aid

Much has been said and written in recent years about the virtues of self-reliance for developing countries, and indeed a strong case can be made against acceptance of any foreign aid.

The strongest statements of the view that most international aid since World War II has done more harm than good to the recipient countries, and that they would be better off without it, have of course come from the radical end of the political spectrum, especially from neo-Marxists who condemn 'aid as imperialism' (Hayter 1971) but they do not really reject all aid. Their opposition is directed at aid from capitalist countries, and especially from the imperialist super-power, the United States. It rests on the view that all western aid has been an instrument of neo-colonialism, that it has hindered real development by propping up reactionary regimes, strengthening existing ruling elites and thus preventing necessary institutional change, importing inappropriate technologies and generally perpetuating a dependency relationship between the developed 'centre' and the underdeveloped 'periphery' (Sunkel 1972; Chilcote 1974). Most exponents of this view applaud Soviet aid or Chinese aid which they see as free from these faults.

But qualms about the benefits of aid are shared by many others. The most obvious financial costs lie in accumulating debt burdens on credits which are really aid only to the extent of their grant equivalent and on profits of direct private investment which, however, beneficial to development, is not properly to be regarded as aid at all. Apart from this, the most serious costs of aid to the recipient government are the limitations it may impose in various ways on its own freedom of action, in other words, the 'strings' attached to it.

The poor country or government that seeks aid from a rich donor government or international agency is ipso facto
in a weak bargaining position. In the extreme case, such as Taiwan and South Korea in the 1950s or Cuba in the 1960s, it may surrender virtually all independence in foreign policy and accept a satellite status. But some risk of 'strings' is almost inescapable in the aid relationship. Not only does a government that accepts large-scale aid run the risk of serious disruption of its economy if the donor should for any reason decide suddenly to cut off aid, as China found in 1956, but there is also a continuing vulnerability to pressures exerted through the terms and conditions on which aid is offered.

For many years, those who wished to pillory interference in the domestic affairs of recipient countries would cite the role of the International Monetary Fund. Particularly in Latin America, the rules for restoration of price stability through fiscal and monetary restraint which it had devised were denounced as inappropriate to local conditions and conducive to stagnation rather than development (Eshag and Thorpe 1965). Similarly, when the World Bank developed performance criteria for selection of aid projects and performance tests for their continuance, LDC critics were quick to cry 'neo-colonialism' (Patel 1971:299). More recently, pressure on recipient governments to toe the line has tended to come from those who, in the spirit of Sussex, Mr McNamara and the ILO, believe that social objectives, such as employment, equality and basic needs, should be given priority over economic growth and who are only too ready to impose this debatable view on recipient governments as a condition of bilateral and multilateral aid.

The danger of 'strings', however, while it needs to be guarded against, is not as strong an argument against aid as some have suggested. Performance strings, whether of the IMF or the World Bank kind, or even of the Sussex variety, may be positively welcome to the technocrats of the recipient government, as a reinforcement against the pressures of local politicians, vested interests, bureaucratic inefficiency and corruption. And there are ways of loosening the strings that donors might attach to aid. One safety valve is 'fungibility', the ability of recipients to divert to other uses the domestic resources set free by specific foreign aid. If a donor government insists on providing gratis military hardware that would otherwise have to be bought, this frees foreign exchange for civilian uses, and vice versa. So, within reason, why not humour the whims of donors? I shall return to this point later. Another, more
important, safeguard is diversification of sources of aid. The recipient country is obviously most exposed to pressure from a single powerful donor; much less so from a consortium. When its favours are sought by rival powers, it may be in a strong position to call the tune, as Sukarno appreciated in the late 1950s and Hanoi in the late 1960s. In any case, so sensitive are all governments to charges of interference in the domestic affairs of others that aid donors generally lean over backwards to avoid at least overt pressure through strings attached to aid.

A more fundamental case for self-reliance, for doing without foreign aid, is that all aid by others, in its nature, saps the will to help oneself. This objection has been most commonly advanced against US shipments under PL480 and other food aid which not only inevitably depresses domestic food prices in the recipient country and thus price incentives to farmers but also, it is said, by reducing the urgency of the food problem, reinforces the tendency of urban planners to neglect agriculture. Nothing, as Dr Johnson would have said, so concentrates the minds of politicians on domestic food production as the imminence of famine. The same objection has been applied to other forms of aid. External capital aid, it is claimed, reduces domestic saving (Papanck 1972). Transfer of technology, through direct investment and other channels, discourages domestic R & D effort.

There is substance in all these arguments, though the extent will vary a good deal according to the circumstances. But do they really amount to a case against accepting aid? Provided the reduction in domestic supply only partially offsets the addition to the supply of food, capital or technology from abroad, there is a net gain, at least in the short run. It is of course arguable that, if food aid discourages efforts to increase domestic food production, it benefits the present at the expense of future generations. But the same is true of famine relief, or indeed of medical aid which, by reducing the death rate, adds to the difficulties of raising living standards in the long run. How far can governments of poor countries be expected to practise self-reliance at the expense of the welfare of their citizens?

The case for self-reliance is, in the last resort, the puritan case against charity, against welfarism. Mendicancy is incompatible with self-respect. The most important element in an effective development strategy is national will, and this requires above all national pride. To puritans
like myself, such reasoning makes a strong emotional appeal. But there is wisdom in the warning that policy makers in developing countries should 'not overdraw the singular virtues of self-reliance in personal behaviour into national policy' (Minhas 1977). Deliberate choice of self-reliance is a development strategy of belt-tightening and ruthlessness, much like the Stalinist strategy of forced industrialization. In practice, for all the talk, self-reliance has usually been a matter of making a virtue of necessity. Sukarno's Indonesia and Mao's China rejected aid only when no more was forthcoming. The only case of a country refusing available aid that comes to mind is Burma under both U Nu and General Ne Win, and that is not exactly an advertisement for self-reliance as a development strategy.

There is also an irrational emotional case for self-reliance. When intelligent, sophisticated officials of LDCs have to allow themselves to be lectured and hectored by bumbling, obtuse, arrogant 'experts' merely because these 'experts' represent rich donor governments or international banks; when they find the high salaries and large expense accounts of such experts debited against repayable credits labelled 'aid'; when they are solemnly informed by self-righteous moralists in donor countries that the extent of corruption and administrative inefficiency in their countries throws serious doubt on the propriety and wisdom of providing further aid, then one cannot be surprised that, in their rage and frustration, they feel like yelling, with Sukarno: 'Go to hell with your aid'. But, as intelligent, sophisticated officials, they grit their teeth, make polite or rhetorical contributions to the North-South Dialogue pointing out that there would be no need for aid if the world's resources were less unjustly distributed and meanwhile try to negotiate the most useful, least damaging aid program they can.

The art of receiving aid

The decision to accept aid having once been made in principle, the task for the recipient government is to make the best of the aid offered. All forms of aid present problems. To cover them all in this paper would mean giving a resumé of the vast aid literature. Let me illustrate the issues with reference to each of the main types of aid or, to use the preferred term, development assistance, by drawing on Indonesia's experience.
Balance of payments support. The most welcome form of foreign aid has always been convertible foreign exchange, for that buys anything, even foreign experts. But it is rarely offered, and then usually on such stringent conditions as attach to IMF stand-by agreements. The next best thing is donor-country currency, such as Indonesia received from the Inter-governmental Group on Indonesia (IGGI) consortium from 1967 until 1973. This has the disadvantage of being tied. In the IDDI case, the currency of some donors did not sell well, either because they had nothing much useful to sell or because their products were expensive or because use of the currency was subject to onerous conditions (as in the case of US dollar which required costly shipment in American ships over long distances).

Donors have usually been reluctant to see their currency used for the purchase of all types of imports, on the ground that aid is supplied for development investment, not for current consumption, especially consumption of luxury goods. In Indonesia, such aid - so-called DK (credit exchange) aid - was therefore available only for imports of goods on a priority list. In the early years of the IGGI program, the Indonesian side would point out that massive imports of consumption goods, such as rice and textiles, were essential to their efforts to stabilize prices and thus to restore the conditions for development, and this point was conceded by the donors (Arndt 1975:90). Later, the Indonesian policy makers found the limited list of DK goods convenient as a means of protection domestic import-竞争ing industries which were liable to suffer from aid that too generously extended Indonesia's capacity to import.

Food aid. Somewhat similar considerations apply to food aid. From the point of view of the donors, food aid began as nearly costless surplus disposal, but in more recent years, when wheat and other foodstuffs have been readily saleable in world markets, it has been more nearly equivalent to supplying foreign exchange and therefore less liberally offered. From the recipient country's point of view, food aid is priceless when it saves lives in periods of famine. In more normal circumstances, it confronts recipients with the trade-off we have already discussed, between better nutrition now or more domestic food production later (subject to the usual distributional complications, such as the tendency for rice imports in Indonesia to benefit public sector employees and the urban and rural poor at the expense of not quite so poor rice farmers).
All aid which enables the recipient government to sell additional goods at home, whether DK-financed imports or rice or wheat, has the additional advantage that it not only adds to market supplies but also extracts purchasing power from the public and thus has a doubly disinflationary effect. Without this effect of IGGI aid, it is very doubtful whether the Indonesian stabilization program of 1967-69 could have succeeded. Food aid can, however, present special problems if, for example, the donors offer wheat to a country that eats rice and has neither flour mills nor bakeries. In Indonesia's case, this problem was partially overcome by shipping wheat flour until domestic flour mills were built and partly by the invention of bulgur (wheat processed to be edible, if not palatable, after boiling like rice). Moreover, if food aid, like PL480, is on credit (however soft and deferred) it builds up debts, and can be very expensive if, like PL480, it is valued at donor country prices and is transported in donor country ships (Glassburner 1969).

Project aid. Donors prefer project to program aid because it gives them maximum control over the use of their money: the purpose for which it is used, the efficiency with which it is used and usually also the goods on which it is spent. For these very reasons, project aid can be troublesome to the recipient government.

Even if the donor government is imbued with the best motives, and is not primarily concerned with export promotion, its views on what is good for the recipient country's development are bound to carry weight, if only because it must be convinced that projects requested by the recipient government make sense; and this applies equally to multilateral project aid by international agencies. The more conscientious the donor, the more careful its pre-investment surveys, its built-in safeguards for efficient procurement and implementation, the more the choice and shape of the project will be influenced by the donor's experts and the longer will tend to be the delays and frustrations. Such safeguards, however, should be judged over the longer term. Every one of the Soviet aid projects for Sukarno's Indonesia (except the Ganefo stadium, a luxury consumption good) was a disastrous failure precisely because the Russians were so anxious to gain political kudos by agreeing to Indonesia's requests, sight unseen; while the two US turnkey projects which caused endless friction and unpopularity during the long pre-investment stage, the Pusri fertilizer plant and the Gresik cement plant, worked like clockwork once they
were handed over and proved invaluable (Shakow 1964). One possible answer to the obvious inference from this story is that recipient countries must be left free to learn from their own mistakes. But one wonders. What the Indonesians learned was that to make effective use of such aid they needed, for some time yet, technical assistance at every stage of a project.

Every aid project imposes costs on the recipient government, costs of debt service if it is financed by interest-bearing and repayable credits (though in conditions of chronic worldwide inflation the real interest burden may be small or negative), costs of distortion of its own preferred pattern of investment, and costs in terms of one of its scarcest resources, the time of its own high-level administrators. The problem for its policy-makers is to ensure that the project aid program consists as far as possible of those projects for which the likely benefits exceed the likely costs by the greatest margin.

The costs of distortion are probably very much less serious than they have recently been painted in the aid literature. It has become a standard charge against western-type project aid, multilateral as much as bilateral, that it has tended to be biased in favour of large-scale, capital-intensive infrastructure projects, frequently serving the modern, urban sectors of the economy, and has neglected both the major important areas of grass-roots rural development and social objectives, such as greater equality of income and wealth and mass participation. This criticism seems to me fundamentally misconceived.

Even if we accept the view that rural development and social objectives deserve much higher priority in development policies of LDC governments, it does not follow that they also deserve high priority in bilateral or multilateral aid programs. Provided aid projects are such that they have a legitimate place in the recipient government's total development program, the criterion for selection should be not what is most important but what foreign aid donors are good at. Most of the tasks that most need doing in rural development and institutional change are quite unsuited to be carried out by foreign governments or international agencies, either because they require prolonged day-to-day contact at village level by people who speak the language and understand the problems of villagers or because they touch on politically sensitive issues. What foreign donors
are good at are precisely the large-scale infrastructure projects which require capital, efficient management and technical knowledge. If Jakarta needs a better telephone system to work at all efficiently as a city, if Indonesian airports need navigation aids, if Sumatra needs a highway, if ports, irrigation works and plantations need to be rehabilitated, then it is no criticism of aid projects in these fields to point out that rural development is more important.

This is why fungibility is so valuable. If foreign donors undertake projects for which domestic resources would otherwise be needed and if the domestic resources are not so specific that they cannot be put to other good uses, it is clearly sensible to take advantage of such aid. It may even be worthwhile accepting as aid a project that would not rate high enough priority to be included in the recipient government's priority program, provided it does not make excessive claims on complementary local resources. In this way, it may even be possible to make occasional concessions to donor idiosyncrasies, letting them build a polytechnic here or a livestock research station there, or concentrate all their aid in Scandinavian fashion on family planning or public health.

However, a proviso on administrative costs is important, and it is particularly relevant to aid projects by small donors. The costs of a $0.5 million aid project by a small donor country, in terms of the time and energy of high-level administrators of the recipient government which it absorbs, may be almost as great as those of a $200 million project by the World Bank. To the officials and politicians of the small donor, it may be just as important as to the officers of the World Bank to be able to demonstrate to their masters that their money has been efficiently spent on a worthwhile project. But the real cost to the recipient government per dollar received may be 200 times as great. I have more than once heard Indonesian technocrats quietly groaning at the thought of having to find and shepherd through all its stages yet another project suited to the purse and pretensions of an importunate small donor government. That is why I suggested some years ago that Australia might do well to channel most of its bilateral project aid through the World Bank (Arndt 1970). The suggestion, needless to say, fell on deaf ears.
Technical assistance. Since what the developed countries can best supply and the developing countries most need is know-how, technical assistance has increasingly come to be regarded internationally as the best type of aid. It also appeals to donors because the average cost per project is relatively small, it lends itself to aid in small doses, it does not prejudice questions about appropriate technology, and it is relatively easy to administer at the donor end since experts are relatively easy to find on suitable terms and conditions.

For the recipient country, by contrast, technical assistance presents some of the greatest difficulties. Much has been written about experts in LDCs and I need not go over the ground again. Let me take Australian technical assistance to Indonesia as an illustration. The number of Australian specialists in potential technical assistance areas who can effectively communicate in Indonesian probably does not exceed two or three dozen, yet the usefulness of specialists who cannot communicate in Indonesian is severely circumscribed. Most Australian professionals expect terms and conditions for technical assistance missions, or are required to accept conditions, such that the cost of one man-year was put at $50,000 even three years ago and is now much higher. To negotiate a single technical assistance project absorbs numerous man-days of relatively high-level administrative work on both sides, and the attentions which the expert expects, or courtesy and diplomacy require him to be given while on mission absorb many more, at least on the Indonesian side. There is a limited supply of effective counterparts, technical assistance competes for time with the day-to-day duties of the officials who are being assisted, and there are often believed to be security and other constraints on the use of foreigners. For all these reasons, both Australia's capacity to give technical assistance and Indonesia's absorptive capacity are smaller than is sometimes realized.

To put it bluntly, it is simply unrealistic to imagine, as some critics of project aid seem to do, that anything like the current volume of bilateral and multilateral development assistance could be switched from project aid to technical assistance. I doubt whether a country like Indonesia has the absorptive capacity for even a doubling of the present flow of technical assistance from all sources.
Training. On the problems of aid through training, whether of LDC nationals in the donor country or through institution-building in the recipient country, there is also an ample literature and I have nothing original to add. The chief problems in the former situation are those of alienation and brain-drain; those in the latter situation the high costs and great difficulty of technical assistance in this particular form. Only a very large country, like the United States, or a very well-heeled foundation can really undertake educational institution-building on a significant scale. All a small country like Australia can do to upgrade teaching and research at tertiary level in developing countries is so marginal, as the grandiosely titled Australian-Asian Universities Co-operation Scheme has demonstrated, that it plays much the same role as voluntary aid: it is good for the self-respect of the donors, good (one hopes) for the immediate beneficiaries, but of no significance to the overall development of the recipient country.

Conclusion

Aid is a difficult business, for recipients as for donors. But there seems little point in making it more difficult than it need be. In terms of comparative advantage, it would seem best for the donor country to concentrate on higher technology, capital-intensive assistance to which its factor proportions and its technical skills best suit it, leaving to recipients the possibly more important, and certainly more intricate and sensitive task of undertaking small-scale rural and poverty-oriented programs.

I am, as I have explained, not all that much concerned about the problem of 'string' or dependence. Performance tests required by donors may be positively helpful, the risk of distortion of the preferred development pattern is limited by fungibility and, in the last resort, the recipient country can say: 'Go to hell with your aid'.

Self-reliance to the point of rejecting all aid means throwing out the baby with the bathwater. But I am impressed by the psychological burden on the recipient country of any aid relationship which smacks too much of charity, on the one side, and mendicancy, on the other. From this point of view, an idealistic insistence in donor countries on the humanitarian motive for aid, however noble and perhaps
helpful in coaxing dollars for aid out of taxpayers' pockets, can only do harm. From the point of view of the morale and self-respect of the recipient countries, the less rhetoric about humanitarian motives and the more cool presentation of aid as being in the donor country's enlightened self-interest the better. If we all came to see aid frankly, like trade, as a two-sided business relationship in which donor and recipient both pursue their respective national interests as they see them, the moral argument for self-reliance as a matter of dignity and national pride would largely disappear.
Chapter 4

Problems of aid administration and policy formulation among western countries

N. Viviani

What we are about to describe, then, is a power struggle in which ideas — in particular the conception of the program — played a major role both as weapons and as motives for empire building. The conceptions were weapons because they could be used by the particular administrative units that represented them to advance their claims to a larger place in the program. They were motives for empire-building because the administrators of these units saw the broadening of the functions of their units as the principal means for implementing their conceptions of the program. I do not believe that this kind of power struggle was a peculiarity of ECA, but rather that a deeper analysis of the phenomenon of empire building in government and in business would show that these elements are always present and very often are of central importance.

Herbert Simon's description (1953:251) of the evolution of the Economic Cooperation Administration

Simon's discussion a quarter of a century ago of what we would now call the bureaucratic politics of the Economic Cooperation Administration directs our attention to a central phenomenon in the administration of aid among western donor countries: that the tension between competing ideas on aid policy and considerations of bureaucratic power is the most common and often the most important factor in shaping western aid programs. Whether the gift horse has good or bad teeth is for the most part an outcome of the struggle between
factions within government to have their particular ideas on aid triumph and at the same time to expand their turf, rather than the result of either rational political decisions or of a conspiracy practised by western governments to undermine or underwrite the governments of poorer countries. This broad contention, which requires modification in some particular cases that we will examine, is unexceptionable when seen in the context of the literature of public administration and bureaucratic politics. The administration of aid, while a useful example of these general phenomena in government administration, has some special features which make it worthy of study in its own right. One of these is that, with one major exception, aid administration in western countries is subject only to fitful political control (that is, control by politicians), thus allowing bureaucrats a wide ambit in which to practise their politics and, more importantly, encouraging a continuing conflict among them over the ends of policy as well as dispute about its means. Another special feature is that aid administration within western governments is conducted for the most part in the absence of pressure from a constituency. While it is true that some domestic lobbies attempt to influence aid policy and that there is some effective pressure from recipients, policy-making in western capitals is relatively free of the domestic constraints that influence economic policy-making or some areas of foreign policy decision-making so strongly. Since, as will be argued later, both political control constraints and domestic political influences are weak, aid administration provides a relatively unimpeded arena for the exercise of bureaucratic power.

Beyond considerations such as these lie some basic questions as to the worth of present western aid administration practice. Few areas of public administration have attracted such sustained and trenchant criticism both within and without government, as well as from the beneficiaries-cum-victims. Are the problems of aid administration as intractable and counterproductive as we are led to believe and where, among the counsels of reform ranging from the radical internationalization of aid to the restructuring of recipients' acceptance of aid, may be found a way to manage the aid transaction that mitigates those outcomes which critics agree are undesirable? Or is it rather that the national (and sectional) interest imperatives in aid expressed through bureaucratic structures which are themselves not least concerned with their own power position, are immutable to large degree, and a realistic expectation of change would envisage only a
peripheral tinkering with administrative structures? These (and many other) questions find no clear answer in this survey but they serve to indicate that the motives in this discussion are both analytical and policy-oriented.

We began with the contention that competing ideas on aid, pursued through bureaucratic structures where considerations of power and territory are important, are what really shape an aid program. To examine this proposition in relation to western countries, two related perspectives are employed: the degree of political control that is exercised over aid and the location of bureaucratic responsibility for aid. When looking at the latter we will focus particularly on the degree of centralization of organization, for it seems often that this factor most closely affects the existence of bureaucratic conflict. Two other perspectives find short shrift here: the influence of organizational outcome on aid policy and practice is clearly important,¹ as are the pictures that people carry in their heads about aid and development, but straw to make these bricks is in short supply.

I have chosen to concentrate the discussion on those western donors who are members of the Development Assistance Committee (DAC),² because they form a fairly well defined class in terms of the nature of their aid and a reasonable amount of information is available on their administrations. The nature of aid organization in multilateral bodies differs qualitatively, and insufficient information is available on aid organization in communist countries, among OPEC countries and other non-DAC donors to make comparison useful within the confines of this chapter. Among western donors some will be accorded more weight than others, so that the aid organizations of the Big Five³ (the United States, France, West Germany, Japan and the United Kingdom) will receive more attention than other DAC donors, although some features of the aid administration of Canada, the Netherlands and Sweden will be noted. This is partly because the most interesting

¹Judith Tendler (1975) focusses on this aspect of US AID.
²Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD). Members are the United States, France, West Germany, Japan and the United Kingdom, Canada, Australia, the Netherlands, Sweden, Norway, Belgium, New Zealand, Denmark, Italy, Austria, Portugal.
³The five largest donors in the DAC.
comparisons arise among the 'Big Five', but the concentration is also biased by the amount of material available.

The scope of the issues raised here is also quite narrow. We are not concerned here with the ideological issue in aid, that is, in crude terms, whether aid supports development ends, or is exploitative. For the purposes of this discussion, it is assumed that aid is important to both donors and recipients and that it will continue in some form or other for the foreseeable future. The analysis deals only with what has been called 'the headquarters' view of aid'; that is, aid organization within the donor countries. It does not treat the administration of aid to or in recipient countries, nor development administration within recipient countries. The discussion is also not concerned with the international politics of aid in the sense that it does not deal with co-operation or rivalry among donors, nor with the place of aid in North-South relations.

The chapter seeks to draw out, from the literature on aid, the main continuing problems in aid organization as they affect policy formulation; to suggest some explanations for the kinds of structures that have emerged for these tasks in western countries and to discuss common and uncommon features in national aid administrations. The discussion proceeds by raising the central problems in aid administration in a general way and then describes some particular national approaches to these problems. Three main issues are raised:

(a) Political responsibility for aid. This part describes the way in which ministerial and parliamentary (and Presidential and Congressional) responsibilities for aid are formally organized and how these operate in practice. The relative roles played by ministers and bureaucrats in making decisions on aid are the important considerations here.

(b) Bureaucratic control of aid. Given that policy-making power is usually divided in bureaucracies, which ministries play dominant roles in aid policy-making and why? The observation that various parts of bureaucracies have different orientations on aid questions provides a key to understanding the way conflict in ideas on aid becomes institutionalized in administrative structures. For example, foreign ministries have a 'natural' view that aid should serve their central responsibility, the pursuit of
diplomatic advantage, while finance ministries' concern with expenditure priorities and the balance of payments often has the effect of their viewing aid as an optional extra to be tolerated in good years and cut in lean ones. Trade departments have a 'natural' interest in the export of goods and investment capital and thus also claim a role in decisions on aid as do some other parts of the bureaucracy. How are these differing bureaucratic interests reconciled with each other and with general aid objectives? What is the effect on aid policy of a restructuring of bureaucratic arrangements which is intended to change the order of priority given to such interests?

(c) Administrative alternatives in aid. This part makes some general observations on the relationship between aid organization and policy formulation, and speculates on the organizational conditions that appear to be necessary to improve the outcomes of policy-making on aid.

The literature on foreign aid falls into three broad categories: that dealing with the emergence, the concepts and ideology of aid; that which deals with the positive or negative contributions of aid to the economic development of recipients; and that which deals with aid policies and practices of various donor countries. While this literature is extensive, with one or two quite recent exceptions it largely neglects the issues raised above.5 There are, for example, seemingly endless discussions of the conflicts between aid, foreign and commercial policy, but these are rarely discussed from the perspective of how such conflicts are resolved at bureaucratic level. There are probably two reasons for this: first, the persistent concern with ideology in aid has probably militated against study of the

4Together with Tendler (1975), a conspicuous exception is George Cunningham (1974). The Overseas Development Institute in Britain has however taken a consistent interest in these questions in its publications for some years.

5There is much in the theoretical literature on decision-making and bureaucratic politics which is relevant to the issues raised in this chapter, but which cannot be discussed here.
more prosaic aspects of aid administration, although a concern with these has become more evident in recent years, and second, the difficulties associated with obtaining an 'inside' view of the workings of the bureaucracy in this sensitive area are not inconsiderable, and have thus hindered systematic research.

For these reasons a caveat must be entered about the discussion which follows. There are some clear gaps in basic information about the way national aid administrations work, and thus this is an attempt to open up the issue, rather than a definitive discussion of what actually takes place.

**Political responsibility for aid**

While it is clear in any government where, for example, responsibility for government finance or foreign policy lies, the experience of many western countries since the 1950s shows that no similar consensus exists among politicians or bureaucrats as to where responsibility for aid ought to be located. This is partly because of the nature of the beast; aid policies have some aspects that affect the interests of other areas of government administration; aid functions include both general administrative tasks and specialized professional needs. Because aid is less discrete than some other areas of administration and because it is a relative latecomer to government, it needs to establish a place in the bureaucratic club. The location of aid in the government structure has often caused difficulties, not least because of the sensitivity that politicians and diplomats attach to aid operations overseas. It is also hampered by a lack of consensus within bureaucracies as to the purposes of aid and this feeds uncertainty as to placement of responsibility for aid.

In most countries, then, the location of the control of aid, both political and bureaucratic, has been strongly influenced by existing bureaucratic arrangements and the considerations of power upon which these rest. In general, those concerned with the administration of aid have perceived two broad alternatives: the aggregation or centralization

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6 There are of course other areas of policy, for example, science or energy policy that share the same problems in finding consensus on bureaucratic location.
of aid policy and functions under one responsible minister or
the disaggregation of policy and functions among a number of
ministers and departments with interests in the area. A
preference for either kind of arrangement is of course a
normative one; in the case of a preference for centralization
the implications are that aid has a distinct character and
status which ought to be matched by a sufficient degree of
bureaucratic autonomy, while the preference for disaggregation
assumes the primacy of co-ordination of aid with other national
interests and thus a lesser status for aid. In this respect
countries that are embarking on a more active aid policy
usually consider undertaking an aggregation of aid functions.

There are, of course, degrees of aggregation, and two
varieties are of particular interest. Where aid functions
are aggregated in a separate 'aid' department then arguments
over policy with other departments are conducted in a
different way and at a different level than if aid functions
are aggregated within a foreign ministry. In the former case
an independent aid department can consult other departments,
and if in clear dispute can offer separate advice to its
political master. By contrast, disputes on foreign policy-
aid matters within a foreign ministry will tend to be resolved
at bureaucratic level, while conflicts between the foreign
ministry and other ministries, say on the volume of aid, will
tend to gravitate to political decision.

At the other end of the scale where there is a large
degree of disaggregation of functions among several ministries,
two main possibilities may be perceived: first, the ministries
involved co-ordinate their interests at desk level and present
the minister or ministers responsible with collectively
agreed advice, a process that has the advantage of avoiding
the unpredictable outcome that may result if ministers argue
the issue out. On the other hand, if interministerial
interests cannot be easily reconciled, this can lead to an
evaporation of responsibility, especially in countries where
the concept of collective responsibility of ministers is weak.

Thus, the decision on the political and bureaucratic
location of aid functions is the critical one in that it
defines who will play in this arena and who will be mere
spectators; it defines whose ideas shall be heard at the
political level and who will be silenced, and it not only
defines who will have the responsibility for policy, but also
who will have the power to enforce it, these last two being
more often found in opposition to one another than in unity.
The number and variety of changes that have occurred in western aid administrations over the last twenty years or so is testimony to the tensions that arise when either of these broad alternatives or some hybrid of them is adopted. While the kinds of political responsibility that are adopted are few — president, foreign minister, minister for 'aid', or division of responsibility among a number of ministers — the administrative arrangements that are attached to these lines of responsibility vary widely.

In the case of France and the United States, political control of aid is exercised by the President, in France directly and continuously, and in the USA on occasion directly but more often indirectly. Again presidential control of aid in France is allied with a wide degree of dispersion of aid functions, while in the United States centralization of the heart of the program is concentrated in the Agency for International Development (AID).

Where the foreign minister is responsible for aid, all aid may be controlled by a section of his foreign ministry, some aid may be, or none. He may have a semi-autonomous bureau within his ministry (as in Norway and in Australia); he may have an independent authority reporting to him directly through the head of his ministry (as has occurred in Canada); and each of these bodies may have the control of all or of only part of aid.

In four countries only (the United Kingdom, West Germany, the Netherlands, and Sweden) is there a minister entirely responsible for aid, and in only one country, the United Kingdom, does this responsible minister have control of a department which centralizes all aid functions. In West Germany and the Netherlands implementation of aid is the responsibility of other departments and while SIDA (the Swedish International Development Authority) controls bilateral aid, the Swedish Ministry for Foreign Affairs prepares the aid budget and controls multilateral aid. Japan represents the other end of the spectrum: both political responsibility and bureaucratic control are widely dispersed.

Thus there is a continuum of arrangements for political responsibility for aid which extends from the independent ministry for aid with its own responsible minister (as in the United Kingdom under its Labour governments), through those cases where the foreign minister (or president) assumes responsibility for aid which is controlled by a variety of
more or less aggregated and autonomous bodies, to the situation where a number of ministers collectively assume responsibility for aid and the widest degree of dispersion of function occurs (as in Japan). Given that national arrangements vary widely, it is still possible to make some general observations about the nature of political control exercised over aid and its relationship to policy outcomes.

France is the instructive exception to the proposition advanced at the start of this chapter. Relative to the other countries discussed presidential control of aid policy is very strong, the corollary being that the exercise of bureaucratic power in this area is weak. There appear to be three reasons for this circumstance: first, it is a characteristic of the French political system generally - the President is able to both propose and dispose without a wide degree of formal reference to his colleagues or officials; second, it is the result of the structure of ministers and departments who have interests in aid in which the Secretary for African Affairs conducts an outside line to African countries and advises the President directly, bypassing other ministries, and where the Prime Minister and Minister for Finance predominate over the Minister and Ministry for Foreign Affairs, Ministry of Trade, and DOMTOM;7 finally, it has been the historical and ideological principle of French Presidents since de Gaulle that relations with former French colonies (especially those in Francophone Africa) are an integral and high priority part of French foreign policy, providing France with credibility and credit as a major power with an ability to deliver votes at the UN, with access to both the Arab states and the North-South dialogue, and not least with the opportunity to expand French culture and language. Here aid directly supports foreign policy, and indeed in the French view is inseparable from it. Thus, apart from the structural reasons for the exercise of presidential power, this perception of the importance of aid to foreign policy requires presidential control.

In France, both the broad structure of political power and the high priority given to aid work together to provide continuing strong political direction in the aid field. The ambit for debate on policy is circumscribed and confined to means rather than ends and little influenced by international reassessments. Change generally occurs at the top (prompted

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7 Ministry of Overseas Departments and Territories.
by representation from recipients) rather than proceeding from officials who find the political barriers to influencing policy too difficult to surmount. The problems that other countries experience in maintaining or expanding the aid budget are relatively absent in France, again because of the combination of strong political control and the high priority ascribed to aid.

The French situation stands in contrast to that of countries in which the foreign minister has responsibility for aid. Here there is often some degree of tension between the aims of aid and the objectives and practice of foreign policy.

Where foreign ministers are responsible, foreign policy generally takes pride of place, and aid matters assume a residual status, dominated by bureaucrats. The degree to which foreign ministers exercise their formal power of decision on aid depends in part on their level of interest, and in part on whether the bureaucratic arrangements encourage or inhibit ministerial decision-making. For example, when aid administration is fully integrated into the foreign ministry, conflicts between foreign policy and aid objectives are usually resolved at bureaucratic level and policy choices may not even be raised with the minister. If, however, there is a degree of separation between aid and foreign policy administration then ministers may be expected to resolve conflicts arising between these objectives. Politicians often regard aid principally as a foreign 'slush' fund, which they use to smooth over difficulties in bilateral or international negotiations. Foreign ministries tend to encourage them in this for reasons of diplomacy, although aid bureaucrats and finance ministries are inclined to oppose this kind of use of aid funds. The outcomes in such situations again depend on whether aid bureaucrats can advise the minister directly, or whether they are able to put their view only at departmental level. Thus the organization of aid directly bears on the degree of ministerial control exercised.

At the ministerial level, aid tends to be a low priority area in government decisions, and in spite of rhetoric to the contrary concerning international development, aid often comes out second best when a severe conflict arises among ministers about priorities in allocation of resources. There are several reasons for this: foreign ministers themselves have to resolve conflicts between aid and foreign policy objectives and although they assume that it is in their
foreign policy interests to have a large aid budget, they are not surprised when other ministers accord aid the same secondary status they themselves give it. More important is the fact that, in ministerial discussions on domestic economic management, foreign ministers and aid ministers carry little weight, so that in a contest between cuts in foreign as against domestic expenditure, ministers for finance usually prevail simply because they are more powerful in this area.8 Similarly, if there is concern with the balance of payments, aid is the first victim of cuts in foreign expenditure because it does not have sufficient status or entrenched interests to survive as, for example, defence does.9 Thus foreign ministers, given their priorities, generally do not want to force aid to the point of dispute, and if they do, they often lose the battle. Colaco's study (1973) of the sensitivity of levels of aid in DAC countries to budget deficits, inflation and the balance on current account illustrates the outcomes of these conflicts. There is, in most DAC countries, a relationship between a deterioration in the balance of payments and a decline in aid levels in both the short and long term. The political mechanism for this is of course the more powerful position of the finance minister.

The institution of a separate minister for aid does not appear to vary this experience significantly. In the United Kingdom in 1964, Barbara Castle as first Minister for Overseas Development (ODM) took her place in the inner Cabinet principally as a rising star in the new government but also as an earnest of the new priority to be given to aid. ODM was not only to be concerned with aid but to have an impact on trade, investment and other policies that had development implications.

8 The interests of the domestic constituency will prevail unless such foreign expenditure can be perceived as contributing directly to domestic interests, for example, through exports or in security terms. In these cases the maintenance of the aid budget is usually achieved at the cost of a decline in aid interests proper.

9 The United Kingdom experience here is interesting, for the Chancellor of the Exchequer prevailed immediately on aid cuts in the period 1964 to 1970 (Seers and Streeten (1972), but the Minister for Defence conducted a spirited strategic retreat over a number of years (Crossman, 1976, passim).
Ironically, Castle and her successors to 1970 presided over a decline in British aid in money and real terms, and a deterioration in other British foreign policies towards developing countries that was unparalleled in Britain's recent history (Seers and Streeten 1970:127). This was an indication, if indeed one were needed, that an increase in the ascribed status of aid and the appointment of a separate minister are not proof against established power forces and the exigencies of other national policies.

When this British experience is compared with that of France, two things are noticeable: because of the relatively low priority ascribed to aid, political support evaporated in the face of other pressures, principally economic; and more generally, the latent tension in Britain between aid as applied to development objectives and aid as a tool of foreign policy has led to a continuing search for new organizational arrangements to give one objective or the other priority. These have taken on a party colour.

In the ministerial arena, it appears that the ingredient necessary to make stated aid policies prevail in the face of competing claims is whether sufficient collective ministerial support can be mustered for aid objectives. This in turn depends on a number of factors, of which the ideological commitment to aid itself is relatively less significant. It depends first, on how important the aid program is perceived to be by ministers, relative to other national interests; second, it depends on the role that the leader of the government chooses to play in such disputes, and finally it depends on the level of public criticism or support that politicians perceive to exist. Without these conditions being satisfied in a positive or at least neutral way, aid objectives tend to go under in competitive situations. The British and Australian (Seers and Streeten 1972; Viviani and Wilenski 1978) experiences are interesting in this respect; but a more telling example, outside the Westminster system, of the operation of these three factors, both positively and negatively, is a comparison of United States aid in 1961 and 1970.

The Kennedy administration came to office in 1961 with a program that was actively international, and its new direction in foreign policy towards developing countries was buttressed by a new American approach to foreign aid. The ideology of US foreign aid was as much a response to competition with the USSR in a cold war situation as to the need for
economic development of poor countries, but the substantial political impetus given to aid by the new administration ensured the institution of changes in US aid policy and administration that were to endure in the face of Congressional criticism and other bureaucratic interests for almost a decade. The establishment of the US Agency for International Development in 1961 to centralize some but not all functions, the expansion of the aid budget and the widening of its geographical distribution, the institution of an activist (even interventionist) approach to country programming, all testified to the strength of political support from the President and his departmental appointees for an increased importance for foreign aid vis-à-vis other national policies and the tapping of a largely acquiescent reservoir of public support for foreign aid in the early 1960s.

Compare the situation when Nixon came to power. Congressional and wider public support for aid had eroded significantly, not least because the expectations raised as to what aid could achieve had proved unfulfillable; the pressure of other competing national interests, balance of payments considerations, foreign policy and commercial interests succeeded in scoring against foreign aid because of the declining political support accorded to aid and hence in aid's bureaucratic power. Nixon's own predilection and response to these factors was to further downgrade foreign aid in national priorities; to curtail any expansion in aid and to look to arrangements that would tie US aid more tightly to US domestic interests (Thorp 1971 and Cunningham 1974:68).

The rise and decline of US Presidential, Congressional and public support for aid is of particular significance because the US plays a preponderant role in the aid field in influencing the behaviour of other donors (and recipients) and in assuming a global leadership role. Many have concluded that the decline in the United States of support for aid was due to a political recognition of the 'failures' of aid, in the sense that aid was insufficiently capable of satisfying American national objectives.10 There is clearly a good deal in this, for if the rationale for aid is founded firmly on donor interests prosecuted abroad (such as political 'stability', and effective recipient support of US interests)

10 For example, Liberals in Congress disliked aid because it propped up US intervention in Indochina and conservatives disliked it because it did not serve American political interests adequately.
then an apparent failure to achieve these does lead to a loss of domestic political support and a consequent erosion of the place of aid among competing interests. But there are other, wider factors in US aid which were less influential for other donors. To the extent that aid was an important instrument for the support of US policies in the cold war, its decline was inevitable given the process of détente which succeeded cold war tensions. Again, the retreat of the United States from an activist and interventionist foreign policy stemming from the Vietnam experience and signified by Nixon's Guam doctrine led to a decline in support for aid. Aid is peculiarly sensitive to the working out of changing forces in international politics, and in particular to the expansion or retraction in foreign policy stances. It may well be that the level and composition of US aid since Nixon indicates very well a decline in the American commitment to the economic development of poor countries, following the decline of the enthusiasm of the 1960s when aid was expected not only to move mountains, but foreign governments as well.

In contrast to the French situation, where the political system and the importance attached to aid make for continuing, centralized high level political control, the American experience is one in which political control of aid is effectively divided between President and Congress (the latter being both a policy maker and an interested constituency) in a situation where larger swings in the importance attached to aid influence the President's choice about exercising his power. Where he chooses not to exercise his power actively, the role is assumed by Congress and/or the administration. Here the United States is unique, for it is the only country in which the legislature plays a significant role in aid policy.

All DAC donors require approval by legislature for all aid budgets in some form or other but, with the exception of the USA, this is a more or less formal process. Aid budgets are prepared within ministries where most conflicts on resource allocation are reconciled and then receive ministerial approval. They are then submitted for approval of the legislature with other budgetary proposals.11 While estimates committees and their equivalents may quibble, the outcomes

11 Some parts of aid budgets are established under continuing legislation, e.g. Australian World Bank contributions, while in this respect the United States adopts an opposite course requiring legislative approval for every replenishment.
are usually automatic because of the parliamentary majorities of the government. The chief benefit of legislative oversight is that ministers and bureaucrats can be questioned on aid matters, abuses can be exposed and opinion can be tested.

In the United States, however, although the President formally carries the entire responsibility for foreign policy, the role of Congress is central to the setting of the aid budget, and Congress can in its deliberations significantly influence aid policy and through this foreign policy. This process is complex and drawn out over time, so that more than a year can elapse between the submission of the aid request by the President to Congress, and its authorization and appropriation. The aid request is submitted to both the House of Representatives and the Senate, and the powerful Senate Foreign Relations Committee and the House Committee on International Affairs enquire into the aid proposals and reports to their respective chambers for decision. When, as often occurs, the House and the Senate differ in their recommendations, a conference is called to resolve the differences before the process of authorization and appropriation is completed.

Such a brief description can do little justice to the complexity of the politicking in this process. But if we look at the outcomes of this process on some particular issues we can gain a sense of the relative power exercised by President and Congress. Almost every year the aid request is reduced by Congress, usually substantially; the process of annual authorization and appropriation appears to inhibit forward planning in AID, and Congress' requirement that changes in the approved program must be cleared by it, inhibits both Presidential and administrative programming flexibility. Further, Congress has frequently added riders to aid legislation conveying the 'sense' of Congress with respect to geographical distribution of aid, amounts of PL480 food aid, and a whole variety of foreign policy issues, some of which have little to do with economic aid.

Congress does more than react to an agenda presented by the Administration. In recent years it has sought to create an aid policy - the New Directions of 1973 - in which its views of the distribution aspects of US aid attempt to give a new cast to the purposes of economic assistance. While in the past the President and AID have had to develop support in Congress for their policies, in the case of policy originating in the legislature, Congress needs support from AID,
from the State Department and from the President if these changes in emphasis are to be made.

It seems then that it is the relative balance of power between President and Congress, and the amount of political capital the President is willing to expend to have his way, that shapes the aid program at any one particular time. Where the aid bureaucracy has direct and successful access to the President, and can influence Congressional opinion in its favour, then its role increases in importance. It may be that this occurs mostly when aid issues are relatively important among the range of national preoccupations.

This discussion of the political control of aid has stressed the diversity of means of control, while finding some common incentives and disincentives to the exercise of that control. The French situation epitomizes political control and has bureaucratic consequences that we shall discuss later. The American experience is a halfway house in which the triangular influences of President, Congress and AID predominate according to shifting circumstances. For the rest, the formal requirement for political control exists, but its exercise is strongly constrained by the generally low status of aid, the competing claims for resources from other interests, and the organizational arrangements for aid which influence which issues will come to ministers. I have argued generally that collective ministerial (or political) support for aid is a necessary condition for aid matters to survive the competition of other national interests, and have concluded that this condition is more often unsatisfied than not, particularly when choices are made sharp by difficult economic circumstances. This may only indicate that aid is extremely sensitive to domestic and international economic conditions, but it points clearly to the politicians' dilemma: given the fact that politicians are obliged to look to the welfare of their own people first, how do they justify the expenditure of funds on other states when it is clear at times that it is to the cost (at least in the short term) of their own people? It is this dilemma which is at the centre of discussions of budget priorities and it is one for which very few countries have succeeded in developing and maintaining a satisfactory rationale. Thus it is that parties which in

\[12\] One thinks here of the French who have given priority to the dissemination of French political and cultural values, and of the Swedes who have developed public support for a
opposition promoted enlightened internationalism, find that the assumption of power makes for nationalist responses to such dilemmas.

**Bureaucratic control of aid**

The foregoing discussion was concerned with the various degrees of political control exercised in national aid programs and the circumstances in which this control is exercised. An assumption emerged that the relationship between political and bureaucratic aid is rather like a tug-of-war: when politicians choose to pull, bureaucrats usually follow (but in their own way), but if politicians for some reason do not pull, a struggle develops among bureaucrats as to whom among them shall direct their pulling. The points at issue among bureaucrats are real ones; their struggle is not merely for territorial advantage, and the two most contentious and enduring of these issues are those of the balance to be found between aid and foreign policy considerations, and the making of the aid budget. In both of these issues we should take account of the dead hand of the past: the pattern of a state's foreign relations tends to be a persistent one (albeit with fluctuations at the margin) and the occasional dramatic severing of a bilateral relationship should not lead to a discounting of the weight that lies behind preserving each relationship in the pattern through all available means including aid. Similarly, the most powerful factor in aid budgeting is, as with all budgeting, the inertia of past decisions. A significant short run increase in an aid budget is difficult enough to achieve in any circumstances, but to maintain a long-term trend increase above an agreed level of other claims on government is well nigh impossible (Heclo and Wildavsky 1974:27ff). Both of these factors are properly organizational outcomes and influence the following discussion significantly.

Several historical influences can be distinguished which help to explain the differing aid structures of DAC donors over the last twenty-five years. First, France and Britain can be viewed together as former colonial powers, whose aid

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12 (continued)

long-term internationalist stance. On the other hand, examples abound of countries which in failing to develop and maintain an adequate rationale for aid have seen their aid programs fall prey to the incursions of other national interests.
policies and administrations grew out of that experience, and which found different policy and administrative responses to the changes of the 1960s and 1970s. Second, against these we may contrast West Germany and Japan, which had quite different colonial experiences, were vanquished powers, and which saw their aid programs in part as relating to their rehabilitation as bona fide members of the international community. Third, the United States requires a class of its own as it sought to use aid to help maintain its predominant world power position vis-à-vis the USSR through the 1950s and 1960s. Finally, there are a number of what might be called 'internationalist' aid donors; the Scandinavian countries, Canada, and more recently the Netherlands. This classification is not meant to be absolute or exhaustive, but merely indicates some important factors in the development of each nation's aid. As national and international fortunes have changed, so have the policies and administrations of these donors, so that they have at times fallen into other categories. In the discussion of the aid organization of these donors, we will concentrate on how various bureaucratic roles in aid policy formulation emerged and why these have changed over time. It is worth reiterating here that the discussion which follows is not concerned with the relative merits of national aid performance and thus does not seek to make a judgment relating administrative arrangements to the worth of aid programs.

The French system of aid still exhibits its post-colonial character, especially in the concentration of aid on former French colonies, in the significance attached to technical assistance, and not least in the administrative arrangements made for aid. Although the administration of French aid is widely dispersed among government bodies and is frankly confusing to the outsider, it is helpful to consider French aid as consisting of three separate geographically concentrated programs, each with its own rationale and objectives, together with separate capital funding and technical assistance arrangements. Aid to France's Overseas Departments and Territories is administered not only by the ministry of state responsible for these, but also by some specialist ministries.

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13 These donors are not discussed in detail in this paper, but see below (p. 83) for some comments.


15 This department falls under the authority of the Prime Minister, its head having deputy status.
and by the Central Fund for Economic Cooperation (CCEE) which is the controlling body for loans to developing countries.

The Francophone countries south of the Sahara, l'Etats Africains et Malgaches (EAM), with which France maintains particular political and cultural links, receive loans from the CCEE and financial and technical assistance from the Secretariat of State for Foreign Affairs responsible for Cooperation (an administratively separate part of the Ministry of Foreign Affairs).\(^\text{16}\)

French aid to countries outside these two categories\(^\text{17}\) derives financially from the Ministry of the Economy and Finance, while technical assistance is provided by the Directorate General for Cultural, Scientific and Technical Relations, a normal unit of the Ministry of Foreign Affairs.

The conception behind each of these three arrangements differs and reflects the continuing influence of post-colonial factors and the transmutation of these into French interests in the Third World. In the bureaucratic arena, the differences which are perceived to exist among classes of recipients provide the rationale for each part of the bureaucracy to maintain its hold over its own area of administration. It seems that a minimum of co-ordination takes place and that there is much duplication of functions. The problems that result tend to be sorted out by ambassadors at post level who have overall authority over Cooperation Missions.

While there appears to be less dispute in French aid administration than in some other countries over central policy questions, given the strong political control which the President exerts, these bureaucratic arrangements allow a fruitful area for dispute over territory. The cooperation secretariat and the Ministry for Foreign Affairs appear to seek an expansion of their roles at the other's expense, but such problems are contained by the predominance of the Prime Minister over this arena and also by the Prime Minister's authority over DOMTOM. Bureaucratic arguments provide no strong base for mounting a challenge either to policy or to the existing structure.

\(^\text{16}\) From 1961 to 1966 this Secretariat was a separate Ministry of Cooperation responsible for all aid to EAM states.

\(^\text{17}\) Denoted by the French as 'foreign' countries.
We noted above the direct control that the President exerts over the aid budget and this seems sufficient to make Ministry of Finance officials wary of intervention. Similarly the Ministry of Foreign Affairs cannot extend its influence over the aid budget because of the predominance of the Finance Ministry, and it is instructive that while the French aid budget has expanded regularly, the Foreign Affairs budget has declined under pressures from Finance.

There has been much criticism of these bureaucratic arrangements in France as wasteful and ineffective. In the early 1960s the government ordered an inquiry. The result, the Jeanneney Report (Hayter 1966:92) proposed extensive administrative reorganization of French aid. It envisaged the concentration of all French aid in two organizations controlled chiefly by the Foreign Ministry and functionally divided between financial and technical assistance. These proposals provoked support for an alternative administrative arrangement: the enlargement of the Ministry of Cooperation to undertake responsibility for all aid (like the British Ministry of Overseas Development), and the arguments between the two sets of proponents followed the classical lines: developmental versus political considerations; experience versus lack of experience in aid; and included the mudslinging typical of these debates in Britain in which the centralizers are accused of being tainted with colonialism and the diplomats are accused of formalism and political venality.

The French Prime Minister outlined the choices incisively to the National Assembly in June 1964 in a speech which deserves quotation at some length:

... [our administrative structures] are very complex. Where does it come from, this complexity? Clearly from history ...  

For myself, I do not believe that we can [modify these structures] at the moment, that is to say in the next days or weeks. For some time, the affairs of Algeria and of Black Africa will retain specific characteristics. I believe that a little apparent incoherence is preferable to a kind of brutal and arbitrary fusion which would in the end create infinitely greater complications. But I am also convinced that in the next year or two, in 1965 or in 1966, we will adopt another formula.
It is at any rate one of the problems with which the Government is preoccupied...

Two solutions are possible. One is that of the Jeanneney Report. The other, which is nearer to the heart of the Minister of Cooperation, consists in creating progressively a big Ministry of Cooperation, which would first take Algerian affairs, and then, later, once it was sufficiently experienced and well established, stand up to face the old lady of the Quai d'Orsay and say to her: Give me back, if not my legions, at least Morocco, Tunisia and the other countries.

Between these two formulas, I must admit that our choice has not yet been made... At any rate, this choice will be dictated by the following considerations: should we attach decisive importance to the link between cooperation and foreign policy? Is cooperation really linked with our foreign policy? Is it part of the normal activities of ambassadors?

Or are the special techniques and methods of cooperation on the contrary so specific that it it better, so to speak, to be a cooperator by profession? Should the Ministry of Cooperation alone fulfil the requirements of cooperation? (Quoted in Hayter 1966: 93-4).

As it happened no wide-ranging administrative reform took place then, or indeed since. For internal political reasons, the Ministry of Cooperation was downgraded to a secretariat of state within the Ministry of Foreign Affairs, and fruitless attempts failed to curb the power of the Ministry of Finance, which carried great weight precisely because of the dispersal of aid functions. The debate on administration in the early and mid-1960s in fact led to the solidification of the existing disaggregation of functions, and a new inquiry in 1971 was fated to the same neglect as the Jeanneney Report.

The French experience in attempting administrative reform in aid illustrates the inertia of established power relations and the defence of territory preoccupations of a civil service which is not very flexible and greatly esteems administrative traditions. It further illustrates that where there are several discrete objectives in aid and little
concern to reconcile these because of a perception of the differing status of recipients, the rationale for centralization of aid functions is lacking.

The French case illustrates the need for caution in ascribing too much weight to bureaucratic arrangements in policy making. The dispersal of French aid administration does not appear to have hampered the development of a broad policy line which finds wide support in the departments concerned with aid. It may be that where such a consensus exists on the broad approach to aid, the strains that occur in such a dispersion of administration are less severe than in situations where a similar consensus is lacking. Here, the question is whether a significant change in aid administration arrangements say, towards centralization, would make for a material change in French aid policies.

It is not without significance that the inquiry into French aid administration took place in 1963-64 rather than in the previous decade or later in the 1960s. Cummingham has called the 1960s the decade of the aid agencies, since almost all western donors then considered the centralization of aid functions. Within national administrations, such considerations were given impetus by changing historical roles in aid, the need to develop rationales for aid separate to some degree from foreign policy and commercial objectives, and because of a perception of the increasing complexity of aid and the need for co-ordination. Internationally, competition between donors was increasing, and the workings of the Development Assistance Committee of OECD focussed the attention of donors on one another's programs,18 thus provoking bureaucrats to see that limitations of their structures hindered changes in their programs. In the French case, domestic factors were clearly more important than international ones, although the latter provided the climate for a reassessment of administration.

The British experience in reorganization of aid administration differs substantially from the French, although both countries had played a comparable colonial role. Before the Wilson Labour Government of 1964, British aid administration was divided between the Foreign Office which gave aid to non-Commonwealth developing countries, the Commonwealth Office

18 Although at this stage DAC was concerned more with targeting and the terms of aid than with its administration.
which aided Commonwealth countries and the Colonial Office which administered colonial aid. In addition, the Treasury, which had responsibility for international financial institutions and general budgetary oversight, and the Board of Trade played powerful roles in the decisions on aid policies. This division of responsibilities was of course similar to the French and derived from much the same historical considerations, resulting in comparable problems of duplication and co-ordination.

A small, but vocal section of public opinion in Britain had managed to gain Labour Party backing for the centralization and separation of aid functions as a means of embarking on a new kind of aid and development policy for Britain, one which would be oriented more towards the needs of recipients than to British interests. The new Labour Government set up the Ministry for Overseas Development as soon as it came to office, and some representatives of this group, headed by Thomas Balogh (later adviser to Wilson) managed to determine the organization of the new ministry, and became themselves involved in its policy-making and administration. Dudley Seers (then Director of the Institute for Development Studies in Sussex) and Paul Streeten (then Professor of Economics at Sussex) headed the economic planning staff, and it is to them we owe the frankest insider account of any national aid program. 19

ODM itself was an amalgam of the staff of the Old Department of Technical Cooperation, together with Foreign Office, Colonial and Commonwealth Office staff and some Treasury people, on to which were grafted some twenty economists in a planning staff who were to provide a specialist input to aid and to ensure that wider development considerations were taken into account in the range of British overseas policies. Apart from the new planning staff, the ODM had a distinct colonial flavour in that many officials saw British policy 'as a sort of jumbo version of the old colonial and welfare operations' (Seers and Streeten 1972:143).

The experience of ODM in the years 1964–70 showed that it had extreme difficulty in maintaining both the volume of

19 Seers and Streeten 1972. They eventually became disillusioned outsiders and reliance on their account needs to be tempered with awareness of this.
aid and what it considered an enlightened aid stance, and that its influence on other aspects of British policy related to development was negligible. There were two main reasons for this. The first was the lack of collective political will which has been described above (page 57). The second was ODM's place in the pattern of bureaucratic power which operated in this period in Whitehall. British administrative convention is perhaps at its strongest in adherence to the norm that agreement should be found on matters of policy before reference to ministers. As one permanent secretary expressed it: 'There's a tremendous incentive for officials to agree ... In the last resort, if you don't sort things out with the Treasury, ministers will decide, and they are political animals. You don't know what they'll do' (quoted in Heclo and Wildavsky 1974:80).

The significance of this pressure to agree at official level is seen at once, when it is compared to the independent operating latitude of USAID. In the British system conflicting views within a department are composed roughly according to the hierarchical structure resulting in a departmental 'view': the composition of conflicting views among departments is strongly influenced by an implicit hierarchy based on exercise of the power levers available to departments. This is rationalized and legitimized by contentions of superior knowledge such as the Treasury's argument on budgeting: 'We see it all; they [the departments] don't', (quoted in Heclo and Wildavsky 1974:40), or the Foreign Ministry's claim on aid administration: 'we know what these chaps in recipient countries really want'.

The effect of restructuring aid responsibilities and their location within a new independent department was to allow the predominant bureaucratic actors either singly or together to oppose ODM policy proposals which conflicted with their departmental interests which subsumed both considerations of territory and their conception of national interest. Thus ODM was never able to wrest control of World Bank matters from the Treasury, although the World Bank is more a development institution than a financial one. Again, while the White Paper on development assistance of 1965 showed clear signs of a compromise approach (ODM views had prevailed in that aid was to foster development, terms of loans were to be softened

20 Aid levelled off in money terms, sustaining a series of severe cuts; the proportion of Gross National Product devoted to aid fell from 0.53 per cent in 1964 to 0.37 per cent in 1970.
and so on) yet the National Plan showed the predominance of Treasury and this counted more than the White Paper: the chief reference was that aid was to be restrained because of balance of payments difficulties. These were all public signs of a debilitating bureaucratic struggle, where the prize was the relative weight that should be given to British national interests, both political and commercial, as against the interests of recipient countries. A Treasury official, asked about the relation between British trade and aid remarked with a modest degree of understatement: 'If I can say so frankly, there has been a little bit of a tendency in an aid Ministry to say our prime responsibility is toward the recipient country' (quoted in Seers and Streeten 1972:149).

In the bureaucratic line-up on aid matters, the Department of Economic Affairs was anti-aid, as was the Treasury, being concerned with domestic budget priorities and especially with the deteriorating balance of payments, which was used as much as an excuse for cutting aid as a reason for doing so. The Board of Trade had export interests to further, and did so at the expense of the aid program, and with the support of the Treasury. The overseas political departments found little to support in ODM policies, since these tended to institutionalize their loss of influence, particularly in the use of aid funds for diplomatic purposes. On wider development matters relating to trade and investment, ODM made little or no impact, for the conception of its role as a development ministry had found no backing in Whitehall. Its membership of committees dealing with such issues did not result in any significant effects on policy, since the responsible departments were powerful enough to ignore implications for developing countries.

The demotion of the ODM Minister from Cabinet in 1967 meant that these disputes could not be raised in Cabinet, and had to be resolved either at departmental level or by personal dealing between ministers where the Minister for Overseas Development was at a disadvantage because of his junior status in the ministerial hierarchy. In all of this,

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21 In spite of spirited arguments that balance of payments considerations were practically irrelevant to aid (Seers and Streeten 1972:128).

22 By Crossman's (1976) account, aid issues were raised infrequently in Cabinet, although this may be a biased view as he was quite uninterested in foreign aid.
the existing distribution of bureaucratic power prevailed against the new, weak ministry.

In 1970 the new Conservative Government placed ODM in the Foreign and Commonwealth Office under the title Overseas Development Administration. The chief effect of this change was to limit further the ability of the aid agency to pursue policy in the face of disapproval from the rest of the Foreign Office, for under such an arrangement the Minister for Overseas Development is subordinate to the Foreign Secretary, and this fact makes for a shift in influence to the political side of the Foreign Office, and hence possibly to a diminution of Treasury and Trade influence.

The British aid experience is of course a classic one in discussions about the administration of aid. It might be judged that the difficulties which followed the setting up of ODM are chiefly attributable to the workings of the Westminster system and the sociology of Whitehall, and such a judgment finds support in the Australian experience since 1973, where a similar set of difficulties derived from similar political and bureaucratic circumstances (Chapter 5 and Viviani and Wilenski 1978). From the British case, it might be concluded that a grasp of and commitment to development objectives needs to be spread more widely in a bureaucracy before an independent agency can function adequately (as it does in the Netherlands), and that a degree of stability in government and ministerial personnel is required to establish a new department's place in the bureaucracy (as in Canada). Again, the level at which decisions are taken, both bureaucratically and ministerially, is an essential consideration in the development of an aid policy which is not to succumb to the preoccupations of other interests.

While the setting up of ODM did not fulfil British Labour Party objectives, it is doubtful whether the pre-existing arrangements, or some combination of these would have either. The experience might have been different if Britain's economic circumstances had not been so difficult, but the problems of the existing distribution of bureaucratic power do seem intractable in the British situation. The basic orientations of departments such as Trade and Treasury are little altered whether aid is administered in an independent body, as part of the Foreign Office, or dispersed

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The Labour Government re-established ODM as a separate Ministry in 1974.
even more widely. If such departments perceive that more support exists among ministers for their priorities - the restraint of expenditure and concern with the balance of payments - then they will prevail in disputes over the aid program. It is in this way that political will and bureaucratic power combine to defeat aid objectives, as in Britain; or to sustain them as in the Netherlands and Sweden.

If historical factors (such as colonialism) and the force of administrative convention have proved to be the most powerful factors influencing both British and French aid organization, albeit with different outcomes, the same factors have operated in different directions in the aid organizations of West Germany and Japan. Their policies and organization were not influenced by post-colonial ties, and their status as vanquished powers influenced, at least initially, the character of their aid programs. In both countries assistance from the United States was instrumental to postwar economic growth. This fact made for the exercise of American influence, first on decisions to begin a substantial aid program (to bolster western interests) and second, on the orientation of aid towards economic growth. Further, for both Germany and Japan, aid was an important factor in their re-entry into international society; it confirmed their renewed status as major industrial powers and their reintegration into the western power bloc. Most of these considerations are historical and are of waning influence, so that the aid structures of West Germany and Japan now bear the clearer stamp of national political, economic and bureaucratic interest.

Although the Federal Republic of Germany had given some multilateral aid and technical assistance in the 1950s, the beginning of West German aid is marked by the establishment of the Ministry for Economic Co-operation (BMZ)\(^{24}\) in 1961. The BMZ was founded for two highly political reasons: in response to US pressure on Germany to make a stronger aid effort, and to find a Cabinet seat for the Free Democrat coalition partner of the ruling Christian Democrat party. Despite such pragmatic origins, the BMZ developed its own dynamic as an aid agency, not only because it had part control of a rapidly expanding volume of aid, but also because it managed to develop a clear statement of general aid policy and have it accepted by other interested departments early in its existence.

\(^{24}\)BMZ - Bundesministerium für Wirtschaftliche Zusammenarbeit.
In 1961, the BMZ took over the responsibility for technical assistance from the Foreign Office and the Ministry of Economics, while responsibility for capital assistance remained the province of all three Ministries. This led, probably inevitably, to a series of severe bureaucratic infights, some of which were conducted publicly in the German press (White 1965). The division in policy responsibility, and between technical assistance and capital assistance, lay at the heart of such conflicts and while interdepartmental committee machinery was supposed to reconcile these differences, it exacerbated them, for the territorial responsibility between ministries had never been clearly defined by the government. The conflict arose, of course, over the relative weights to be given to political and commercial considerations in the decisions on aid. There was little disagreement that aid was for economic development (and a consensus that this really meant economic growth), but the vagueness of areas of responsibility allowed every issue to come to interministerial conflict.

In the West German system, the responsibility for implementation of aid lies outside the ministries, and is placed in the case of capital assistance in a publicly owned bank, the KFW, and in the case of technical assistance originally in two bodies until 1975 when the GTZ, a government-owned company, was set up. Further, a large number of private and semi-private bodies administer technical assistance under government funding. Thus what appears on paper to be an aid agency system headed by a Cabinet Minister is really a system of division of policy-making responsibility, and great dispersion in administration. What has followed is confusion in the feedback of information on the effectiveness of aid policies, and a high level of interministerial conflict.

The BMZ made several attempts to gain control of capital assistance policy and finally succeeded in 1972. That year also, there was renewed discussion about the integration of the BMZ into the Foreign Office. This did not occur, and one suspects that the BMZ conducted a spirited defence of its position, for it survived in a slightly different form but with its responsibilities unimpaired in 1975.

25 Kreditanstalt für Wiederaufbau.
26 Deutsche Gesellschaft für Technische Zusammenarbeit.
In the literature in English on the German aid organization two somewhat conflicting views emerge: Cunningham (1974:125ff) has argued that while the BMZ lacked the formal bureaucratic coverage of ODM in Britain, in practice it has influenced these areas and has exercised its power more effectively. He says that the BMZ has held its own in policy against the Foreign Office and the Ministry of Economics, partly because its policy position was well developed and supported, and also (possibly more importantly) because the Ministry of Economics, confident in a strong balance of payments position in the 1960s, allowed it autonomy to operate a development-oriented policy. As Cunningham has it: 'While German aid was no more altruistic than British aid, the BMZ was thus left more free to pursue its development policy without the constant nagging about short term export promotion which ODM had to content with' (1974:135).

White's view (1974:255) is that the West German aid organization (like the British ODM) exhibits extreme weakness in its vulnerability to the pressure of non-development interests, and this judgment derives in part from his stance about such conflicts of interest, which is generally 'if you can't beat them, join them'. Whatever one's judgment about German aid organization, it illustrates (as does the working of the Japanese organization even more markedly) the strength of the bureaucratic imperative. For both players (and watchers) Graham Allison's dictum (1971:176) usually applies: 'Where you stand [on development issues] depends on where you sit [in the bureaucratic machine].'

This applies most aptly to the Japanese system of aid organization, for it is the most dispersed of all DAC countries. No one ministry in the Japanese bureaucracy carries primary responsibility for aid, even in formal terms. Some fourteen ministries claim an area of legal responsibility in aid, although four ministries, Foreign, Finance, MITI, and the Economic Planning Agency claim the largest share of responsibility and form the Committee which considers loan requests. As in the West German system some implementation of aid is carried out by other bodies. The OECF implements yen loans for the government and JICA technical assistance under the

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27 Both Cunningham and White note the influence on policy of a group of outsiders, coming from many areas, unlike the British experience.
28 The Overseas Economic Co-operation Fund.
29 Japan International Co-operation Agency.
surveillance of the Foreign Ministry, which itself administers grants to recipients and multilateral agencies. The Exim Bank provides loans to foreign governments and to Japanese business and is closely supervised by the Finance Ministry which itself manages loan contributions to international financial institutions. Neither MITI nor Agriculture have direct access to aid funds as a part of their departmental budgets, but both play an important role also in policy and implementation (See Rix 1977 and 1978).

Although all this sounds impossibly confusing we can see some similarities with other countries. Finance has the most influence on loan decisions (because of its budgeting power) and control of subscriptions to international financial institutions. Foreign manages grants (because these are a very small component in the aid program and are used heavily for diplomatic purposes) and controls aid to UN agencies which is highly political. OECF administers yen loans on relatively soft terms as an intermediate step between the grants of Foreign and the hard terms of Finance. Co-ordination occurs through an interministerial roundabout. This is not so different from many uncentralized western donors. These ministries and agencies all have institutionalized links with business and consultants.

The question that arises about this is the chicken-or-egg one: did these arrangements occur because the Japanese have failed and continue to fail to develop a general aid policy? Or is it that these arrangements reflect Japanese administrative conventions which have in turn made it impossible to develop such a policy?

White, writing in 1964, has argued that Japan lacks a sense of international responsibility in a world it sees as predominantly hostile to its interests:

What is missing from Japanese motivation is the concept, which is present to some extent in the motives of most other donor countries, of an aid policy as a contribution to an international program of political and economic growth (1965:11).

By this view, Japan was pressured by the United States and other donors to embark on an aid program in the 1960s following the period of reparations. It sees its aid as a way of supporting its interests as an advanced nation rather than as an international obligation consequent upon achievement
of that status. Japan certainly has reasons for giving aid—the promotion of its exports and investment, the assurance of its sources of supply of raw materials, the development of political influence in Asia and so on—but it has lacked, until quite recently, a general aid policy which acknowledges international responsibility or the acceptance of moral claims by poor countries. This seems to be partly a consequence of history: the ambivalence of the Japanese role (except in economic terms) and the competitive nature of its world economic role have worked in the past against the development of these other sides of its international stance.

Further, the Japanese have resisted continuously some aspects of the conventional western wisdom on aid. They have been sceptical of the worth of and the degree of commitment to western aid philosophies and have based their own limited financial and philosophical commitment on arguments first, that in spite of their third largest GNP, their per capita GNP places them in the same league as Italy and New Zealand, and second that self-help should be the keynote in dealing with developing countries. There is a recognition in some parts of government in Japan, that it is now long overdue for Japan to reassess and reorient its aid, but the pattern of existing bureaucratic forces works strongly against this. It seems then that the present dispersion of Japanese aid organization reflects an initial lack of policy interest in developing a coherent aid policy and thus a lack of attention to administrative organization. As an aid interest developed, in spite of the lack of a policy framework, those bodies with aid responsibilities have resisted the development of a general policy and an administrative reorganization that might encroach on their existing territory.

As Japanese aid expanded piecemeal in the 1960s, areas of responsibility were captured by various ministries and absorbed or placed in outriders under ministerial control. This process of incrementalism explains the founding of OECF and JICA. No ministry is willing to relinquish its area of responsibility so that duplication of functions, for example in technical assistance, is rife. Further, the time taken to assess requests by possible recipients is extremely long given the requirement, by convention, for consultation and compromise to take place among all possible interested ministries and agencies before a decision is taken.
The Foreign Ministry is of course concerned primarily with the diplomatic image of aid, Finance with the impact of aid on the budget, the terms of loans and the balance of payments. MITI aims to promote exports, finance private Japanese investment projects overseas from aid funds, and to ensure the sources of supply of raw materials. In spite of the existence of a consensus among top officials on broad Japanese interests in foreign aid, these ministerial interests are often conflicting, and hence outcomes depend on the bureaucratic power wielded by the various ministries. This bureaucratic situation works strongly against the reform of existing practices in aid (such as hard terms) and in fact it is far easier to embark on a new initiative, like aid to the Middle East, than to reform the quality of existing aid to Southeast Asia. Ministerial interest in aid has been sporadic, although both Prime Minister Ikeda and Foreign Minister Miki made political advances in Japanese aid. Most recently Prime Minister Fukuda has himself initiated a major shift in Japanese aid to the ASEAN countries, one advocated unsuccessfully by the Foreign Ministry for years. Here again political will is required to bypass the logjams of bureaucracy.

While in all western donor countries, commercial interests provide a pressure point on official aid policies to greater or lesser degree, in Japan this commercial interest is strongly institutionalized in aid policy and implementation. There is a free flow of personnel between the private and government sectors, and while Japan lacks a cohesive aid policy it has an ideology of protection of commercial interests, so that these are fed into the mini-aid policies within each department and agency through well established channels. It is this institutional factor, the composing of official aid interests with commercial interests at departmental level that provides the linking rationale for a system which, lacking a general aid policy, would otherwise be totally fragmented.

Before turning to US aid administration which is sufficiently unlike those of other countries to deserve separate consideration, it is useful to sum up some tentative observations arising from this discussion. With the exception of France and the United States, where strong political control of aid reduces the policy role of the bureaucracy, the conflict and resolution of bureaucratic interests in aid are the principal determinants of the character of the aid program in the countries studied. This can be shown
conclusively only by a detailed study of the linking of the process of decision-making with the outcomes of policy on such aspects as volume of aid, degree of tying and geographical distribution, and this is beyond the scope of the present study. But sufficient attention has been directed to the central issues of aid budgeting and the aid-foreign policy nexus to support this conclusion. The existence of bureaucratic conflict over these issues is not influenced significantly by the fact of aggregation or disaggregation of aid functions, for the orientations of a Foreign Ministry to diplomacy or a Finance Ministry to budgetary restraint are fundamental, and these interests will be pursued wherever the responsibility for aid is located. However, the degree of such conflict and the level at which it is resolved does appear to be influenced by the centralization or dispersion of aid functions. It may be that the centralization of aid functions with a degree of autonomy leads to a higher degree of conflict than dispersion of these functions, but it encourages political resolution of the issues. On the other hand, it seems quite clear that dispersion of aid functions makes for continued low level dispute with relatively less opportunity for or encouragement of the exercise of political decision.

United States aid administration occupies a special place along the spectrum that has French centralized political control and bureaucratic diffusion at one pole and the by now traditional bureaucratic predominance in aid of the other states at the other pole. In American aid administration there are four principal actors - the President, Congress, State Department and AID - so that the combinations of power exercised over time are far more complex than in the other countries we have discussed. To gain some insight into this, the principal focus will be the debate about aid organization that took place in the late 1960s and 1970s.30

The shape of the US Agency for International Development in the 1970s stems directly from the Kennedy reforms of 1961 and the consequent centralization of much of US aid following the dispersion of functions of the Eisenhower years. These reforms, based on a study by the Brookings Institution for

30 For extended accounts of the origins and development of the US aid program see, inter alia, Nelson 1968; Thorp 1971; Kaplan 1967; Asher 1970 and various editions of the Congressional Quarterly.
the Senate Foreign Relations Committee, set up AID as a unit in the State Department to take over aid formerly administered by the International Cooperation Administration and the Development Loan Fund, and to have responsibility for the allocation of food aid. The rationale for this change was to provide an administrative basis for a centralized and coherent long-term country-by-country program of development. The aid-foreign policy connection was recognized by AID's location under the formal control of the State Department. The President directly appoints the Administrator of AID, and although the holder of this position has his powers delegated by the Secretary of State, AID has enjoyed a degree of independence (both in Washington and in its recipient-country based organizations) which is remarkable when compared to other aid agencies.

AID controls only about half of US economic assistance, for the Treasury co-ordinates policy towards the World Bank and controls aid to the Asian Development Bank, the Department of Agriculture decides the total volume of PL480 food aid, volunteers lie outside AID's administrative control, and AID has a responsibility to co-operate with the Exim Bank on the allocation of loans on commercial and near-commercial terms to developing countries. Perhaps most important in policy terms AID administers (rather uneasily) on behalf of State, the Security Support Assistance funds, which are the direct political arm of US foreign and security policy.

In spite of the complexity of these arrangements, AID enjoyed a wide degree of operating latitude during the 1960s, not greatly constrained by other bureaucratic interests. AID had direct access to the President and operated its own programs relatively independently. While the classic tension between short-term security interests versus long-term economic interests produced State-AID conflict, the way to political resolution of important disputes on this was clear. On the other hand, a kind of consensus existed between State and AID on budgetary matters and both also saw traditional projects and programs as a desirable vehicle for assistance. Further, State and AID agreed on the approach to Congress, which which was the strongest pressure point in the aid process, containing both ideologues and special interest groups.

As we have seen (p.58), AID was most constrained by the mood and actions of Congress and it was the loss of political support there that led to the 1968-73 debate about aid policies and organization. In what might be seen as a
move to head off criticism, the Perkins Committee, appointed by President Johnson and heavily influenced by AID views, inquired into aid and its organization and recommended the continuation of AID in essentially its then form. However, the influential National Planning Association in its 1969 report on United States aid (NPA 1969) took no such benign view of aid: it believed that the US was too active in the aid field, and principally too involved in what were essentially recipients' development decisions. As a consequence, the NPA looked to an increase in multilateral aid and a reduction in emphasis on country programming. It recommended that the size of AID should be cut and its implementation functions dispersed.

President Nixon's Peterson Committee which reported late in 1969 took much the same line as the NPA. It recommended the abolition of AID, and its replacement by an International Development Bank (for development loans) and an International Development Institute (for technical assistance and research) both headed by an International Development Council involving the heads of all agencies with aid functions, located in the White House with a small staff to plan strategy and co-ordinate policies. Nixon accepted the Peterson proposals in principle, but preferred a Coordinator of Development Assistance (related to the White House Council on International Economic Policy) to an International Development Council. Draft legislation to introduce these changes and renounce country programming went to Congress in 1971. Ironically, the legislation which had been designed principally to placate a critical Congress found little favour there and was not proceeded with.

While the debate was proceeding at the political level, important changes were occurring in AID. AID lost its political access under Kissinger, and the noticeable decline in its importance in national policy was accelerated. State-AID conflict intensified as AID sought new orientations in its programs in a shift from country programming to a functional basis with a concern for equity in developing countries. This cut directly across State's diplomatic cash flow objectives. AID found itself under attack both from within the bureaucracy and from both liberals and conservatives in Congress.

The outcome, at least for the time being, appeared in the rewrite of the aid legislation by Congress in late 1973 and the following year: the New Directions policy. Here
it seems that new thinking in AID about the purposes and structure of its programs coalesced with liberal thinking in Congress to produce legislative backing for a new policy approach to AID. The central issue in this change was the recognition that American aid was not reaching the poor in developing countries. The prescription that flowed from this recognition implied a significantly different aid program: one functionally and therefore sectorally oriented; a far more aggressive approach to the use of US aid resources within developing countries to promote structural change in political as well as economic areas; and a changed relationship between the use of aid funds both for diplomatic and commercial advantage.

Leaving aside the merits of this new approach, it was clear that it would provide grounds for political and administrative conflict. This could develop within AID, primarily between those pursuing functional and geographical approaches; between AID and State with the latter perceiving heightened conflict with recipient governments and the prospects of the loss of the aid slush funds; and between AID and the departmental and Congressional surrogates of the commercial lobbies, as the latter became aware of the possible loss of their trade opportunities in the new policies.

During these years also, the United States was searching out a response to the broader demands from developing countries for a New International Economic Order (NIEO). A shift by Kissinger at the UN General Assembly 7th Special Session from his previous hard line, did not augur a fundamental change in US policies on the whole range of issues. But it did lead, as in other countries, to an attempt to deflect these demands for structural change in the world economy by stressing the actual and potential aid contribution. Because of this AID, which had been excluded from NIEO matters, formed a rapprochement with State, and both AID and State began to go in the same direction on these issues.

The future of US aid policy and the organization of AID now await a Carter administration initiative. The Brookings Institution, in a study headed by Lester Gordon of Harvard, has again recommended a 'new' policy and structure to the State Department and President Carter (Gordon and associates 1977). This study strongly recommends a policy geared to the 'basic needs' of the poorest in developing countries, unfortunately without arguing the advantages and
disadvantages of such a policy at any length. It argues for a three- to five-fold increase in aid funds (on the basis of various estimates of 'needs') and suggests the formation of a Development Cooperation Agency (DCA) which would be separate from the State Department, in order to reduce the pressure of short-term political pay-offs on long-term development plans. The experience in other countries with the same problem might argue for more caution and a wider view of the political-administrative pulling and hauling before such a step is taken.

While the Gordon study, albeit from an independent source, reflects the emerging ideology of aid in the United States (from the aid bureaucracy itself and from a spectrum of opinion in Congress), it is not clear to what extent such an idealistic policy could be implemented. For example, the geographical distribution of US aid is strongly biased towards both Israel and South Korea (neither of which is, properly speaking, a developing country) on security grounds, and a sober view of a redistribution away from these two countries would need to acknowledge that the political implications would soon override any aid considerations. Again there is an inherent conflict between an aid program directed to basic needs and one that is tied strongly to the procurement of US goods. This is not to argue that the new policy is misconceived or plain wrong (even leaving aside predictable reactions within developing countries themselves), it is only to point to the central argument of this paper: that the shape of an aid program is usually the outcome of the resolution of these kinds of conflicts which takes places within bureaucracies, either acting on their own behalf in defense of their conception of priority in national interests or as surrogates for outside interests. Any new policy or new institutional framework that seeks to become established, must take due account of the power and inertia of such established forces. Here, the mood of Congress will mean as much or as little as in the past: it will support or oppose an emerging trend, not itself embark on a new direction. The President also will need to find a coalition of support from within his administration and from Congress before setting out in a new direction. Yet despite the frequent pulling up of the roots of the US aid program and the reassessments that follow, one is struck by the continuity in the substance of the program, and the durability of the elements of aid policy, though given different priorities at different times. This seems to suggest that even given the volatility of the aid issue with Presidents and with Congress,
the basic structure of American aid exhibits much the same range of conflicts over time as do most other western aid programs.

This discussion of the organization of aid of the 'Big Five' donors has shown a wide variety of administrative responses to aid problems. Before drawing out some common themes, it is useful to note some aspects of the aid of the 'internationalist' donors, that is the Scandinavian countries, Netherlands and Canada. This term intends to convey that the aid policies of these countries rest on an avowedly recipient-oriented philosophy, one which, while national interests of donors may impinge, is carried through in practice to some effect both bilaterally and in international forums.

There are some general reasons for the ability of these countries to sustain such policies, and they are in direct contrast to the experiences of the 'Big Five'. First, all these countries have relatively small aid programs in circumstances of growing national wealth, so that aid budgets are not usually subject to the depredations that occur for example in the United Kingdom, the United States and Japan. It is also the case that none of these countries has crucial foreign policy interests to prosecute through their aid: as one Australian once put it 'Canadians can afford to act like knights on white chargers in Southeast Asia; their interests aren't strongly involved'. Finally, most of these countries have enjoyed lengthy periods of stable government under the same re-elected party. This has provided the conditions for developing some political commitment to internationalism in aid, and allowed new aid organizations to propagate their views over time through the rest of their national bureaucracies.

The foregoing discussion has also shown the individual nature of administrative responses to aid problems. Clearly, the substantive decisions on aid (on its philosophy, degree of involvement in recipient countries, and shape of the actual program) should influence the organizational decisions, but this analysis has demonstrated that the outcome is more often that organizational decisions influence decisions on substance. These organizational decisions are in part a product of historical conditions (as in the case of British aid to 1964 and French aid to the present) or in part influenced by the administrative conventions of the country concerned (as in Japan and the United States).
Despite the apparent individuality of administrative organization, two currents in thinking about this may be discerned: one in the early 1960s which centred on the strains of disaggregation of functions, and the other in the late 1960s and early 1970s which revealed the strains consequent upon a shift towards aggregation. The discussion on reform of aid administration in the early 1960s took place in the context of a sharp increase in the volume of aid funds being made available; the strongly political nature of much of the aid being given for 'Cold War' purposes; and the general increase in interest in aid as an integral part of the growing interchange in international society. The Kennedy reforms of 1961, the establishment of ODM in Britain in 1964, the Jeanneney report in France in 1963 and the setting up of the BMZ in Germany in 1964 were all differing responses to the same international stimuli.

Disaggregation of functions had created a division between capital assistance and technical assistance, between loans and grants, between geographical and functional areas, and thus division of responsibility among ministries. In the case of all countries except Japan, a greater or lesser degree of aggregation of these functions took place in the 1960s, and was subject to bureaucratic conflict before, during and after aggregation, according to the extent that such conflict was a structural feature of national bureaucracies.

Consider the strains that appeared after a degree of aggregation had occurred. Internationally the volume of resources devoted to aid began to decline in real terms and there was widespread disillusionment with the effectiveness of aid, while the political imperative which had bolstered aid had diminished greatly. In these circumstances, aid lost its international momentum and consequently lost leverage nationally. In some cases the bureaucratic strains which had occurred in composing aid interests with other national interests revived, as in the United States and Britain; in other countries the existing system fought off the challenge, as in Germany and Japan.

The prophets of a continuing decline in aid may be premature. As aid is now one of the basic blocks of international dealing, it continues to be subject to the classic pressures of foreign and commercial policy, and these are heightened when aid policies take on a strong preoccupation with equity issues within developing countries. More
importantly, the need within OECD countries to devise constructive responses to NIEO demands in a time of stagnation in the international economy, directs policy-makers back to aid. Where aid is seen as one arm of general foreign economic policy towards developing countries, especially on trade problems, a whole new range of administrative relationships may arise.

Administrative alternatives in aid

No one knows the answers. Organizational form is a gross variable; there are always so many intervening factors in any situation that it is rarely possible to connect the effectiveness of a particular policy with a defect or virtue in the processing of information or juxtaposition of personnel. All the more reason that people should be freer to dispute the issues.

Heclo and Wildavsky 1974:389

The conflicts in aid policy are deep-seated and by now longstanding. We should not be surprised at their effects, both intended and unintended, at the other end of the pipeline in developing countries: the so-called small country bias which works against aid to India for example; the 'reverse flow' of funds due to some donors' hard term loans; the white elephant project bias. All these and others are well known and require no reiteration here. What follows from these observations is not a theory of imperialism, or the notion that the governments of developing countries are willing victims, but rather that the nature of aid policy-making in western countries tends to produce outcomes such as these. It does so, not because those involved are simple-minded or wicked, but because there are real issues involved in situations of contending power, and the outcomes reflect very often the predominance of one contender at the expense of the others. A similar observation can be made about the making and operation of domestic social welfare policy, with the important exception that the means of redress of abuse are available to some extent to the recipients of social welfare, while they are not generally available to recipients of aid.

While different aid organizations produce differing policies and programs, there is a thread of commonality in
the way that this takes place. All of the countries discussed have faced the same central problem of aid organization: how to reconcile the interests of the 'great triad'\textsuperscript{31} (that is, the foreign, finance and trade ministries) with the interests of aid. The various national solutions adopted indicate two forces operating: the relative intensities over time of the triad's interests as against aid interests, and the relative bureaucratic and political power wielded on each side of the conflict. It is the outcome of these conflicts that by and large shapes national aid programs.

Does the restructuring of the organization of aid significantly affect policy decisions? There is no clear answer here, but there are some interesting aspects. A restructuring of aid, for example an aggregation of functions and separation of location which is induced for political reasons, can only have a long-term influence and change policy if the political support for the change is sustained. Such an initial act does not of itself ensure a new direction in policy, since the triad's interests will still be pursued, possibly even more successfully if the new organization is weak. Again, if the restructuring that takes place integrates aid functions into a foreign ministry, a shift in policy and practice towards the use of aid as a tool of foreign policy is inevitable. In this case, on the other hand, the interests of the trade and finance departments may encounter more stalwart opposition, just because a foreign ministry may be more powerful in resisting these than a more or less autonomous agency. Restructuring an aid agency usually implies two changes in the way these differing interests are reconciled. It implies a change in the level at which bureaucratic decisions are taken; for example, where aid functions are separate and partly autonomous, decisions are taken at a higher level than when aid is integrated into the foreign ministry. Further, restructuring implies a change in the way these various interests are co-ordinated. This can be either at ministerial level in the case of autonomous agencies or at departmental committee level in the case where aid functions are dispersed. The outcome in the first case depends on the influence of the responsible minister, and, in the second, on the relative strengths of various ministries. Restructuring can make a difference to policy but it requires sustained political support, and a shift in bureaucratic power in reality as well as appearance.

\textsuperscript{31}The conspiratorial overtones of this term as it is attached to Chinese secret societies in the diaspora are not implied here.
These problems of bureaucratic conflict in aid seem inescapable, resting as they do on the proposition that ministries exist to defend their part of the national interest. Whether the views prosecuted by ministries are in fact in the overall long-term national interest is another question, but it is worth speculating whether there is some kind of administrative arrangement of aid that can mitigate the aid problems that are due to the influence of all these interests. This speculation rests on three assumptions: the normative one, that aid has as its primary objective the servicing of developing country interests; second, the administrative reality that various aid organizations already exist and are bound about with powerful national administrative conventions; and third, that sufficient political (i.e. ministerial) support can be mustered in donor countries for developmental interests in aid.

The purpose of this speculation then is to examine whether some mechanism can be found which will ensure the predominance of independent aid objectives in some specific circumstances as against the play of other national interests, which will allow these objectives to inform other national decisions which relate to recipients' development, such as trade and investment.

Let us examine four general conditions which seem necessary to go some way towards this objective. First, aid must have relative importance in the priorities of government. This apparent truism means that where aid is insignificant these conflicts do not really arise. Objectively, aid is an important policy area for each of the 'Big Five'. There follows from this a second condition; that the opportunities for effective political control exist and that these should be exercised on the large questions in aid. Here the exercise of political control depends on a number of factors: that there is a shift in the power to decide away from the bureaucratic level towards the political level; that issues should come to a decision at a high level among ministers and in circumstances ensuring that collective support is required; and finally that, whatever the kind of political control, access of aid advisers to politicians should be comparable to that of other departmental interests.

The third condition concerns the structure of advice and policy-making at the bureaucratic level. As we have seen, this is influenced strongly by the kinds of political
control and the administrative conventions that exist nationally. The trouble with aid policy is not that there are conflicts inherent in it, but that often these do not come up for political decision, and that when they do they are not exposed in such a way as to allow a clear conception of the choices by politicians. These problems are not susceptible to solution by organizational change, but a degree of bureaucratic separation of aid responsibilities allied with an unambiguous location of and access to political responsibility may provide the framework for recognition of these difficulties.

The continuum of aid organization extends from total dispersion to total aggregation. Total dispersion subordinates recipient interests in all circumstances and this is without doubt the worst option. One might as well set up a bureau for the corruption of foreign governments and an agency for the subsidy of manufacturing interests, as has been jestfully proposed, and be done with it. At the other extreme it does not follow that the aggregation of functions in an autonomous body with its own minister best serves recipients' interests. Given the realities of the bureaucratic pursuit of other interests, the isolation of a separate body may bring about an indifference to, or rejection of aid interests, and such a body, turning in on itself, can become a voice crying in the wilderness. The problem is not how to divorce aid objectives from foreign policy and trade policy, but how to ensure that aid objectives predominate over others in aid flows and that these policies take developmental considerations into account. Administrative isolation does not achieve this, and can be totally counterproductive.

Between these two poles lie a number of alternatives. Given existing preferences, an effective aid administration structure would take account of these aspects: first, that there should be a sufficient degree of aggregation and autonomy in the aid structure to control both financial and technical assistance, both bilateral and multilateral aid and to develop some specialist skills in the implementation of aid. This already implies a sizeable centralized organization with a degree of autonomy. The second aspect concerns the way in which aid and foreign policy are to be related. If we assume that diplomats will generally give priority to short-term foreign policy interests at the expense of developmental considerations in aid, then the question revolves around whether aid is integrated completely into
the geographical areas of the foreign ministry in the hope that this in time 'infests' staff thinking (White 1974:255-6) or whether some degree of separation of aid policy and administration will allow developmental interests to be maintained. I am sceptical about the degree to which diplomats' orientations can be so changed, the more so because the integration of aid into foreign ministries precludes appeals to ministers, and such important questions are rightly the province of ministers. Two solutions seem possible: one is to have an aid organization functionally separate from the foreign ministry but responsible to the foreign minister who then would reconcile aid-foreign policy conflicts; the other is to have an aid organization within the foreign ministry under the authority of a junior minister with cabinet rank.

The third aspect concerns the impact of commercial and budgetary considerations on aid objectives. Again, complete separation of aid makes it a prey for more powerful ministries. The conflict between budgetary constraints and aid volume is properly the province of ministers and requires resolution in explicit terms at cabinet level, and not compromise at bureaucratic level. The influence of commercial interests is exerted both at bureaucratic level through the departmental backers of exporters and manufacturers and at the political level in pressure on ministers. Here again aid requires the protection of the foreign ministry at bureaucratic level and of the foreign minister at ministerial level to avoid degradation of the quality of aid.

The enduring Catch-22 in this is of course that aid policy-making must stand sufficiently distant from foreign policy interests as to be able to assert its independent objectives, without being so distant as to forego the protection of the foreign ministry from the incursions of commercial interests.

To these three political and bureaucratic factors, a fourth, relating to emerging problems of co-ordination can be added. With the assertion of demands for a New International Economic Order by developing countries, and the search for responses in western countries to this, the place of aid in national priorities would seem to be undergoing a change. In the past, aid has been for many donor countries a 'poor relation' in policy and something of a sop to the demands of poor countries, and for these reasons a prey to other interests. The need now to construct a response to
NIEO, changes qualitatively the role of aid: it retains its place as a 'gap-filler', but it seems likely that policymakers, in seeking a co-ordinated response to NIEO demands, will see increased aid as a substitute for changes in policies in trade and investment which are too hard politically, and/or as an instrument to support such changes abroad or adjustment at home.

Thus, although this discussion of the reform of aid organization proposes chiefly a series of tinkering adjustments, the problems of co-ordination of new roles for aid in foreign economic policy-making towards developing countries may assume the status of a major challenge to existing arrangements.

Internationally, dissatisfaction with aid transfers is manifested both in calls for a new multilateralization of all aid and in developing country attempts to change their aid reception structures.32 The former has some force behind it but it is likely that bilateral aid will be important for a long time to come, while the latter moves hold the seeds for the development of a less lopsided aid bargaining framework between rich and poor countries. What happens to aid within the governmental structures of western countries is still crucial in the present international system and thus worthy of a freer debate.

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32A particularly interesting example in this respect is Papua New Guinea's National Development Fund, an aid-revolving mechanism that seeks to avoid the distortions of tying and distorted planning that occur with traditional bilateral aid flows.
Chapter 5

Politicians, bureaucrats and foreign aid: a case study

N. Viviani and P. Wilenski

The change in government in December 1972 was seen by that small constituency of people interested in aid issues and dissatisfied with the existing programs as a major opportunity for a change in direction for Australia's aid policies and programs. The vehicle through which this change was to be effected was a new statutory body responsible directly to the Minister for Foreign Affairs and independent from the old departments which had till then dominated the aid field.

By March 1976, this aid agency had lived out its brief span and had been effectively abolished.

This chapter sets out to trace the reasons for the establishment of the Australian Development Assistance Agency (the Aid Agency), spell out its objectives and tell some of its life story in order to evaluate its success and failure in meeting these objectives.

It is also a case study of the interaction between politicians and bureaucrats and of the politics practised among bureaucrats themselves. We hope to draw some lessons as to the likely future of Australia's aid policies and the appropriate form of organization for this formulation and implementation.

The proponents of an aid agency believed that while foreign policy was an important input in the determination of aid policy, the separation of aid administration from the Department of Foreign Affairs was the only way to ensure:

(a) that developmental aspects (including the social and income distribution effects of aid) received a high priority in formulating aid programs;
(b) that aid administration was improved, that professionalism was introduced into the aid program and a career structure for aid officers established;

(c) that innovation and experimentation was encouraged and a greater stress placed on research and evaluation; and

(d) that an integrated aid policy could be developed out of the divergent policies of the different agencies then administering the aid program.

A final strand of opinion was that it was important that the aid program should develop a constituency within the bureaucracy itself which would have a vested interest in an improved and enlarged aid program, and would be able to promote the interests of this program more effectively than the Department of Foreign Affairs and the Department of External Territories had done.

These objectives were ambitious but rather narrowly focused on aid issues per se, and were not much concerned with wider questions as to the impact of other foreign economic policies on development problems. These were questions which became increasingly important during the life of the agency, and consideration of them clearly affects alternative forms of aid administration for the future.

ALP policy and the agency

Foreign aid did not appear to have a high priority at the outset of the Labor Government. It was not mentioned in the 1972 policy speech and did not get much space in the early foreign policy statements of the new government. It was, however, a field in which the government took prompt action. For example, within a few days of its formation the government granted aid to international population planning agencies. Moreover, there was a specific plank in the ALP platform: 'in pursuit of a more meaningful aid program the Labor Party proposes ... to recognize the various Australian aid programs and to establish a mutual co-operation agency'.

The insertion of the provision for an aid agency in the Labor Party platform in 1971 came largely at the instigation of a former senior officer of the Department of Foreign Affairs, Mr W.L. Morrison, who had left the department in 1969 to contest successfully the seat of St George. Morrison had seen aid programs administered abroad and had spent a period in the purgatory of the aid branch of the department
after his decision to contest a parliamentary seat had been announced. He was aware of the extent to which the developmental aspects of aid were ignored in the department and of the lack of professionalism in its aid branch. Diplomatic officers of the department regarded a posting to the aid branch virtually as a black mark in their careers. It was difficult to retain good non-diplomatic officers in the branch as promotion prospects were limited and the senior positions in the department virtually all reserved for diplomatic officers. Whitlam, as the dominant foreign affairs influence in the ALP, gave his support to this provision in the platform.

Morrison had a further influence in pressing for increased professionalism in aid when, in 1972, he was made acting chairman of a sub-committee of the Parliamentary Joint Committee on Foreign Affairs which prepared a report on Australian aid. The final recommendation of the sub-committee was a compromise between strengthening and expanding the aid branch of Foreign Affairs and establishing a separate authority. However, the report expressed dissatisfaction with existing administration and gave further currency to the idea of an agency.

At a time when the government was embarking on a large number of new measures, and since the Aid Agency, while in the platform, had not been part of the policy speech, Morrison's interest alone might not have been enough to give the Agency a higher priority. A new bureaucratic actor, in the form of the Prime Minister's Office, now also came to support the establishment of the Agency. This was largely fortuitous as the Prime Minister had chosen as the head of his office a public servant, much of whose career had been spent in the aid field, both in the Department of Foreign Affairs and in the Treasury. The Prime Minister himself was a supporter of the establishment of a separate aid agency, but it could only have a small place in the wide range of issues that crossed his desk as Prime Minister, and the interest of his private office in the idea ensured that at each stage of the debate over the agency he could take an active role in decision-making on the proposal. This role was made easier by the fact that in the first nine months of his term as Prime Minister he was also Minister for Foreign Affairs.

Existing aid arrangements

The aid administration in 1972 was divided among a
number of different departments, and it was their struggle to maintain their interests which shaped the structure of the Aid Agency and continued to influence its activities long after its formation. It is therefore necessary to set out briefly what these administrative arrangements were in order fully to understand subsequent events.

Four government departments had primary responsibility in different parts of Australia's official development assistance. The Department of Foreign Affairs was acknowledged as having primary responsibility for aid policy, and administered aid to all foreign countries other than Papua New Guinea (which, at the time, was still administered by Australia), as well as aid to a number of international organizations. While it had prime responsibility for policy, its programs amounted to only about 27 per cent of Australia's aid expenditures. The department's aid branch had a staff of 128 officers (excluding support staff), with a further twenty-one officers overseas employed full time on aid matters.

Aid to Papua New Guinea, which was two-thirds of Australia's aid program (and over half of Papua New Guinea's budget at that time), was administered by the Department of External Territories, which employed some ninety officers (excluding support and purchasing staff) on aid duties. The decision of the Australian Government, that PNG was to be granted self-government on 1 December 1973, was to become crucial in the formation of the Aid Agency. The decision meant that the Department of External Territories would be abolished on that date, its remaining responsibilities were up for grabs and the fate of its officers had to be determined.

The Treasury had general oversight of the aid program because of its economic and financial implications, and, in addition, had direct responsibility for Australia's relations with, and contributions to, the international financial institutions concerned with aid matters, primarily the World Bank Group and the Asian Development Bank. Some eight officers were engaged on these tasks.

The Department of Education administered the Commonwealth Co-operation in Education Scheme and acted as a training authority for government-sponsored trainees under all aid schemes. The equivalent of 135 full-time staff in central, state and regional offices throughout Australia were engaged in these activities. The Department of Education had already been reduced in size and responsibility at the end of 1972 through
the loss of its science responsibilities to a separate portfolio and much of its policy-making role had been transferred to a number of new commissions. Although the aid function could only be regarded as peripheral to the department's major responsibilities, its persistence in attempting to retain its aid functions and not be reduced further in size was to be one of the minor features of the process by which the agency was formed.

In addition to these departments, a number of other departments provided experts for aid schemes or played an important role in Australia's relations with developing countries (for example, Department of Overseas Trade), but as neither these institutional arrangements nor these policy responsibilities were to be disturbed by the formation of the agency, these departments played little role in the subsequent debate. This was also true of their ministers, even though a number of them had expressed a strong interest in foreign aid while in Opposition.

The idea of an aid agency thus held some attraction for the Department of External Territories but could muster little support amongst major departments, none of which saw their interests advanced by it and some of which saw it threatening their responsibilities and influence.

Department of Foreign Affairs and the Aid Agency

The Department of Foreign Affairs came to be the prime bureaucratic actor in the establishment of the Agency. Its attitude was critical and there was conspicuous lack of enthusiasm for the idea of a separate aid agency. Senior officers of the department resented suggestions that the current administration of aid programs was lacking in originality or vitality, but were even more deeply concerned that a separate agency might pursue aid policies which deviated from foreign policy advice submitted by the department. Aid was to them an integral part of foreign policy and aid policy advice should be controlled by those concerned with foreign policy. This view came through most clearly in the submission of the department to the Royal Commission on Australian Government Administration (RCAGA), when even a year after the decision to establish the Agency had been taken by the government, the department continued to argue to the commission that the Agency should be abolished and the aid function restored to the department:
Coordination of aid programs with Australia's foreign relations is also a matter requiring close and constant attention. Aid lies within the framework of foreign policy and must be consonant with the Government's objectives in our relations with foreign countries. The amount and direction of our aid must be determined in the light of foreign policy objectives and are subject to diplomatic negotiation and agreement with the governments of recipient countries and international organisations ...

The Department of Foreign Affairs early in the life of the new government prepared a number of papers on foreign aid for the Prime Minister in his role as Minister for Foreign Affairs. These dealt largely with increasing the amount of foreign aid and increasing the flexibility that the Department of Foreign Affairs had in its administration. But it was noticeable that while most departments were scouring the Labor Party policy speech and platform at this time in order to work on the implementation of the government's policy, these Foreign Affairs papers made no mention of paragraph XXI 3 (b) of the platform which related to the Aid Agency. Indeed, the department blandly sought authority for discussions with the Public Service Board to centralize all aid administration within the department.

Task force on aid administration

The Labor Government by early 1973 had already made far-sweeping administrative changes which it was taking the Public Service and, indeed, the public, time to digest. Other changes, for example the integration of the Departments of Army, Navy and Air within the Department of Defence, were already under way. Against this background the Prime Minister was reluctant to move immediately - and against the advice of his foreign policy officials - for another reorganization. He first sought a report from a task force of officials drawn from the four departments primarily concerned with aid administration. This task force was 'to examine all the options for a unified administration to administer all aid, including multi-lateral aid, bilateral aid and aid to an independent Papua New Guinea ...'.

While this group was styled as a task force, it functioned as an interdepartmental committee and displayed all the defects of that bureaucratic hybrid: the search
for the lowest common denominator of agreement and the preparation of a report which attempted not so much to solve the problem but to avoid any material damage to the interests of any department represented on the committee. This particular committee excelled itself by devoting one-third of its report to a chapter in which officials managed to give a new meaning to the Prime Minister's term 'Unified administration to administer all aid'. They divided out two separate options which were defined as 'fully unified' and 'less-than-fully-unified'. This remarkable piece of sophistry allowed them to devote most of the report to options which the government had already ruled out but which would retain for the Departments of Treasury and Education their existing functions and establish aid to Papua New Guinea as a separate and identifiable unit within the aid organization.

On the other hand, there was also only a passing reference to the way in which aid questions would be tied in with other aspects of Australia's economic relationship to developing countries. By this time discussion in the Organization for Economic Co-operation and Development (OECD) on the development question (as our representatives at the OECD were pointing out) had moved beyond the narrow aid question on to broader issues of the entire economic relationship between the developing countries and the industrialized world. There was no reflection of this in the task force report. It was a barren work, left waste by the internecine warfare stirred by the territorial imperatives of the departments concerned.

It is indeed remarkable that at one point the task force gravely warned of the dangers of a fully unified aid agency. A separate paragraph was given to the warning that 'unified organisations sometimes tend to develop personalities of their own and express points of view which may cut across broader concepts of the national interest'. The fact that agencies develop a philosophy and style of their own is widely accepted in the academic literature. As Peter Self (1972:92) has written: 'An administrative agency is not simply a compliant instrument for the implementation of political goals. It generates its own interpretation of those goals. Everyone concerned with public administration testifies to the reality of agency or departmental philosophy ...'. The 'everyone' referred to by Self does not in Australia include public servants writing about the public service. It is rare indeed for Australian public servants openly to acknowledge that government agencies develop 'separate personalities' and
pursue interests of their own. The standard view is that public servants carry out the will of the government of the day. It was perhaps regrettable that officials who were blessed with this sudden insight into the dangers of the aid agency were not similarly insightful in their examination of their own departments and the possibility that they too might have developed separate personalities and distinctive lines and interests of their own.

The report in the end did, however, identify five options for ministers to choose from:

(a) The expansion of the existing aid branch within the Department of Foreign Affairs.

(b) The establishment within the Department of Foreign Affairs of an office of international aid directly responsible to the Permanent Head.

(c) The creation within the Department of Foreign Affairs of a bureau or agency on international aid whose relationship to the Permanent Head of Foreign Affairs might be analogous to that of the Head of the Bureau of Agricultural Economics to the Secretary of the Department of Primary Industry.

(d) A separate department or authority responsible to the Foreign Minister and not to the Permanent Head of Foreign Affairs.

(e) A separate department of state with its own minister.

Bureaucratic lobbying before the cabinet submission

The task force report had thus not greatly advanced the arguments about the Aid Agency, but it had brought matters to the point where a decision had to be reached. The next step was that the Prime Minister would have to decide what form of cabinet submission would go forward. Departments now began to lobby their ministers and the ministers to lobby the Prime Minister.

The Department of Foreign Affairs continued in its opposition to a separate aid agency. It argued its case that aid was an essential tool of foreign policy forcefully and cogently. Others saw in the Agency an opportunity for professionalism and a career in development, but the department saw only the dangers of a stodgy and inbred service. The
department put a very high stress on the avoidance of conflict and of conflicting recommendations to the Minister. The department, as its submission to RCAGA testified, felt that it would be an intolerable situation for differences of opinion on this matter not to be resolved internally in the public service, and for them to become known either to the minister or, even worse, to the public.

The Department of External Territories and its minister is believed to have come down in the end in favour of Option (c) listed above, but with the important addition that the head of the agency be a statutory appointment. As this would have required legislation setting out duties and responsibilities of the officer, the department's attitude was a stand well towards Option (d) without actually saying so. The department was also in favour of an identifiable Papua New Guinea unit within the Aid Agency.

The Department of Education and its minister were principally concerned with the maintenance of their own functions. They argued that the unification of training functions in the agency would be tantamount to establishing a new educational authority and one lacking the depth and expertise of the department. The department agreed that there could be advantages in greater unification of aid functions, but came to the conclusion that in the area of training this could be achieved, in fact, by a greater consolidation of training functions within the Department of Education itself.

The Treasury did not at this time appear very concerned whether the agency was established or not, so long as it maintained responsibility for relations with the international banks.

It was clear, then, that there was little enthusiasm within the bureaucracy for a separate agency, the only support coming from the relatively unimportant Department of External Territories, whose officers were seeking some sort of new home on the dispersion of their department. The other departments which would provide the bulk of the staffing for the new agency were all clearly opposed to it and the Public Service Board little more than equivocal. Without the clear statement in the Labor Party platform and the pressure generated by the impending dissolution of the Department of External Territories (and the interest of the Prime Minister's private office), it may be doubted whether plans for an
agency would have proceeded any further.

The Prime Minister, clearly dissatisfied with the stage matters had reached, sought the advice of an eminent former public servant and international aid expert who had been critical of Australia's foreign aid. Not surprisingly, his report came down in favour of a statutory authority. This gave the proposal the legitimacy and bureaucratic respectability which allowed the Prime Minister to make his decision and he came down in favour of the agency.

However, as became evident later from announcements about the agency and the Second Reading Speech, he had made some concessions to the departmental views - presumably in order to take his senior officials with him rather than to ride roughshod over their advice. These concessions were to become extremely important in the subsequent operations of the Agency.

The most important of them was that to ensure coordination. The legislation listing the functions of the Director of the Agency stated that these functions should be exercised subject to the direction of the minister, and through this power of direction the minister would be able to establish requirements for consultation with the Department of Foreign Affairs; when it was thought desirable the minister would also be able to direct that on certain matters the head of the Agency should report to him through the Secretary of Foreign Affairs.

The second major concession was that, although all aid functions were to be united, the Treasurer would remain Governor in the World Bank. This, again, was to provide the leverage for two years of interdepartmental correspondence.

The cabinet decision

The Prime Minister's decision on what he would submit to cabinet was reflected in a change to the ALP platform at the July 1973 Conference. The amendment as recommended by the Foreign Affairs Policy Committee, of which the Prime Minister was chairman, deleted the pledge 'to reorganise the administration of the various Australian aid programs and to establish a mutual cooperation agency', and inserted in its place a far more specific statement: 'The Labor Government will establish a statutory development assistance agency responsible to the Minister for Foreign Affairs and
responsible for Australia's projects, training and similar activities and relations with international development institutions'. A number of ministers at this conference, and principally the Minister for Labor, effected changes in the party's platform in order to bolster their case in subsequent cabinet discussions and some would view this amendment in much the same light, though it seemed unlikely that the agency would be opposed in cabinet discussion.

The establishment of an agency was approved by the cabinet on 17 September 1973 and announced the next day in the following terms:

Cabinet agreed to the establishment of an Australian Development Assistance Agency as a statutory body to administer Australia's bilateral aid and our participation in all programs of multilateral aid to developing countries. The Agency will take over the aid functions at present carried out by other departments, including Foreign Affairs, External Territories, Education and the Treasury. It is intended that the Agency be established from 1 December 1973, the date proposed for the beginning of self-government for Papua New Guinea.

The Government believes that improvements can and must be effected in almost all aspects of our aid endeavours - in the machinery for formulating policy, in assessing particular projects for assistance, in ensuring greater attention to the welfare and distributive effects of our aid, in evaluating the economic and social effectiveness of our various schemes, in apportioning and seeking approval for funds allocated for the program, in bringing greater continuity and expertise into our staffing arrangements, and in more directly associating the community with the program.

A fully unified aid administration will ensure that a comprehensive, rational approach is adopted to foreign aid. The dispersal of aid functions among various Departments has reflected and sustained the sometimes conflicting viewpoints of individual Departments and has complicated the whole process of coordination. It has involved untenable delays, and the machinery used to implement the program is cumbrous. The new
Agency would be so constituted as to be able to formulate a comprehensive aid policy and to ensure that the various programs are quickly and effectively put into action. It would deal with both the bilateral and multilateral programs. The annual appropriations would be subject to Cabinet direction and Parliamentary control and the operations of the Agency would be subject to the independent scrutiny of the Auditor-General.

The government had thus, after nine months of deliberations, memoranda, meetings, submissions and counter-submissions finally decided on a statutory agency. Furthermore, it had clearly decided that the Agency would absorb the aid functions carried out by the Departments of Foreign Affairs, External Territories, Education and Treasury, and it had settled on detailed legislative provisions for the agency. It might seem to be observer, unhearsed in the ways of the Canberra bureaucracy, that there the matter had come to an end. The decisions had been taken, the proponents of the Agency had won.

The cabinet decision 'interpreted'

In fact, the battle had hardly begun, and it was to be another 15 months before the Australian Development Assistance Agency (ADAA) was finally established as a separate body, and even then with functions considerably modified from those which a reader of the government announcement might reasonably have expected.

The first step in this new round of interdepartmental warfare came with the 'explanation' of the decision given to the departments by the Department of Prime Minister and Cabinet. Cabinet decisions are, by their nature, relatively brief and sometimes, especially when the decision is a compromise, somewhat ambiguous. The departments which implement decisions must look for the meaning behind the words. To do this they rely in part upon what their own minister tells them of the cabinet discussions and in part (since a minister's memory may be somewhat imprecise, owing to inattention or partisanship) on supplementary information provided by the cabinet secretaries from notes taken of officials. This is something of a two-way process, as the officials sitting in the Cabinet Room are not expert on the subjects under discussion and sometimes need to seek the advice of departments on specific questions, so as to be able
to understand the import of various points made. This process sometimes goes as far as the Secretariat clearing with departments drafts of the terms of cabinet decisions - which, in fact, gives departments a second chance to modify a decision taken. It is rare, once a decision is finally written up, for ministers to object to its terms, and this is an indication that the process of modification is, in fact, kept within very strict limits. Ministers are themselves also consulted by the Secretariat. The process of 'interpretation' of decisions is a somewhat more subtle one and places considerable power in the hands of officials of the Department of Prime Minister and Cabinet who provide the Secretariat. On this occasion, as ministers were only subsequently to learn, the cabinet officials advised departments of two points that they felt amplified the decision taken, and were in the spirit of the cabinet discussion. Both of these were subsequently to be hotly disputed, but by the time that the dispute occurred, they had already had their effect.

First, departments were notified that although no reference was made to it in the cabinet decisions, the feeling was that the new agency should not result in increases in public employment and should draw staff from those departments now engaged in aid functions. This 'implication' was in many ways directly contrary to the spirit of the proposal to establish an agency with its stress on new activities in the socio-economic field, and upgrading of research and evaluation, as well as the need to introduce new ideas into the aid program. That it reflected views put forward by some ministers did not come into dispute, but it found no place in the government decision, and its subsequent insertion, had it been made openly, might well have aroused strong ministerial opposition.

Second, there was a reference to the feeling in cabinet that the Treasurer should continue to be the Governor in the World Bank Group and the Asian Development Bank, and that this was interpreted by officials to mean that the Treasury was to continue to have the primary role in policy advice. When it became apparent to cabinet officials that there was dispute over this additional interpretation, it was referred back for agreement to be reached between the Departments of Foreign Affairs and the Treasury. The Prime Minister, on the advice of the Department of Foreign Affairs, moved quickly to seek the co-operation of the Treasurer in the actual transfer of functions, but once the matter had come
back into the realms of inter-ministerial and interdepartmental correspondence, the original dispute, about where the functions carried out by the Treasury should be located, continued in the form of a dispute over interpretation of the cabinet decision. In the meantime, responsibility for relations with the banks stayed where they were, in the Treasury, and in the final analysis, although the Agency was given some say in these relations, the responsibility was never transferred.

In one respect, however, the government decision was to be implemented in the manner in which it had been decided upon. The contention of the Department of Education, far less of a heavyweight than Treasury, that the administration of the Sponsored Overseas Student Program should be retained by the department and not be transferred to the Agency, was rebutted by the Prime Minister, who insisted that the original decision could be interpreted in only one way.

Bureaucratic politics and staffing of the Agency

With the exception, therefore, of the Treasury functions, the government decisions had at least established what functions the Agency should perform, namely, those which had been previously carried out by the Departments of Foreign Affairs, External Territories, and Education. Bureaucratic warfare now centred on two other issues:

(a) Staffing of the Agency. In particular two aspects were in dispute - how many staff should the Agency be allowed and where they should come from; and

(b) Control of the Agency. In particular the relations between the Minister for Foreign Affairs, the Secretary of the Department of Foreign Affairs and the Director of the Aid Agency.

The first of these two problems arising from the 'interpretation' placed on the cabinet decision was brought to the Prime Minister's attention within a fortnight of the government's decision. The Department of Foreign Affairs had for long been aware of the deficiencies in its own aid branch and now became a strong proponent for an increase in staff for the new Agency.

In the end this view was to prevail and a number of new positions were created in the Agency, but not until after much interdepartmental correspondence. Many of the new
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ficers were not recruited until almost two years after the cabinet decision and some of the new impetus had been lost.

In the meantime much of the question of where staff were to come from was settled almost by default. The deadline of 1 December 1973 (Papua New Guinea's self-government day and the date of the abolition of the Department of External Territories) had been reached and the legislation had not yet been introduced. A decision was taken by the Minister of Foreign Affairs, on the advice of his department, that the Agency would start its life as an office within the department - a decision which gave the department ultimate control over the Agency for the next fourteen months.

Immediate decisions then had to be made on the staffing of the Agency. Clearly, the only way that the Agency could operate was by taking over much of the existing staff from the departments that at that time carried out its functions. This could have involved simply a transfer of all of the people involved or the throwing open of at least the more senior positions to competition. The decision taken by the Public Service Board on the recommendation of the Secretary of the Department of Foreign Affairs, and after negotiations with the departments concerned, was, however, simply to transfer the approximately 450 positions involved, from the defunct Department of External Territories and from the Department of Foreign Affairs, together with the officers who were then occupying those positions. A transfer of aid functions from the Department of Education was deferred by agreement between departments until the beginning of the new academic year in March 1974, when again both the positions and the people occupying them were transferred.

The transfer of aid functions from the Department of the Treasury, of course, continued to be buried in protracted interdepartmental discussions.

The departments which had so strongly objected to the establishment of the Agency thus had the major say in its initial organization and staffing. The Director of the Agency at this stage still occupied the position of Administrator to Papua New Guinea, and his was a lone and distant voice. (The Acting Director was a senior Foreign Affairs officer.) These were, of course, all interim decisions, but once taken they became very hard to undo. Thus, what had been intended by some to be a brave new start in the aid field began life in its embryo form simply as the
redesignation of the offices occupied by a large number of public servants, all of whom continued in their old tasks in much the same way.

These measures did not pass unnoticed by the proponents of the Agency. As a proponent told one of the authors of this paper ten days after the Agency had been established, departments, basing themselves on selective quotations from various government documents, 'seemed determined to strangle the Agency at birth'.

The role of the Second Reading Speech

The Bill establishing the Agency was first introduced into Parliament on 12 March 1974. Although the Prime Minister was no longer the minister responsible, he himself made the Second Reading Speech and explained the purposes of the agency. Bureaucratic battles require a focus, and a Second Reading Speech often may provide this. In this case departments fought a rearguard action, while proponents of the Agency close to the Prime Minister tried to place on record government intentions and to influence the bureaucratic warfare.

On the three issues which were still in dispute, the Prime Minister gave the proponents varying degrees of support. On the first of these, the absorption by the Agency of functions carried out by the Departments of Education and Treasury, the Prime Minister was unequivocal:

The Agency is to have responsibility for the administration of all of Australia's bilateral aid and our participation in all programs of multi-lateral aid to developing countries. The process of unification of Aid functions is to be completed by absorbing Aid functions carried out by other departments including the Departments of Education and the Treasury.

On the issue of staffing, while not specifically stating that there would be an increase in staff, he clearly reiterated government intentions to upgrade and improve various specific aspects of aid administration. This was a statement that was subsequently to be effective in arguments about the organization and size of the Agency.
The greatest disagreement, however, was on the question of direct access to the minister and ultimate responsibility for providing advice, an issue which was to be a running sore between the Agency and the Department of Foreign Affairs throughout the Agency's existence. A compromise had been reached in mid-1973 when, despite the statutory independence of the Agency, the Prime Minister conceded that there might be issues on which the minister directed the director of the Agency to report to him through the Secretary of the Department of Foreign Affairs.

The Department of Foreign Affairs strongly maintained its view that, since aid was an integral part of foreign policy, not only would there be issues on which the Director-General would report through the Secretary, but also that everything should be done to avoid conflicting recommendations to the minister, and that there should be agreement reached between the Agency and the department on all aid matters with foreign policy implications. This would have meant effectively that Foreign Affairs, by withholding its agreement, could block the Agency's recommendations.

The view that conflict in policy advice might be a healthy process for resolving general difficulties over policy, or that tensions could be 'creative' (to use a phrase common amongst President Kennedy's advisers) had no place in the Foreign Affairs outlook. This alternative view was, however, not entirely unrecognized, and one of the proponents of the Agency in the Prime Minister's Office reflected in a note: 'Of course there may be at times conflicting advice to the Minister from the Department of Foreign Affairs and the Aid Agency. This is not something to be discouraged; it is what Ministerial responsibility is all about. It would be a poor thing if every disagreement were buried at the official level so that the options were closed off before an issue came for decision to the Minister.'

The wording of the speech appeared to be a compromise in that the Prime Minister noted in it that: 'the Director-General will exercise his functions subject to the directions of the Minister of Foreign Affairs. This provision will ensure coordination between foreign policy and aid administration and will enable the Minister to establish a requirement for consultation with the Department of Foreign Affairs.'

However, it was in fact something of a victory for the Agency in that he omitted a sentence that had been urged
upon him stating that: 'If it is thought desirable the Minister will also be able to direct that on certain matters the Head of the Agency report to him through the Secretary of the Department of Foreign Affairs.' However, the dispute was far from over.

It is interesting to note, in passing, that the debate in the House of Representatives, while quite lively, did not reveal any opposition to the establishment of the Agency. Indeed, it is significant in the light of the subsequent action of the Liberal-Country Party Government that the opening words of the Opposition Spokesman, Mr Peacock, were: 'The Opposition supports the Australian Development Assistance Agency Bill.' The main criticism of the Opposition was over the lack of substance in relation to aid policy in the Second Reading Speech.

Intra-Agency conflict and the Department of Foreign Affairs

The year that the Aid Agency operated as an office of the Department of Foreign Affairs was a crucial one in which circumstances combined to dull the initial enthusiasm of some of its proponents, and one which led to the establishment of a position for the Agency in the bureaucracy that was weak and a prey to incursions from other departments.

The failure to confer legislative legitimation on the Agency in this year provided the first circumstances for its weakness. Before the ADAA Bill could be passed by the Senate, it was consigned to limbo by the double dissolution of May 1974, and it was not passed by both Houses until December 1974.

Before Mr L.W. Johnson took up his appointment of Director-General (later Director) in April 1974 the office was headed by Mr Max Loveday, a senior career diplomat. In this period it functioned much as other divisions of the Department of Foreign Affairs. Within broad lines of existing policy, the Acting Director-General advised the Minister directly, after consultation with other sections of Foreign Affairs. The normality of this process, however, began to be disrupted in early 1975 by a new element.

The transfer of the Department of Foreign Affairs' Aid Branch and the rump of External Territories to the new Agency had the effect that three discrete groups established themselves in the Agency, and formalized their separation through
the staffing proposals and arrangements that were finally adopted. First, the former Department of Foreign Affairs' aid branch re-established itself almost entirely as Division I of the Agency with the responsibility for programming and administration of bilateral aid (initially to countries other than Papua New Guinea but later including aid to Papua New Guinea as well). Second, the remainder of Territories established itself in control of Division II with responsibility for broad policy formulation, for multilateral aid and initially for aid to Papua New Guinea and administrative services. Finally, the part of Department of Foreign Affairs formerly with some responsibility for training and education and that part of the Department of Education with similar former responsibilities, combined to form the Third Division, concerned with training and education.

The location of each division in a different building (although quite near each other in the case of Divisions I and II) reinforced the effects of former bureaucratic separation, which was soon to be transformed into a degree of social distance, and worse, a strong degree of intra-Agency policy conflict. In retrospect, none of this was inevitable, but the effect of the December 1973 decisions on staffing, together with the failure to foresee that to continue the existing conditions of bureaucratic separation would lead to policy conflict, produced a situation in which normal arguments over the priority of foreign policy and developmental considerations became the chief arena of conflict within the Agency, and this conflict spilled over into conflicts on status, administrative territory, and on the issue of access to the minister.

The problem of intra-Agency conflict began to upset the normal pattern of advice to the minister given by the Acting Director-General in the process of consultation with the Department of Foreign Affairs. This seemed to some in the Agency to reflect only the predominance of the department's particular view of the connection between aid policy and foreign policy. There were attempts to bypass normal channels of advice which led to swift retribution. Such occurrences consolidated the existing divisions within the Agency, and confirmed the Department of Foreign Affairs' views that the whole exercise was fast becoming a disaster.

It was in the context of these difficulties that the Department of Foreign Affairs acted in order to establish formally, and in practice, the conditions for consultation
before the much-delayed legislation was passed and before the new Director-General became firmly established. They complained to their new minister, Senator Willessee, that their predictions of conflict were being fulfilled (and there was at least a sense in which the Department of Foreign Affairs had helped fulfill them) and that the government's interest would have to be protected by a firm ministerial instruction to the Agency establishing the necessity for consultation and co-ordination. The minister, who freely admitted that he had never been particularly keen on the idea of a statutory aid agency, and who regarded aid as a minor section of his portfolio, agreed that a requirement for the Agency to consult with the Department of Foreign Affairs should be established, although he did not require that the head of the Agency report to him through the Secretary of the Department of Foreign Affairs (as the department had requested), nor indeed that after such consultation, agreement had to be reached before submission to the minister. He reserved the right to decide the outcome of such conflicts himself. The minister's instructions, drafted by the Department of Foreign Affairs, were introduced in a letter to the newly appointed head of the Agency, and were accepted by him. Thereafter the department sought and succeeded in having public recognition of these arrangements included in the Second Reading Speech of October 1974 and in other public documents, and used this ministerial backing continuously to bring the Agency into line on particular issues. (The department also sought that the deputy to the head of the Aid Agency should be a Foreign Affairs officer, a suggestion that was not taken up although a senior Foreign Affairs officer became head of Division I. The department also set up an Aid Liaison Section within its Economic Division, the head of which was to establish consultative procedures with the Agency.)

Reactions within the Agency to these arrangements for consultation differed. Those areas of the Agency concerned with project administration accepted them gracefully. As many of these officers had been drawn from Foreign Affairs their view of the aid-foreign policy nexus tended towards the views held in the Department of Foreign Affairs, and in any case they expected to have to argue their case on individual issues with Foreign Affairs desk officers, and in last resort, seek access to the minister. But those in the division with control of policy, drawn chiefly from the upper levels of the now-defunct Department of External Territories, saw it differently. They had been used to
policy-making without continual reference to other departments and had had free access to their former minister, Mr Morrison. They construed the cabinet decision of September 1973 as an intention of the government to develop a new policy line on aid, one in keeping with Labor's welfare and equality orientation, and most importantly, one in which aid decisions were not biased strongly by foreign policy or diplomatic considerations. These men were experienced in development in Papua New Guinea (Alan Renouf, then Secretary of the Department of Foreign Affairs, called them colonial hard hats) but they were attempting to gain a broader perspective on development issues from which to construct a new aid policy. Coming as they did to the debate on development in the early 1970s, when it was at a peak of criticism of aid policies and effectiveness, they tended to be far more critical of Australia's existing policies than those who had spent years operating within the constraints and frustrations of inadequate funds, inadequate structures and inadequate political will and bureaucratic power.

Because a degree of consensus was needed within the new Agency on broad policy issues before undertaking consultation with the Department of Foreign Affairs and reference to the minister, the conditions of intra-Agency bureaucratic and policy differences promised a double line of conflict.

When Mr Johnson, Director-General of the Agency, took up duty in April 1974, the contending factions within the agency and the Department of Foreign Affairs looked to him to impose order on these conflicts. Mr Johnson had been judged outstandingly successful in the complexities of pre-self-government politics in Port Moresby, first as an enlightened Administrator and then as Australia's first Commissioner. The basis of this success was his sense of equity, his calmness and his ability to blunt conflict into what was vaguely called 'Melanesian compromise'. It may have been that the Labor Government expected Mr Johnson to give them much-needed expertise on the thorny problems of aid to Papua New Guinea, but such decisions would be made in the Canberra arena, not in the fluidity of PNG politics. In retrospect, the qualities that were needed appeared rather to be the ability to impose a unified Aid Agency view on the internal conflicts so that these would not drag on in a debilitating way; a strong hand in negotiations with Foreign Affairs; a tough attitude to reform of aid administration; and the ability to develop the minister's confidence in the Agency.
These organizational circumstances - intra-Agency divisions, the relationship between ADAA and the Department of Foreign Affairs, together with the relative roles played by the minister and the Agency in policy making - formed the framework within which most policy issues of substance were decided.

General aid policy

Early in January 1974, the policy branch of Division II embarked on a broad review of policy. A new policy was clearly called for by the terms of the cabinet decision, and some of the enthusiasm for reform that generally emanated from the new Labor Government had spilled over into this area. More specifically, the Agency urgently needed a ministerial statement on policy to give it backing in the process of consultation with the Department of Foreign Affairs. To this end, the head of Division II employed two consultants from the Australian National University - one an economist experienced in international economic relations, and the other a graduate in international politics who had been adviser to the Joint Parliamentary Committee on Foreign Aid. In collaboration with these part-time consultants, the policy branch produced a broad philosophical underpinning for Australian aid, and embarked on a policy review of its components - volume, terms, geographical distribution, social distribution, objectives and so on. This review had three bureaucratic aims: to produce guidelines for those who administered policy in Division I of the Agency; to gain legitimization for the policy from the minister through its incorporation in the Second Reading Speech of the ADAA Bill and eventually in a detailed policy statement; and finally to establish an accepted government-backed policy base for the Agency in its conflicts with other departments.

As the policy review proceeded, there was criticism in Division I of the Agency that they were not being adequately consulted and, as they had to implement policy, and indeed were experienced in this, they ought to assume at least an equal role in formulation of the policy. The dispute on this issue, and indeed on many others, was never satisfactorily resolved, since informal communication between divisions was patchy, and the formal co-ordination through means of a senior officers' meeting usually led to participants standing pat on their previously assumed positions. As the Director-General was unwilling in most cases openly to impose decisions, decisions remained unmade. When news of the
policy review reached the Department of Foreign Affairs, there was an attempt initially to argue that policy review lay within their competence, and they would carry this out and consult the Agency, but eventually the Department of Foreign Affairs' view settled on being consulted during the process of review and again before submission to the minister.

Division II of the Agency had another string to its bow. The government had set up an interim Development Assistance Advisory Board pending passage of ADAA's legislation, and its functions were to advise the minister and the Agency on aid policy and to involve the community more in Australian aid. Division II provided the secretariat for the board and produced papers for its consideration, without being required to refer to Foreign Affairs' views. The board was chaired by Sir John Crawford, who had advised the Prime Minister on aid matters, and included individuals with an interest in aid, as well as the Secretary of the Department of Foreign Affairs. The main thrust of opinion in the board was towards a reform of aid policy and administration of programs and this constituted an area of support for the embryo policies. The Agency put its broad policy statement to the board in February 1974 and had it accepted with minor changes. The way seemed clear for an approach to the minister.

However, the first hurdle was to run the gamut of the interdepartmental committees on aid, consisting of senior representatives of the Departments of Foreign Affairs, the Prime Minister and Cabinet, Treasury, and Overseas Trade. Here the broad policy paper was severely criticized. Rather than being viewed as the output of a new agency with strong government backing which was still in its honeymoon period, the paper, as a result of the events surrounding the formation of the Agency, was seen as the product of a few former External Territories staff and their equally naive academic advisers. The paper started from the assumption that aid was about development, and unlike previous policy statements did not develop or provide a rationale for the aid-foreign policy connection. For this reason it attracted criticism from the Department of Foreign Affairs. Similarly, because it did not spell out the aid-commercial policy nexus, it was also criticized by Trade and Treasury. As an attempt to get the development aspects of aid down to bare bones, its simple and straightforward presentation was also criticized. The Agency sent this paper to the minister in early August 1974 with an outline of the Interdepartmental Committee (IDC)
comments and noted its endorsement by the Advisory Board. The Department of Foreign Affairs commented separately, enlarging on its objection that insufficient account had been taken of foreign policy objectives and recommended that the whole matter be referred back to the IDC for redrafting.

Relations between the Agency and the Department of Foreign affairs deteriorated seriously on this issue. The Agency made submissions to the minister and sent copies to the Department of Foreign Affairs rather than consulting them. The Department of Foreign Affairs retaliated with time-honoured bureaucratic means to hinder the Agency. The minister refused to decide the policy issue: he would not support the Aid Agency when no Foreign Affairs support could be found for its view, and he would not refer the matter back to the Aid IDC and end up with a protracted struggle ending in a lowest common denominator compromise.

At this stalemate stage, once again the Second Reading Speech mechanism provided the focus for decision-making and, in this case, partial resolution of the aid policy conflict. The Foreign Minister asked his private office to intervene to find a compromise to the situation. An agreement on the form of the Second Reading Speech for the reintroduction of the Aid Agency legislation was negotiated — an agreement that for the Department of Foreign Affairs necessarily included the minister's instructions on consultation and for the Aid Agency necessarily pointed to the new direction on aid policy.

This first compromise on a major issue began a new pattern in relations between ADAA and the Department of Foreign Affairs. Each administration saw that the minister would not automatically come down on its side and that if it did not accept a compromise it ran the risk of a decision even more unfavourable to its interests. Each also appeared to recognize the dangers of a tri-cornered conflict should the minister's office actively intervene in disputes, particularly given the fact of easy access by the minister's office to the minister. The minister's office had been instructed by the minister to observe to the letter his instructions that ADAA should consult with Foreign Affairs and further, that disputes should not be allowed to drag on interminably but be referred to him quickly for decision.

From this time on, consultation improved between ADAA
and Foreign Affairs and residual differences came to the minister for decision. The minister's office continued to advise him on the substance of such decisions, and on any domestic political considerations, and decisions tended in most part to be taken on their merits. In this way, intra-ADAA conflict, and ADAA Foreign Affairs conflict declined and new kinds of informal working arrangements began to be forged. The price that the Agency appeared to pay for its quieter life was the relegation to a more distant future of its vision of a major reorientation in aid policy.

While the Second Reading Speech had been settled, the problem of a more comprehensive aid policy statement took somewhat longer to be resolved. The minister, although under pressure from non-government groups and the Aid Agency to make such a statement, declined to do so until mid-1975, feeling that since the issue had caused such conflict, a better chance of compromise would appear later rather than earlier. The speech was drafted on the minister's instructions in his office, and found fairly ready agreement in both the Aid Agency and the department, which offered minor modifications.

The speech, unlike aid policy statements by previous governments, did not refer in a positive and direct way to the relationship between aid and foreign policy. It argued for a new perspective on aid which would mean that 'aid is no longer the poor relation in our dealings with other countries, nor primarily the cement of a successful political relationship' (Willesee 1975). In speaking of the distribution of Australia's aid, a downgrading of foreign policy aspects was evident;

The main point to be stressed is that aid is for people's welfare. The criteria for its distribution should be principally aid criteria: is it needed? will it be spent on the purposes for which it is intended? who will benefit from it? It is our judgement on these grounds that will inform the distribution of our aid - not its use as a stick or a carrot to impose our beliefs on independent nations (Willesee 1975).

The speech also recognized the commercial interest in
aid but foreshadowed a more positive stance on untying of procurement than had hitherto prevailed. Overall the speech laid considerable stress on the maintenance of the existing positive aspects of Australian aid (for example its grant character) and looked to reform in aspects of its quality, to increases in volume, and indicated that changes would be required to give the social welfare and income distribution effects of aid a higher priority.

This policy speech represented important changes in existing Australian aid policy and it is perhaps surprising that the Department of Foreign Affairs had agreed fairly readily to it. This was in part because it carried the minister's imprimatur before it was referred to departments. It may have also occurred in part because neither the department nor the Agency had any strong confidence that these new directions could be implemented quickly, given the disputes that could be expected as each operational issue arose.

While the speech broke no new ground in international terms, it did represent a catching-up of Australian thinking on these issues. It also marked a new departure in that while the founders of the Agency had been only peripherally concerned with the relationship between aid and other foreign economic policies, the policy statement placed aid squarely as one component of the total range of economic policies towards developing countries, and argued for the development of a coherent and positive foreign economic policy for Australia on the North-South question. It acknowledged that the domestic effects of such a policy, although likely to be unpopular in the short run, were necessary adjustments in the long run, and both in Australia's and developing countries' interests.

This argument found little support in the economic departments of the bureaucracy, and only lukewarm support at this time in the Department of Foreign Affairs. There was no cabinet backing for such a stance, and departments were likely to oppose any intrusion by ADAA on behalf of the

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1 'In the spending of our aid there are important advantages for Australian manufacturers, exporters and farmers. We consider these to be spin-offs which we welcome, so long as they do not reduce the value and effectiveness of our aid flows to developing countries' (Willesee 1975:9).
interests of developing countries in their discussions. Yet this speech, by its emphasis on a realistic view of what aid could achieve, and its broader perspective, did foreshadow changes that were to be forced on Australian policy-makers a few years later.

The statement developed the broad and vague objectives set out in the earlier cabinet decision in more detail. However, performance was yet to match rhetoric.

Volume of aid

Various ministers in the Labor Government stated early in its life that Australia was committed to the achievement of a level of Official Development Assistance (ODA) that would represent 0.7 per cent of Gross National Produce (GNP) by 1980. Significant increases in dollar terms occurred in the 1973 and 1974 Budgets which increased aid to $328 million for 1974-75. The aid volume for 1975-76 was $347 million, which was a decline in real terms (adjusted for 15 per cent inflation) compared to 1974-75 and represented the constraints of prevailing economic circumstances. In terms of GNP performance over the three years, the picture was a depressing one, as there was no significant progress.

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The reasons for this were not difficult to ascertain. The usual method of setting aid volume was to take the previous year's figure, add a percentage which represented some factor agreed with the Treasury (for example the rate of growth of government expenditure as a whole), and present
it to Budget Cabinet. The big dollar increases in aid made in fiscal 1973 and 1974 represented the apparent ease of economic circumstances, and the fact that the ODA/GNP ratio declined slightly, indicated the inflation component in GNP figures. However, the Treasury had not accepted the 0.7 target and was always careful to reserve its position on statements by ministers (even by the Treasurer). Aid bureaucrats, looking to a long-term expansion of aid volume, had sought to ensure this expansion by reinforcing ministerial statements of the target at every opportunity. By a lack of collective political will and the power of the Treasury in the circumstances of 1975, this strategy came to grief in the 1975 Budget Cabinet.

The Agency, supported by the Department of Foreign Affairs, went into the 1975 budget process with a bid for a substantial increase over actual aid of $328 million in 1974-75. The bid was based on projected steps toward the GNP target, an allowance for inflation, and the need to increase Papua New Guinea's component owing to that country's economic difficulties. The Agency encountered strong opposition to its bid in the Treasury which sought, with the backing of the Prime Minister and the Treasurer, to restrain government expenditure to a level consistent with no growth in expenditure in real terms. When Budget Cabinet met, the issue was disputed, but the Treasurer and the Prime Minister prevailed against the Foreign Minister. This outcome had three serious and immediate effects. First, in demonstrating the vulnerability of annual aid volumes to prevailing economic conditions (though this should have come as no surprise), it eroded the Agency's growing confidence in being able to plan its future programs. Secondly, bilateral programs were seriously affected as the allocation for these fell in real terms. These funds had to be allocated to projects already in the pipeline, thus putting back any chance for significant change in the existing type of programs. Finally, the component of aid to PNG was set at $210 million, a reduction of $20 million on the bid which had been agreed at earlier negotiations between Australian and PNG officials. The PNG government was seriously disappointed in this outcome. In spite of the government's assurances in 1974 that PNG would be provided with $500 million over the three years 1974-75 to 1976-77, disagreement had developed as to whether roughly $100 million in payments to retiring Australian expatriate public servants would be included in this sum. The budget outcome of $210 million included some $50 million for this purpose, leaving $160 million for development aid, a
substantial decline in money and real terms compared with previous years.

In decisions both on the total volume of aid and of the specific program for PNG, bureaucratic politics played a part but were not the decisive factor. In the end it was a lack of political backing for the aid program at a time of economic downturn that led to a cut in the budget.

**Distribution of aid**

The composition of Australian aid underwent some changes over the years of the Agency's life. The main one was a shift from bilateral to multilateral aid and was a conscious effort to play a larger role in regional institutions, to be involved in multilateral programs in areas such as population and health where Australia had hitherto been uninterested, and to increase the percentage of multilateral aid in line with the trend in other DAC donors.

This shift was achieved in spite of some strong opposition by the Department of Foreign Affairs, who feared that such a change would undermine their access to aid resources to be used in the support of diplomacy. The Agency prevailed, however, for an increase in multilateral aid was in direct response to the Labor Government's internationalist stance.

The underlying geographical pattern of bilateral aid distribution remained largely unchanged. Aid to Papua New Guinea maintained its major share of Australian aid. The remainder of bilateral aid was divided between South Asia and Southeast Asia with small amounts going to Africa and the Pacific islands. In 1973 Southeast Asia had received $42 million (ADAA 1975). The lion's share of this, some $23 million, went to Indonesia, while South Asia had received $13 million. By 1975 the Southeast Asian share had increased slightly to $48 million, while aid to South Asia grew to $44 million. This did not indicate a shift in Australia's aid priorities, for this increase in aid to South Asia had occurred in previous crises in the sub-continent. In this case it was almost all food aid to Bangladesh and India during the food crisis, and represented a special contribution over those years to a United Nations fund which was disbursed bilaterally. Apart from this, an increase from $1 million to $8 million took place in aid to Africa, representing an increased Australian political interest in Black Africa, and a small increase in aid to the Pacific also occurred. Within
Southeast Asia, the predominance of aid to Indonesia prevailed, despite its gains from increased oil prices, and the Timor dispute. Aid to South Vietnam increased until the end of the war, when all aid stopped for the time being until arrangements could be made with the new administration.

The Agency itself was divided on the question of the priorities in aid distribution, some arguing for the application of a qualified needs principle, while others found practical and diplomatic difficulties in any shift in distribution. The Department of Foreign Affairs stood firm on the primacy of political considerations in aid distribution, and its voice was the most powerful in these discussions.

An upgrading of the developmental aspects of Australian aid, and a concern with its social and income distribution effects was a major aim of the government's aid policy. The constraints on achieving this in the short term were clearly recognized in the Agency. Aid to Papua New Guinea supported a development program that was based on such objectives but in other countries the pipeline effect of existing projects, and perceptions of recipients' sensitivity to Australian values on these aspects, worked against changes on a broad front. Again the agency was divided on this issue, some giving priority to the diplomatic costs of Australia taking an interest in who benefited from its aid, others seeing the necessity for reform if aid was really to get to the heart of development problems. On the whole, few changes occurred. If we examine the sectoral distribution of aid to countries other than Papua New Guinea in the years 1972-73 to 1974-75 (and exclude food aid and other contributions not allocable by sector), it is clear that Australian aid projects continued to be overwhelmingly concentrated in the development of public utilities, with much less substantial amounts being devoted to agriculture, and only small amounts to education, health and welfare.

The part of the agency concerned with the administration of bilateral aid had a strong commitment to traditional projects in infrastructure, tied aid and an unwillingness to assume any significant degree of on-shore costs. The structure of their operations and their standard operating procedures were geared to this, and they preferred this degree of accountability and control. Those in the agency who looked for innovation and experimentation which would lead to a great involvement of Australian aid in social welfare programs and to an impact on 'people's' problems rather than
a government's problems were not closely involved in the administration of bilateral programs and therefore their influence on these was limited. On the other hand, these considerations began to affect thinking about long-term Australian aid, and reform of existing administrative practices in project aid, particularly the country programming process, allowed some scope for these considerations to be involved in future programs.

In deciding what Australian aid should be spent on, the Agency itself had the strongest voice, although Foreign Affairs expressed strong interest in projects with political implications, and the Treasury kept a watching brief over all expenditure. Thus the Agency itself bears the responsibility for the failure to effect a major shift in the directions that the government set down in its cabinet decision and in its aid policy statement. It does seem clear that a degree of separation of administration from foreign policy interests is necessary to allow the predominance of developmental interests in aid, but this opportunity was not grasped firmly by the Agency. There were some signs of a concern with this, particularly in the country programming process, which might have led, in time, to a shift in the forms and impact of Australian aid, yet bureaucratic inertia and a fondness for old ways, regardless of their appropriateness, delayed this process.

**Quality of aid**

The overall shape of an aid program reflects the relationship between its parts. In the case of Australian aid, the preference for grant aid appears to constrain the prospects for growth in volume, through the trade-off process that takes place in the bureaucracy. Again, an untying of Australian aid could produce pressures for constraints on volume, and it is often the tension between quantity and quality that constrains advances on either front. Thus it is not only difficult economic circumstances that have an effect on the volume of aid and thus reduce the opportunities for change within programs, but the ongoing resolution of bureaucratic interests on all the important aspects of the aid program which leads to a bargaining situation where one gain may be matched by a future compromise, and where an agency's power is weak compared to the other players'.

Moves to untie Australian aid to countries other than Papua New Guinea ran into entrenched opposition from the
Department of Trade (on the practical ground that aid should at least assist exports) and also from the Treasury, which while it acknowledged the economic bad sense of tying, has always at least had one eye on the balance of payments. Any advances by ADAA were immediately halted by these departments and little support was to be expected from the Department of Foreign Affairs, which was usually ambivalent on the issue.

Conclusion

At the outset of this paper we set out five objectives that it was hoped the Aid Agency might achieve. The first of these objectives — that developmental aspects (including the social and income distribution effects of aid) should receive a higher priority in aid than hitherto — became a source of some disillusionment in the aid community, as little evidence appeared that moves in this direction were taking place.

To ascertain the extent to which this objective was fulfilled, we need to distinguish between the general developmental quality of the Australian aid as a whole, which remained largely unchanged, and changes in the range of discrete programs which did lead to some upgrading of the developmental impact of Australian aid.

It is difficult to say that the aid program, viewed in its entirety, gave higher priority to developmental aspects than was the case in the years to 1972. The volume of the aid program did not grow so as to allow Australia to make a significant impact on the development problems of any country except Papua New Guinea; the distribution of the aid program among countries was not reoriented so as to give higher priority to the poorest developing countries, and indeed it retained its former distribution pattern, one devised and maintained through the continuing influence of the Department of Foreign Affairs for broad foreign policy reasons. There was a shift to multilateral aid, but it is arguable whether this was seriously seen as contributing to an upgrading of development aspects, since the main motive here was for Australia to play a more appropriate international role in such bodies. While the terms of Australian aid, as grants, remained good, several challenges to this policy from the Treasury having been resisted, there was no success in untying procurement of Australian aid, although again moves to tie aid to Papua New Guinea were successfully resisted.
Thus, while the stated aid policy had come down on the side of the angels on all these major policy choices with developmental implications, the reality was a continuation of the previous status quo in almost all these aspects of the aid program, although the fact that no significant deterioration occurred must be considered a positive achievement in the circumstances that prevailed.

While there was no significant improvement in the developmental quality of Australia's aid in the Agency period, what was the experience at the level of individual aid programs?

Viewed sectorally, there was little progress in aid to health, education and welfare programs, and the sectoral distribution of aid remained firmly directed to public infrastructure projects. However, there were some indications of a growing awareness within the Agency that the social and income effects of aid should receive more attention, both for the interests of developing countries and also because of the climate of opinion within the government and aid community. This shift in awareness on these issues (even if not yet translated very far into programs on the ground) was the most important sign that the Agency had a role distinct from its predecessors.

The argument over developmental v. other (chiefly political) considerations in the use of aid, takes many forms: for example, if Thailand requests that a road be built through a low population area with strategic significance, but with little observable impact on the incomes of the local people, should Australia agree or should it propose alternatives with greater developmental impact? Again, if a high ranking developing country politician wanted a Colombo Plan scholarship for his son, who did not fulfill the entrance requirements, should he be rebuffed? Such cases form the substance of the classic conflicts in aid in any country, and it was apparent in these years that a stiffening of resolve to give higher priority to developmental aspects occurred, though not without the cost of constant conflict within the Agency and with the Department of Foreign Affairs.

The positive resolution of such conflicts requires not only a firm bureaucratic and political hand, but an approach to the planning of aid which lessens the opportunity for diversion of aid resources from development goals. The development of a country-programming approach was perhaps
the Agency's most significant potential achievement in giving development aspects a higher priority. The process helped to prevent ad hocery which is the prime condition for political influence at home and abroad, and allowed the development of a working philosophy as to how Australian aid could meet the development needs of each different country's development plan. Conceived modestly, this programming gave recipients some security in notional levels of aid and ongoing knowledge of Australia's intentions, and, in Canberra, it provided the framework for coherent bilateral aid administration and forward planning - both aspects having been largely absent in the past. The giving of aid for political purposes still occurred, but the opportunities for this were whittled away through the country programming mechanism. Further, this mechanism does allow the application of consistent developmental criteria to particular projects. A growing sensitivity as to who benefits from the aid began to be observable, in the expansion from traditional Australian roads and bridges projects to agricultural development programs.

The Agency worked hard at the second objective, an improvement in aid administration, the introduction of professionalism into the aid program and the establishment of a career structure, but had not progressed far. The establishment of the Aid Agency meant initially a new set of administrative problems in addition to those existing in the previous dispersed administrations. The Agency was handicapped in this task first by internal conflict over areas of responsibility and then by shortages of competent and experienced staff.

Later in the life of the Agency administration of projects improved somewhat, and some problems in post liaison were ironed out. Yet the Agency was vulnerable to criticism from other departments on this head and in some important areas of administration, such as experts and trainees, little progress was made. Despite the varied origins of ADAA personnel, a degree of professionalism about development issues began to emerge and was bolstered by the recruitment of some competent outsiders. This meant that the aid-development consideration became a professional aim. Developing a career structure, however, proved very difficult. The location and status of overseas aid posts was disputed by both the Department of Foreign Affairs and the Public Service Board, a sign that neither was convinced of the need for such a career structure. A cohesive ethos
essential to the proper functioning of such a structure, was slow to develop.

The difficulty in developing a career structure also inhibited the degree of innovation and experimentation that occurred, and to an extent the approach to research and evaluation (the third objective above). The integration of functions allowed some scope for innovation, and country programming was the most important example of this. On the other hand, there appeared to be little conception of the possibilities of new forms of aid and a tendency to cling to old ways even though these were less than effective in meeting development objectives.

The question of Agency involvement in research into aid and development also illustrated these difficulties. Research was seen as a good thing which no one in the Agency could oppose per se, and the Agency spent some time looking into the various possibilities for supporting research, but it put no money into it. Through its funding of the MADE Program at the Australian National University's Development Studies Centre it became involved with a research body at arm's length, but an underlying distrust of the worth of research and fear of the criticisms of academics inhibited a stronger involvement. Evaluation of aid was taken far more seriously and a branch was set up with the purposes of appraising the suitability of projects and monitoring their effectiveness. This innovation, long overdue in Australian aid, seems to have been quite important in increasing professionalism in aid and in upgrading the quality of programs.

The Agency had begun on the fourth objective noted, the development of an integrated aid policy, but had not yet gone very far. For the first time the question of how aid to Papua New Guinea and aid to the rest of the world should be related (in terms of volume, and forms of aid) received serious consideration but the failure to develop a long-term aid policy to Papua New Guinea did not allow an integrated aid policy to emerge. The Agency had managed to establish some input into the instructions to the Australian members on the boards of the international banks, but by and large these members continued to take a different and more conservative line to the rest of our aid representatives. Certainly if any hope had been entertained of integrating our overall economic policies towards developing countries, these were in no way realized, and our development policies,
as viewed from Manila or Suva, or even Port Moresby, must have seemed confused and contradictory.

The final objective in the establishment of the Agency had been the development of a lobby within the bureaucracy that had a self-interest in fighting for a larger slice of the budget and more manpower for the aid program, and that was to some extent a spokesperson for the developing countries in policy debates within the bureaucracy. In so far as such a lobby was created by the formation of the Agency, clearly it was not a very effective one. The reasons for this are various. First, the staff remained divided among themselves, having been drawn from different departments and retaining old departmental loyalties. This was nowhere more apparent than in the second line of leadership of the Agency, where of the three men involved, one retained ties with his departmental home of twenty years (the Treasury) and another was actually on temporary secondment from the Department of Foreign Affairs. Secondly, any weight the Agency could put behind the aid program was counterbalanced by the hostility that its creation had caused in two powerful departments of state (Treasury and Foreign Affairs). Thirdly, the power of a body within the bureaucracy depends upon a number of factors, such as the levers it controls in various bureaucratic processes, the information, influence, or access that it has to trade with other departments, and the importance of the constituency with which it deals within the community. In all these respects, ADAA was a lightweight. There was really very little time for the Agency to develop organizational cohesion and a distinctive philosophy, but such drive as it was able to generate had to be devoted to fighting off attacks on its existing prerogatives rather than on expansion and empire-building.

In sum, then, the judgment that emerges on the balance sheet of the Agency's successes and failures in meeting its objectives is, at the very best, a mixed one. On the major aspects of the whole aid program, no significant advances were made, although it may be judged that, given the existing political, bureaucratic and economic circumstances, the fact that no significant deterioration occurred is a positive achievement in itself. There was some qualified success in reorienting programs to developmental objectives, and in evaluation of aid. On the other side, it seems clear that while formal integration took place, a unified aid agency view did not emerge quickly enough, and the hope of the
proponents of an agency that it would come to form a constituency within the bureaucracy capable of promoting aid interests more effectively remained unfulfilled.

This is illustrated if the wider issue of the Agency's role in other foreign economic policy areas is examined. As mentioned above, the founders of the Agency did not at first envisage a role for it in the formation of other foreign economic policies. As the Agency progressed in its thinking, it began to take the view that it was little use giving aid with one hand, while the effect of other Australian policies was to damage recipient development prospects. In this vein, ADAA made a cogent and well-argued submission to the committee that was inquiring into the manufacturing industry, putting forward the view that restructuring of tariffs ought to take into account the needs of developing countries. This view apparently had little effect on the outcome of the committee's deliberations, but it was a sign of a broader view being proposed by the Agency. Similarly, the Agency sought to have a voice on interdepartmental committees (IDCs) that dealt with issues affecting the development of Third World countries, like the IDC on Australian policies for the Law of the Sea.

This was almost completely unsuccessful. The Agency had no ministerial backing for intervention; Foreign Affairs resisted an ADAA role, preoccupied as it was with putting its views to other departments. ADAA itself generally lacked the research capacity and expertise on the variety of issues that emerged and it was almost totally ignored in this policy-making process. About the same time, however, there was a growing feeling within the Department of Foreign Affairs itself that Australia needed to develop a positive response to the claims of developing countries expressed in the New International Economic Order debate, and to avoid the political costs attached to the trade policies of the economic departments. Thus Willesee's speech in May 1975 sought to encompass aid policy within this broader framework, although no noticeable progress occurred on this in the life of the Labor Government.

Thus the Agency had not progressed far in the achievement of its aims, when the Labor Government was dismissed in November 1975. As part of its policy of economic stringency, the new Liberal Government effectively abolished the Aid Agency in February 1976, and without demonstrating any savings in costs, reabsorbed it into the Department of Foreign Affairs.
In this study of the conception, birth, puberty and death of ADAA, two related themes have emerged. The first is the constant debilitating effect on the Agency of continuing bureaucratic politics over its role in the aid policy process, a theme we have dwelt on at length. The second is the failure of political will at critical moments. The Agency began with a fair degree of political support, though it was never especially high after the Prime Minister relinquished his personal responsibility for it. At the moment when it most needed political support, however, namely when the economic recession forced hard choices on ministers, that support failed altogether. This was because the most important condition for a continuing high level of political support, namely a high degree of political interest and support within the community itself, does not exist. Where an activity does not have an active lobby within the community and when a cut in that activity does not necessarily mean a loss in votes, then it is always especially vulnerable to the ups and downs of the political process, with a bias towards the downwards side. Furthermore, the prospects for an improvement in political support in the immediate future are not good. With the end of Australia's direct colonial role in Papua New Guinea, we can no longer expect an automatic increase in aid to Papua New Guinea as development proceeds. The other political prop of the aid program has also been removed. This was the use of the communist menace in Asia as a justification for development assistance, which was said to promote political stability in our north and thus fend off the threat to our security. However muddle-headed this rationale may have been and however cynical some of those who used it, it nevertheless was at times a powerful argument, both in cabinet and with the less altruistic segments of the population.

If the prospect for an increased volume of aid is indeed dismal, this makes the quality of aid and the interaction between the aid program and Australia's other international economic policies of vital interest to the proponents of aid. In reaching decisions on such questions, administrative arrangements can be of vital importance. This story of the Aid Agency and the reasons for its lack of success clearly have important implications for future administrative arrangements. It is not our intention at this stage to canvass possible alternatives and their policy implications, but rather, in this critique, to contribute to the basis for such a discussion.
Chapter 6

The administration of Australian aid

J.C. Ingram

The organization of the administration of Australian government development assistance has been subject to major changes over the last few years, culminating in the decision to replace the statutory Australian Development Assistance Agency by a semi-autonomous Bureau within the Department of Foreign Affairs. These changes have been controversial. However, as another study\(^1\) in this series has demonstrated, it is not evident that there is any one preferred arrangement for the administration of development assistance in donor countries. Indeed, there are almost as many forms of organization as there are donors. Convincing arguments can be advanced in favour of a variety of administrative forms, with various levels of autonomy, ranging from a separate administrative body with full departmental status, to a unit with little or no autonomy completely subsumed within a department concerned with foreign affairs. All of these forms, as well as other arrangements, are employed by one or another of the donor countries whose aid policies and practice are generally considered to be more enlightened than average.

Against this background, *a priori* arguments about the best and worst forms of organization seem likely to be sterile. This applies with special force to debate about whether aid is best administered within or without a foreign office. As Viviani remarked in her chapter: 'The problem is not how to divorce aid objectives from foreign policy and trade policy, but how to ensure that these policies take developmental considerations into account. Administrative isolation does not achieve this and can be totally counter-productive.'

\(^1\)Nancy Viviani, 'Problems of aid administration and policy formulation among western countries'.

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In this survey, therefore, it is not proposed to join the debate about organization and aid policy. As aid administrators we have to accept certain things as given whether they relate to government policy or the bureaucratic climate in which we are obliged to operate. Our task is to ensure that, within this framework, the Australian aid program is administered as efficiently as possible and makes a maximum contribution to the economic and social advancement of the developing countries. That is not an easy task. The art of government is never as simple as its critics seem to assume and the administration of government aid is particularly complex because it must take account of the constraints applicable in recipient countries as well as at home. My chapter will outline some of these constraints which affect the administration of bilateral 'project' aid to countries other than Papua New Guinea.

There will be no attempt to discuss in any depth the administration of bilateral training and assistance to education facilities. This is a complex subject which involves distinct problems of administration which, to do them justice, would require elaboration in a separate paper.

Bilateral project aid administration is in essence concerned with evolving the means by which the policies of both donor countries and recipients are effectively harmonized and translated into viable programs which are efficiently executed. Before explaining how we try to do this, I shall set out briefly the basic characteristic details of the total Australian aid program in order to give some idea of how bilateral projects fit into the total Australian aid program.

The setting

Australian aid, as is well known, is virtually all given on a grant basis,2 whether bilaterally or multilaterally. In the latter case, it is relent through the 'soft windows' of the lending agency, such as the World Bank's International Development Association or the Asian Development Bank's Asian Development Fund. Over the years, there have been proposals to introduce a loan element into the general Australian aid program, but this has been resisted so far as disadvantageous

2Exceptions are some special loans to the Papua New Guinea government and one small loan to Fiji.
to the recipient, and, in the longer term and wider perspective, to the donor as well.

The total level of aid in current prices has increased rapidly over the past decade, as shown in Table 1. Although the real value of the sums shown has been eroded by inflation over the period, nevertheless some growth in real terms has been achieved. From a base of 100\(^3\) in 1970-71 the total program grew to 110 in 1977-78 after reaching 121.7 in 1974-75.\(^4\)

### Table 1

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<th>Total Australian aid ($ million)</th>
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<td>Bilateral aid</td>
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Source: Australian Government, *Australia's Official Development Assistance to Developing Countries,* various issues to 1977-78.

Aid to Papua New Guinea and multilateral aid

The predominance of Papua New Guinea (PNG) in the bilateral aid program is especially significant. In 1970-71 it accounted for 69 per cent of Australia's aid, although its share declined to 61 per cent in 1975-76 and 52 per cent

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\(^3\) The Australian CPI is used as a basis for the calculation of the real growth of the Australian Aid Program.

\(^4\) In the original version of this paper, 1975-76 disbursement figures were used as the most recent complete statistics then available. Later figures and calculations based on them have been inserted by the editors.
in 1977-78. In 1974, Australia began to extend its aid to PNG on a three-year basis, so that their government could plan its use more effectively. In 1976, this period was extended to five years.

Aid to multilateral agencies has grown strikingly in percentage terms. While the actual amount was only $79 million in 1977-78, nonetheless it is in real terms more than triple the level of contributions at the beginning of the decade.

It is worth dwelling for a moment on the question of the role of PNG and the multilaterals in the aid program. There is considerable legitimacy in the view that, in comparing the apportionment of Australian aid resources between multilateral and bilateral forms, it is more realistic to set aside our aid to PNG. If this is done the multilateral share of the remainder is currently nearly 40 per cent, which is high by Development Assistance Committee (DAC) standards. While there are sound reasons why Australian aid to PNG should be at its present level, those who criticize our performance in the multilateral area might reflect on the improbability that, were 40 per cent of our total aid to be made available on a multilateral basis, any significant portion would make its way to PNG. All donors with specific bilateral responsibilities have had to face this sort of dilemma - Australia is no exception.

Although there are important issues involved with aid to both PNG and multilateral organizations which assume large portions of the time of senior staff of ADAB, the composition of the program provides a clear indication as to where the main burden of Australian aid administration lies. As far as donors are concerned, the multilateral organizations themselves assume primary responsibility for evolving the means by which their programs are effectively implemented. Thus the administrative burden for which contributing countries are liable is minimal. The same is true of Australia's budget support for Papua New Guinea, where spending decisions and implementation are the responsibility of the PNG government. Thus even though Papua New Guinea is the pre-eminent beneficiary of Australia's bilateral aid, the administrative tasks associated with that program are

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5 The agreement is for minimum aid, with provision for negotiation on 'top up' sums.
also minimal. Hereafter all references to bilateral aid will exclude PNG.

**Bilateral aid to countries other than PNG**

The bulk of the Bureau's staff is thus involved in the administration of bilateral aid to other countries. It is in this area that the challenge of efficient aid administration has to be met. It is also in this area that Australia's aid administration — and indeed Australia's credibility as an effective donor — is most exposed and has, on occasion, been most sorely criticized.

In essence the aid program seeks to supplement the resources of the developing world, and through the effective transfer of technology and resources, to assist developing countries to create a climate conducive to sustained economic growth. Expressed in another way, an effective aid program seeks to eliminate itself from the international economic scene. Irrespective of how slim the likelihood of this may seem at present, this ultimate objective should not be forgotten in the administration of an aid program.

The outstanding characteristic of any bilateral aid program is its fundamental complexity. This derives primarily from the numerous constraints that are basic to both sides of the bilateral relationship which is, by its very nature, a government-to-government one. Consequently, the primary challenge encountered by an aid administration is that of reconciling the constraints arising from the interests of the two parties to the aid contract. The more obvious realities which affect the courses of action open to both the donor and the recipient will be briefly discussed.

The constraints

Irrespective of domestic budgetary and other considerations, it is a reality that, because of its small size, Australia's capacity to respond to the needs of the developing countries and to influence significantly the course of their development is limited. Accordingly, the Bureau must seek

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It should be noted, however, that Papua New Guinea is also a principal beneficiary of the training program which, overall, is highly labour intensive in its administration.
to allocate scarce resources among a number of competing demands so as best to achieve the government's aid policy objectives.

Regional concentration

Australia, as a developed and affluent country adjacent to some of the least developed regions of the world, has a particular responsibility to concentrate its resources on the developing countries in its immediate neighbourhood. The concentration of resources on Papua New Guinea, the South Pacific and Southeast Asia (which is so clearly reflected in the statistics on aid distribution given in Table 2) results, not from the vicissitudes of foreign policy, but rather from the reality of Australia's obligations to its near neighbours. Again, if the relatively small Australian bilateral program is to have any developmental impact it should concentrate on a few developing countries. It is natural that these countries should be our neighbours.

Further, the aid administrator has to take account of the situation within individual developing countries, the realities of which exert a strong influence on the composition of Australia's bilateral aid programs. The great diversity of individual cases makes it difficult to itemize all the constraints that originate in recipient countries. There simply is no common denominator which can apply to all of them. Their resource bases vary widely; their stages of development differ markedly; their individual development needs are more often than not unique; their ability to articulate their development objectives and programs in forms to which aid programs can readily respond varies considerably.

The common factor, however, is that almost all of the developing countries with which Australia has an aid relationship have, in one way or another, sought to enunciate their development policies and priorities. Often these statements of development intentions are not given adequate substance in investment programs and consequently in aid requests. At times, development programs introduced by developing countries appear to concentrate on those sectors or types of activities which donors may assess as being inconsistent with, or even opposed to, the philosophies and objectives underlying their aid program.
It is an important function of aid administration to examine these apparently competing objectives and determine, where it can be found, the intersection of our goals with those of each of our bilateral partners.

The setting of priorities

The essential government-to-government nature of our bilateral aid program imposes upon the Bureau a basic requirement for it to be sensitive to the expressed needs of recipient countries, within the constraints imposed by the government's stated aid policy objectives. Successive Australian governments have acknowledged unequivocally that it is the prerogative of the developing countries themselves to determine their own development priorities. It follows from this that the scope for Australia, or for any bilateral donor for that matter, to determine directly the thrust of development programs—other than by limiting the range of aid options for which it is willing to provide support—is virtually non-existent. Our bilateral aid is necessarily limited to assisting those activities to which the recipient is firmly committed and for which the need for assistance is apparent. It is of course open to Australia to refuse to undertake projects sought by recipients if we assess that the projects contribute insufficiently to, even negate, our broad development policy goals.

One aid objective which is much discussed internationally is to raise the living standards of the poorest elements in the populations of the developing countries. Most LDCs hope to deal with this problem through the 'trickle down' effects of economic growth policies. It is arguable that such policies have so far proved inadequate. In this connection, Australia must take account of developing countries' 'absorptive capacity', which limits their ability to tackle the problems of the poor.

It is probably true that an aid program which is severely compartmentalized and tied to domestic sectional interests, by presenting essentially indigestible lumps of aid to the recipient, tends to inhibit its absorption and at the same time fails to lead to any improvement in, or even worsens, the economic lot of the poorest classes. However, this scarcely applies to Australia. This is partly because of the small scale on which almost all our programs operate, which allows for great flexibility of content.
The training element

The main reason, however, why the general criticism that foreign aid fails to 'trickle down' scarcely applies to the Australian bilateral program is because of its strong training element. This is true even of those infrastructure projects which have been specifically criticized. The extent of the technical assistance and training component of projects is not generally realized. In the parlance of international aid, this component is commonly called 'technical co-operation'. Thus, while it is common enough knowledge that Australia has had a series of 'highway projects' in Thailand, it is less common for people to realize that the roads were built by the Thais. Australia's contribution was in the form of technical services, equipment, some supporting materials and considerable on-the-job technical and manual training. The same mixture of inputs has been provided on numerous occasions for a wide diversity of development assistance purposes over the history of the program. It has been a very successful mix for what must always be a small program in most of the countries we assist. While the delivery mechanisms will gradually change and the sectors touched will vary and become more integrated, the essential pattern will undoubtedly remain. Some appreciation of the overall management problem involved may be gained from the fact that, in 1975-76, there were 327 separate projects involving, for long or short periods, 710 technical personnel operating in the field.

In the training program it has been found that the most effective results can be achieved by integrating the various types of assistance offered to each developing country, both within the training and education sector itself, and between that and other sectors. The aim is to develop progressively an individual 'package' of aid to meet the needs of each country, after consulting each particular government, and in relation to Australia's capabilities. An allocation of 'training months' will be part of the package, the recipients being able to expend these on short-, long- or medium-term courses according to need and choice.

Organization and planning

In dealing with the constraints bearing upon the aid program, the Bureau employs a number of techniques in planning and administering the bilateral program. These techniques apply to all the forms of aid included in the bilateral
program, to a greater or lesser degree.

The basic aid administrative tool is what is known as a Program Planning Mission. These missions are despatched annually, and sometimes more frequently, to the major recipients of Australia's development assistance. (Currently, we aim to cover all recipients, even if the smaller countries only receive a mission every two years.) The composition of the missions includes not only administrators from the Bureau, but also specialists in the various disciplines which will be major constituents in that country's program. Since almost all recipient countries seek to set their development in the context of a development plan, the missions attempt, in as sophisticated a way as possible, to match Australian capabilities with the priorities as expressed in these plans.

In recent years a systematized approach to the analysis of new requests has been evolved to take account of a wider range of considerations than purely economic and technical feasibility. Aspects now emphasized include:

(a) consistency of the proposal with the recipient government's stated development objectives;

(b) the relationship of the proposal to existing programs and projects, irrespective of sources of funding;

(c) an assessment of the absorptive capacity of the recipient, in terms of manpower, technical expertise, institutional facilities and financial resources needed to meet recurrent costs;

(d) the likely direct and indirect economic and social benefits that the proposal may generate and the identification, if possible, of the persons or groups which will be particularly advantaged or disadvantaged by the project.

This initial phase of the processing cycle is carried out by the appropriate agencies in the recipient country itself in collaboration with Australian personnel assigned to that country. Such documentation enables the Bureau's staff to become aware of any major deficiencies or strengths in the proposal, and to determine whether more intensive analysis, for example the commissioning of a feasibility study, should be undertaken or whether the proposal should be proceeded with at all.
Monitoring program execution

An integral element of the continuing effort to improve the quality of the aid program is the input made by qualified and appropriately-experienced appraisals and evaluation personnel in the planning of new projects. Their task is to recommend in some detail courses of action in the design of new projects, which will help to ensure most effective use of resources for both the recipient and the Australian taxpayer, and the successful implementation of the project. They have the added responsibility of building into the project design benchmarks which will permit critical evaluation of it as implementation proceeds.

Innovations are being progressively introduced in the operations (that is implementation) areas of the Bureau. These are designed to improve greatly the actual process of project execution and monitoring. A particularly significant development is the greater use of agents in the management of the broader-based and more complex multi-disciplinary projects that are being carried out on an increasing scale.

The technique followed in allocating food aid resources is similar in basic concept to those for project aid. Decisions are reached only after a thorough analysis of a country's food needs, its balance of payments and budgetary position and the consequences, if any, of the provision of food aid on their domestic production of staple foodstuffs. The food aid program seeks to avoid creating dependence, a disincentive effect on domestic industry or detriment to normal commercial trade. Since food supplies in most countries are so vulnerable to the vagaries of weather, the pattern of food aid programming is less consistent year to year than other elements of the bilateral program.

Program orientation and composition

The interface of two quite distinctive sets of constraints — namely those to which the donor must accommodate and those found in the developing countries themselves — has an important consequence which is readily apparent from an analysis of the bilateral aid statistics. These constraints encourage a degree of continuity: both in terms of the recipients of aid and its composition.

The statistics nevertheless do reveal some new trends, namely the rising curves for the South Pacific and, to a
lesser extent, Africa. The fluctuations in the volume of aid to South Asia for most of the decade result from the dominance of food aid in the country programs and reflect that region's acute vulnerability to weather.

The realities of Australia's geographical situation and the volume of available resources has led to the distribution of total bilateral aid (excluding PNG) shown in Table 2.

The broad pattern revealed may appear rather static. A shortcoming of this analysis, however, is that it deals only in gross magnitudes, and fails to reveal the essential dynamism which underlies the Australian aid program and its sensitivity to changing development needs and donor policy objectives. The ability of the Bureau to react quickly to such changes must of course be limited. The scope for Australia, and indeed for other donors, to induce dramatic and rapid changes in the project composition of bilateral aid programs is restricted by the constraints which have already been described. Nevertheless, the fact remains that there does exist scope for the progressive reorientation of aid programs to reflect key sectors more adequately, and to assist in tackling more effectively fundamental development problems.

Critics of bilateral aid programs have been quick to criticize the continuity of direction and composition that characterize the aid program, often without analysing with sufficient care changes in the program that broad descriptions do not reveal. Arguments have been presented that this apparently static quality is evidence of an aid administration's failure to acknowledge the recent evolution of the theories and philosophies of development. Moreover, critics claim that this essential continuity reflects an unwillingness to use aid programs as effective vehicles for improving development prospects at the 'grass roots' and for inducing a more equitable redistribution of resources and benefits to the more disadvantaged groups. This argument has been carried a stage further, with the contention that multilateral agencies are a more effective vehicle for inducing change.

Aid to the rural sector

This type of thinking fails to take account of the changes that are gradually being induced in the composition and focus of Australia's program. To demonstrate this point, it is worth examining recent trends in Australia's aid
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Table 3

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Source: Australian Development Assistance Bureau, Functional Classification of Australian Development Assistance to Developing Countries, various issues to 1977/78.
involvement in the rural sector in developing countries.

Table 3 shows that the funding of agricultural activities rose from as little as $2.3 million, or 5 per cent of total (non-PNG) bilateral aid expenditure in 1970-71, to $20.7 million in 1977-78, or 17.3 per cent total expenditure. This represents a fourfold increase in real terms. Although it can be argued that the proportion remains fairly low in relation to total expenditure, the trend is nonetheless significant.

Australia's contribution to the agricultural sector covers a multitude of activities. Particular emphasis has, however, been given to the various aspects of the livestock industry, ranging from the establishment of basic research facilities in animal husbandry in Indonesia, the development of animal industries in India, Malaysia and Korea, the control of animal diseases throughout the region, to the improvement of pastures. It may be observed that such activities may not be of immediate benefit to the 'poor majority' in rural areas. It should be realised, however, that the livestock industry has been traditionally a small-holder operation in most recipient countries. Although many developing countries are in the process of establishing larger scale and more capital intensive industries, the essential quality of indigenous livestock industries is unlikely to change in the foreseeable future. Australia's technical and capital assistance in this area thus enables a section of the rural community to broaden its base of economic opportunity, increase its income-earning capacity and eventually its standard of economic well-being.

Assistance to the food crop sector has been mainly indirect. Australia has contributed through multilateral institutions such as the International Rice Research Institute, and other institutions under the umbrella of the Consultative Group on International Agricultural Research, to the development of technology associated with staple food grains. It has done relatively little to assist this basic area directly through the bilateral aid program, although projects, particularly in the field of food storage and handling, are being developed. This applies especially in the Indian sub-continent. But this apparent deficiency in the program is rather more the result of constraints arising from within the recipient countries themselves than of any positive decision on the part of the aid administration not to become involved in this area.
Real or imagined shortcomings on the part of the aid program in the basic food crops area are in any case offset by the contributions that have been made in several countries in the introduction and development of alternative cash crops. The main part of this work has been in land development schemes in northern Thailand. Research work dominated the initial phases of such projects, but now the emphasis is on application of the research findings and the development of more effective extension activities. The real incomes of the rural communities influenced by these projects have already been increased, and a degree of economic independence is being achieved. Similar progress can be expected from similar projects in a number of other countries.

The spread effects of infrastructure development

This analysis has so far concentrated on Australia's direct involvement in the development of agricultural resources. This does not reveal the total picture, for indirect contributions to increased productivity in this sector must also be taken into account. These can derive rather obviously from projects designed to achieve the more effective use of water resources, and rather less obviously from the development of public utilities such as roads, railways and other communications facilities.

In recent years Australia's aid has tended to concentrate on the development of public utilities, and particularly on such capital intensive facilities as major highways, telecommunications, railway rehabilitation programs and port development. This has been the subject of some adverse comment. The statistics in Table 3 reveal that the proportion of resources devoted to this sector rose from 22 per cent in 1970-71 to 28 per cent in 1976-77 and remained high at 25 per cent in 1977-78. It can be argued that this continuing concentration could be to the detriment of the most disadvantaged groups and the most critical areas of development.

But this feature of the aid program reflects more than anywhere else the real constraint imposed on an administration by the basic requirement to be sensitive to stated development priorities and needs of recipient countries. A large number of developing countries have, in the post-colonial period, been obliged to devote the bulk of their resources to the establishment, rehabilitation and expansion of the basic public utilities. Unless these facilities are at least adequate, a government's prospects of achieving any
growth and development is small, thus reducing its scope for tackling in the future the more sensitive problems associated with employment creation, income redistribution and improved social welfare conditions.

The emphasis on public utilities is not as static as statistics and single line descriptions of individual projects might indicate. While there is only limited scope for dramatic changes in what might be called the 'core element' of projects described generally as the 'development of public utilities', opportunities do exist for a reorientation in their scope. Such innovations of course need to be effected in co-operation with the recipient governments and agencies. The experience of recent years has assured Australia's aid administrators that the developing countries are indeed very receptive to Australia's wish to adopt gradually a much more broadly-based and integrated approach to individual projects. Governments have collaborated closely in the planning of new projects to ensure that the road - if that is the primary need - forms a part of a wholly-integrated area project rather than an exclusive objective. Since the focus of Australia's activities in road work has swung away from trunk roads to farm-to-market and feeder-type road projects, a significant emphasis in these programs inevitably in on agricultural and other resource development, the more efficient use of water resources, marketing and extension facilities, and health programs. Examples of this approach include projects in Thailand, the Philippines and Indonesia. More are currently being planned. The trend for programs to concentrate on priority areas designated by recipient governments - rather than on apparently disconnected packages of individual projects - will become increasingly a more distinctive feature of Australia's bilateral aid programs, with of course recipient government's approval.

Problems in aid for basic human needs

Although there have been some significant changes in the bilateral aid program, other areas to which development theorists attach prominence may appear either to be wholly ignored by Australia or to be inadequately accounted for in program planning. There is, for example, an apparent lack of direct involvement in 'grass roots' or community development (especially in rural areas), and in programs reflecting basic needs.
This is understandable, for developed countries, much less the developing countries, have yet to evolve the policies and programs which will tackle these fundamental problems effectively. Yet it is a reality that, whilst most governments acknowledge the need to devote more resources to community development and basic needs of their poorest classes, these generally have a much lower priority in development strategies of recipient countries than other needs. Domestic political considerations, the limitations of both financial and manpower resources and the necessity to cope with a wide range of competing demands are some of the factors that influence recipients. Recipient governments consider that they are better able to understand their basic problems and to identify solutions than even the most well-intentioned aid donor.

Whilst the scope for aid donors to become directly involved in social development activities is in practice limited, opportunities do exist for aid administrations to design programs which will give some attention to these critical areas. For example, it is universally acknowledged that the availability of potable water is essential to improving health standards, and that its provision in association with effective waste disposal services can eliminate major sources of debilitating infection. Australia has been much involved in the provision of water supplies, although the concentration has tended in the past to be on urban supplies. More attention is now being given to the needs of rural communities. It is planned to expand aid to rural water supplies, in part by ensuring that provision for them is made in the integrated programs described above.

**Constant revision of programs**

An examination of the dynamism of the Australian aid program would be incomplete without a brief consideration of the changes that occur, admittedly rather slowly, within individual country programs. These variations reflect the sensitivity of the aid administrator to changing circumstances in the developing countries. For example, the program in Indonesia, which was dominated by balance of payments and budgetary support types of aid at the beginning of this decade, now consists largely of projects and technical assistance, supplemented by a modest amount of food aid and training and education assistance. A similar change in the program in Bangladesh has already begun. As that government becomes progressively more able to meet an increasing proportion of its food requirements, it is concentrating more
of its resources on development projects. Bangladesh is looking to Australia for assistance, particularly in the agricultural sector and in area development, a field in which Australia has earned a reputation in developing countries, extending from the Pacific through Asia and to Africa.

Just as changes are occurring in the composition of the Australian bilateral aid program, so too are changes to improve its overall quality being progressively introduced. The most significant initiative in this regard in recent times has been the government's decision to triple the volume of aid earmarked for the South Pacific and to provide for a three-year rolling program for the region. Equally important is the Australian Government's willingness to introduce new forms for the delivery of aid in the Pacific. These include support for the new national development banks, the financing of local costs on a significant scale, support for host country partners in joint venture projects with Australian firms, and increasing support for the work of non-governmental agencies involved in development assistance work. All of these forms are designed to ensure that Australia is as responsive as is practicable to the unique problems of the island nations.

Other qualitative improvements which the Bureau is now charged with administering include those announced by the Prime Minister in 1977 at the Commonwealth Heads of Government Meeting in London. Inasmuch as these initiatives relate to two integral elements of the bilateral aid program, they have very important implications for its future development.

In relation to capital projects and technical assistance, the government has decided to extend the practice of untying beyond Papua New Guinea and the South Pacific, as well as to increase the number of countries eligible for the financing of an increased proportion of local costs. Such innovations should help to diminish some of the real constraints within which the bilateral aid program currently has to operate.

Major food aid initiatives provide for an increase in the total volume of food grains from 225,000 tonnes per annum to 400,000 tonnes. In addition, an annual amount will in future be allocated to the Interim Reserve for Emergencies, pending the establishment of an international system of national food grain reserves.
The future

Judith Tendler (1975) has drawn our attention to the fact that aid administration is, or should be, a learning process. That is indeed its fascination. It is simply not easy to know how best to help developing countries. We are very much engaged in the business of trial and error. Government administration is a difficult art at the best of times. It is even more difficult when it involves two governments. We are very conscious of our shortcomings and of the need to make further big improvements in our administration dealing with individual technical experts, firms and authorities who are the means through which Australian know-how is being transferred to developing countries.

The aid program has always had a significant relationship with various parts of the Australian research community. This is an area needing close attention as our program diversifies and Australian interests widen. Steps have already been taken to improve this relationship. It is certain that this will continue to be an important element of the Bureau's future network of contact with the Australian community.

Although the government-to-government approach implicit in bilateral aid limits the scope for promoting innovations, it will be increasingly important for ADAB to learn how aid might be adapted to ensure that it meets the needs of the major target groups, so contributing more effectively to the process of socio-economic development. As discussed, Australia has become more closely involved in area activities and multi-disciplinary assistance programs. These are more commonly directed by provincial rather than national authorities. Further planning may reveal scope for the entry of our technical co-operation at even more localized levels. The limits will largely be set by the sophistication of the national government machinery through which we must continue to operate.

To help solve the dilemma of matching our point of access with limited administrative resources, the Bureau has been exploring the scope for becoming an effective partner in programs identified with and facilitated by international bodies such as WHO, UNESCO and UNICEF. Village tube-well programs, community health programs and education development all lend themselves to this approach.
Addendum, 1978

Mention has been made of changes intended to improve the quality of the aid program and its administration. The Bureau was reorganized in December 1977 primarily to facilitate the operational effectiveness of project aid, and a review of the administration of the training program was completed which will lead to substantial changes in its administration.

Further policy initiatives have also been launched during the past twelve months. These have included a new framework of increased forward commitments of aid to the ASEAN countries and to joint Australian-ASEAN programs.

This pledge also contained several measures to improve the quality of Australian aid. These included the untying of procurement in the region, so that suppliers of locally produced goods in all ASEAN countries could tender alongside Australian manufacturers to supply equipment and materials for projects in any ASEAN country. Australia may now also assist with funding local costs associated with aid projects and will actively pursue the greater use of co-financing projects undertaken by multilateral donor agencies.

The terms of Australian aid, already very liberal by world standards being all grant finance, are being regularly reviewed and further improved. Cabinet has approved the procurement of goods for aid projects in the recipient country concerned, where these goods have a substantial local content, as well as the meeting of a significant part of local costs in the least developed recipients of Australian aid.

Australia has agreed that as a supplement to the existing food aid program, which is scheduled to increase to 400,000 tonnes annually by 1979-80, non-grain food aid will be supplied on a regular basis for specific nutritional impact projects in developing countries (school children feeding programs, nursing and pregnant women diet supplements, infant feeding, etc.). These measures aim to raise the nutritional level of the most vulnerable groups in recipient countries. It is expected that this program will grow significantly in future years.
Australia has also undertaken to provide half its pledge to the Conference for International Economic Co-operation (CIEC) Special Action Program as multilateral aid, in the form of untied cash payments to the International Development Association (IDA) of the World Bank Group, and the other half as grants to eligible regional Commonwealth countries to cover the importation of developmental goods and services from Australia. We have also joined with other Commonwealth regional countries in establishing a Consultative Group on Energy. It is expected that the group will focus its initial efforts on the application of alternative energy technology to the needs of small rural communities.

Careful consideration has been given to the conclusion of the DAC High-Level Meeting in October last year, concerning development co-operation for economic growth and meeting basic human needs. Australia recognizes that programs for meeting basic human needs must be country specific and dynamic and that they are not a substitute for, but an essential component of, more economic growth.

A high level Consultative Committee on Research for Development was set up to assist the Australian Government to identify and make specific recommendations concerning research and research-related projects, institutions and programs which benefit developing countries and which may be assisted under the aid program.
Chapter 7

Aid, natural resources and development

R. Garnaut

Many of the developing countries possess within their boundaries natural resources which can be transformed profitably into internationally traded commodities. Such transformation is not in itself development in any meaningful sense of the term. But the exploitation of natural resources can yield rents which, if claimed effectively by host governments, can provide the financial resources that are necessary for wider development.

Industries based on natural resources, especially minerals and energy resources, are commonly highly capital intensive, and utilize highly sophisticated productive and organizational techniques. Developing countries cannot themselves easily supply the capital, management and technology that is necessary to achieve the transformation of natural resources into tradeable commodities. These necessary factors of production are usually obtained from overseas.

Despite the recent fashion for fostering rural development, foreign governments and the international agencies tend to provide concessional funding for large resource developments more readily than for other activities. For example, the government of a developing country could fund several times over a large power facility that was in part designed to serve a new oil field or nickel mine, but would have very great difficulty in marshalling overseas support for a program of small-scale village electrification that made similar demands on financial resources.

In an important sense, the absence of the domestic capital and organizational capacity to handle such projects is a safeguard against some of the distortion to domestic income distribution that accompanies other capital-intensive economic activity in developing countries. The state is the
principal immediate domestic beneficiary from the project, and the state can be wise or foolish, efficient or ineffective, honest or corrupt in its disbursement of benefits.

At the same time as the availability of capital for resource developments from foreign official sources provides opportunities for strong revenue growth, it raises complex questions of economic policy-making and administration. It raises questions of effective national sovereignty over development priorities, and of its antithesis, neo-colonialism.

This study had its origins in an *obiter dictum* in an earlier article on taxing natural resource projects. In that article it was suggested that the availability of foreign official support for such expenditure raised the possibility that a government might increase the revenues it obtains by providing some infrastructure for or participation in the ownership of resource developments that were operated principally by private foreign investors (Garnaut and Clunies Ross 1975:272-87).

This chapter discusses the circumstances in which a host government might increase its revenues by making expenditures associated with resource developments. The study's major focus is on problems that are raised by the involvement of foreign governments in the financing of such expenditure. It analyses distortions in the pattern of development that can result from such involvement. It concludes that the compatibility of national sovereignty with the interest of donor countries in large-scale capital-intensive resource investments depends very much on the institutional apparatus through which aid is received in a recipient country. These mechanisms are usually inadequate, leaving the developing country's government with a dilemma: less revenue growth and reduced development opportunities on that account; or a development pattern potentially very different from that which it would have chosen had official foreign aid not been tied to specific uses.

**Private foreign investment and the rent of mines**

Let us keep in mind the case of private foreign investment in the minerals and energy sector. The problems to which this study is addressed are most wide-ranging and take their most extreme form in this case. However, the problems arise as well where investment is undertaken by a national corporation which goes overseas to borrow capital
and hire expertise, or where it is directed towards agricultural, forest, fish or other natural resources.

The private foreign factors of production that are required for major resource projects in developing countries each have a supply price. The rent that is generated in the process of exploiting a natural resource is the income that is earned after deduction of the supply price of all domestic and foreign factors that are used within the production process, including the factors which are supplied within the direct investment package. The lower the supply price of direct private investment, the larger the amount of rent.

It is possible for the state to impose financial conditions on access to natural resources which claim the rent for public revenues, without deterring any investment that would have occurred in the absence of conditions. This follows from the definition of rent. In the real world, where there is a high degree of uncertainty about the possible outcomes of an investment, it is not possible to appropriate the whole of the rent from all resource projects without risking the deterrence of some investments that are capable of making some contribution to the revenue. The amount of rent that can be taken by the state from profitable projects without deterring more marginal projects depends very much on the system of fiscal levies that is applied to resource investments. The effects of various fiscal policy systems are discussed in a later section of this analysis.

The supply price of direct investment is expressed in terms of the amount of profit after tax that is available for remittance to the owners of the investment. It is common for investors to require a project to meet a variety of explicit and implicit criteria on expected profitability before they are prepared to commit resources to it. For large resource investments, the most important single criterion is that the investment must be expected to generate positive net present value at the discount rate which the investor judges it appropriate to apply to total expected cash flows associated with the project.

The rent generated by a project is higher the lower the supply price of private foreign investment. Thus it is higher the lower the discount rate applied by foreign investors to future cash flows from the project. It is also higher the lower the amount of capital which the investor must place at risk. Both the discount rate applied by investors and
the amount of private capital at risk can be affected by the provision of funds to the project by foreign governments.

Where the after-tax outcome of an investment is less certain (that is, where the variance of possible outcomes is greater), it is usual for the investor to apply a higher discount rate to future cash flows from the project. A higher expected return is required when there is greater risk. This aversion to risk is likely to be especially important in the case of investments where the absolute size of possible loss is very large, and therefore a threat to the financial standing of the parent company itself.

The discount rate that investors apply to anticipated cash flows associated with an investment is also a function of the opportunity cost to them of any funds that might be committed to the project. In a purely commercial situation in which the investor raises capital in open markets, funds to all possible investments have similar opportunity cost. However, if funds are available for some investments but not for others, or if cheaper funds are available for some investments, the investor may apply a lower discount rate to projects for which the concessional finance is available. Thus the amount of rent from a natural resource may be increased by the provision of concessional funds for its exploitation by foreign governments.

There are other determinants of the supply price of investment, and so of the rent associated with the exploitation of a resource. One is the investor's assessment of sovereign risk, or the risk that the host government will change the rules that determine the amount of profit that accrues to private investors. The structure of the fiscal policy system also affects the discount rate applied by investors, through its effects on the variance of after-tax outcomes: the variance of after-tax profits will be lower (and with it the discount rate applied by investors) the more fiscal charges are concentrated on profits which represent a high discounted cash flow return on investment.

The general rule is that the amount of rent in a project that is available as revenue to the government is greater the less the amount of private capital at risk in its development and the less the risk of unsuccessful outcomes.
Fiscal policy systems and the amount of rent

Governments collect revenue from the rents generated by private investments in resource projects through a great variety of mechanisms: licence fees; taxes on personal incomes of employees and on imports and other charges on inputs into production; royalties related to the volume of ore mined, its metal content or its value; export taxes; profits taxes of various kinds; withholding taxes on dividends and interest payments; and dividends from government equity purchased on concessional terms. The form and the rates of these various charges together determine (i) the amount of rent available from resource investments, (ii) the distribution of the rent between the private investor and the government, and (iii) the timing of the government's revenue receipts.

The value of an expected revenue flow to a government depends on the timing of the revenue receipts. The government will apply its own implicit or explicit discount rate to future revenue receipts. Provided that the country has some credit standing in international capital markets (and most developing countries are in this position), it is likely that the government's discount rate will be lower than that of the private foreign investor.

There are two distinct approaches to the setting of rent charges on resource investments. One approach is to establish a general system of fiscal policy including taxation rates within which all investors operate. It is possible that a general system that collected some revenue from intra-marginal projects would deter some investments, no matter how carefully it was designed. Similarly, a general system would not be able to extract all of the rent from every project, although a well-designed fiscal system could extract a high proportion of rents from profitable projects without losing large potential rents through deterrence of other investments. A more severe fiscal system would claim for the revenue a higher proportion of rents from barely marginal projects, but might reduce the total amount of rent that is generated from resource investments. A balance must be struck between these two factors in the implementation of a general system of fiscal levies.

The alternative approach is to tailor the system of fiscal charges to each project, through negotiations with the investor. If the government knew exactly how investors viewed future expenditures and income from each project,
together with their attitudes to risk and the discount rates that they applied to cash flows anticipated in future, it would be able to claim all of the rent from profitable projects without deterring any marginal investment.

The advantages of the former approach are that it provides a more certain environment for exploration, and that is protects the government from being exploited in negotiations through its own relative ignorance about parameters relevant to investment decisions. In practice, most governments choose to use a hybrid approach, in which the system of fiscal charges is negotiated within more or less clearly defined limits.

Whatever the approach adopted, the total amount of rent is affected by the nature of the levies by which the government obtains its revenue. Any charge applied in the early years of a project's life must be balanced by the relinquishment of claims to a greater amount of revenue in later years. The interaction of uncertainty about the outcome of investments with investors' aversion to risk means that more revenue can be collected through levies on profits, and especially on profits which represent a high realized return on investment, than through charges on production or sales, or on profits which do not represent a high return on investment.¹

For the purposes of this study, let us say that the government has settled on a set of fiscal levies, and that the system yields more revenue from a project when its realized profits are greater. The important conclusions are even stronger if the rate of fiscal charges out of profits rises with the rate of return on expenditure.

In examining the effect of variations in the supply price of investment on government revenue, let us look first at the case where the government negotiates the fiscal system separately for each new project. If some external factor leads to a reduction in investors' discount rates, the government can claim for the revenue the whole of the increase in rent from projects which were previously barely marginal, provided only that it is fully aware of the change in the supply price of investment. The government can also claim

¹These issues are discussed, and an optimal system of resource taxation suggested in Garnaut and Clunies Ross 1975:272-87 and Garnaut 1979 (forthcoming).
revenue from previously sub-marginal projects that are viable with the new lower discount rate.

Where the government has established a system of fiscal levies that are applied in the same way to all investors, a reduction in the supply price of investment causes more investments to take place, and increases the revenue that the government receives from investments that had been undertaken at the old supply price of investment. The additional investments might include some that would have been undertaken at the old supply price of investment if no fiscal charges had been levied.

If the system of fiscal policy is to provide an adequate flow of revenues, it must be sensitive to the supply price of investment. The requirement is met within a general system of taxation in which the rate of tax out of income rises with the rate of return on investment.

**Government equity and the amount of rent**

Beyond some scale of investment, corporations tend to apply a higher discount rate to future cash flows in the evaluation of a larger project, even where the variance of expected outcomes is identical to that associated with a more modest investment. This occurs because corporations are cautious about accepting the risk of very large losses. In this circumstance, both the government and the investor have an interest in establishing a consortium to share the risk. It is essentially for this reason - to reduce the maximum size of the possible loss borne by each foreign investor - that major resource investments in developing countries are now increasingly undertaken by consortia.

Private investors place especially high value on the government of the host country as a consortium member. In addition to the usual benefits of a consortium, it is commonly thought that government membership reduces sovereign risk.

For its part, the government through participation in the consortium can share in any untaxed rents that are allowed by the system of fiscal levies, earn the high return required by the private investor, and increase the total amount of rent through reduction of the supply price of private foreign investment. The government can claim all or part of the additional rent through the negotiation of
concessional terms for its equity, or through the imposition of a more severe system of fiscal levies than would otherwise have been applied.

The government's equity must be funded, and this expenditure is at risk in much the same way as funds supplied by private investors.

**Public provision of infrastructure and the amount of rent**

Infrastructure of various kinds usually represents a high proportion of the capital expenditure associated with the exploitation of natural resources in developing countries. When this infrastructure is provided by the private operators as part of the project, the project must be expected to generate sufficient profits after tax to recoup the whole of the investment with interest equal to the investor's high discount rate.

There are circumstances in which the power, roads, port, town facilities, telecommunications and other infrastructure required by a resource development provide benefits to the general community beyond the requirements of the project. These external benefits can justify some public contribution to ensure that private investors proceed with an investment that is judged to be marginal. This should not be forgotten, although it is not analysed further here.

The supply price of investment is reduced by government provision of infrastructure. The high discount rate of private investors is applied to a smaller quantity of capital. In addition, the probability of absolute loss or very low return is reduced, so that investors' discount rates are reduced. The amount of rent is increased through each of these processes.

When infrastructure is provided with public funds, the government may choose to charge for its use at a rate which recoups its costs, perhaps with some profit, or it may choose to rely entirely on its share of the increased rent to recoup its outlays. If no fee is charged for the infrastructure, it is possible for the government to suffer an absolute loss through the development of the resource, or a net loss through the provision of infrastructure. If a user charge is set at a rate designed to recoup the government's outlays on infrastructure with interest equal to its own discount rate, there is little chance of net loss. In the latter case, the amount of rent will be raised above the level associated
with the investor's provision of infrastructure, provided only that the government's discount rate is less than that of the private investor. However, the amount of additional rent will be less when a user charge is levied. Where no charge is levied, the amount of increased government revenue from the additional rent may be less than or greater than the amount of revenue that would have been raised through economic user charges, depending on the profitability of the project and the structure of the fiscal system.

The provision of infrastructure without the cost being recouped from user charges reduces the possibility that a marginal project will be deterred by fiscal levies. It may also make sub-marginal projects attractive to private investors, and cause the government to incur an absolute loss in relation to a project. This latter possibility distinguishes government expenditure on infrastructure from government purchase of equity in a resource project.

When a government's financial relationship to a resource project is simply that of a taxing authority, it runs no risk of absolute loss. Where it purchases equity at a commercial price, it runs the same risk of absolute loss as the private investor and, as the taxing authority, stands to gain proportionately more than the private investor from a successful outcome. However, a government is wise to be very much more wary about the provision of infrastructure without economic user charges. In the latter case, the government must make its own assessment of the likelihood that returns from the project will be too small to cover its outlays, in an environment in which the private investor has a positive incentive to obscure from the government some aspects of the financial realities of the project.

Of course, the amount of the absolute loss that might be incurred by the government, and the amount of additional revenue that must be raised in consequence of the provision of infrastructure for this expenditure to be worthwhile, are less the lower the opportunity cost to the government of funds used for this purpose.

Foreign official assistance and the amount of rent

There are many mechanisms through which foreign governments and international agencies make funds available on concessional terms to resource investments in developing countries. The general effect of the provision of funds
through these mechanisms is to reduce the supply price of investment directly, or to reduce the opportunity cost to host governments of funds allocated to resource developments.

One common mechanism is for funds to be made available to the host government for the financing of commitments that it enters in relation to resource investments. Infrastructure is sometimes made available directly as project aid. Some governments in industrial countries make concessional funds available to their national investors for mineral exploration and development. Loan funds are made available to the operators of a project for the purchase of equipment or for other purposes. Assistance in any of these forms may be tied to purchases of goods and services from the donor or lender, or untied. In addition, the private international capital markets provide finance more readily to governments for resource development than for their general development programs.

The motives of foreign governments and lending agencies are varied. The outstanding examples of bias towards resource investments in concessional finance are provided by the governments of Germany and Japan, which are anxious to increase world supplies of resource-based commodities. Some governments and agencies are attracted simply by the prospect of making a large loan to advance a project that is likely to be well managed and very likely to yield a high economic return. Some see the provision of funds simply as promotion of exports of machinery and materials. Others are keen to improve the competitive position of their national companies, or are vulnerable to pressure from those companies.

The effective grant element in such funding, and so the real effect on the supply price of investment or on the opportunity cost of finance to the home government, depends on the extent to which it is tied to purchases in the donor country, and on the extent to which the home country is a competitive supplier of goods and services required by a resource project.

Conflicts between the different motives of a donor country occasionally affect the terms upon which finance is made available. The conflict in Japan between the resource-trade expansion and the export promotion motives provides one interesting example. Japanese authorities appear to have decided to let their interest in the expansion of overseas petroleum production override their interest in the promotion
of industrial exports. The only major cases of Japan making concessional funds available to foreign governments on a completely untied basis involve loans for petroleum exploration and development in Indonesia and Burma.

The effect of the concessional funding on the rent generated by resource developments depends on the particular mechanism through which it is made available. The provision of finance directly to national investors of the donor country reduces the supply price of investment from this source. It reduces the supply price of investment to the project if the particular recipients are competitive investors in the absence of assistance. However, if the assistance is required merely to make the recipients competitive with nationals of other countries, there may be no reduction in the supply price of investment to the project and no increase in rent.

The provision of concessional funds to the operators of a project independently of their nationality (as is usually the case with equipment loans) lowers the supply price of investment and increases the total amount of rent, so long as the concessional element in the financing exceeds any excess cost of tying.

The direct provision of infrastructure lowers the supply price of investment and increases the amount of rent. The provision of concessional funds to the host government reduces the opportunity cost of purchasing equity or installing infrastructure, and so provides potential for increases in the amount of rent. However, as is clear from the earlier discussion, where concessional finance promotes a sub-marginal project, it may not contribute to the generation of rent, and may be dissipated without significant benefit to the recipient country.

**Problems with foreign assistance to resource investments**

The availability of concessional finance for resource developments raises some difficult problems of economic policy administration for developing countries. The major dilemmas are associated with difficulties in determining the true opportunity cost of public expenditure on resource projects that are financed with foreign assistance.

It is well known that aid is used most efficiently in terms of the priorities of the recipient countries if it is
untied and made available in support of the total development program of the recipient country. Aid is used inefficiently to the extent that it promotes activities that would not have survived a listing of the recipient's priorities within a single budget constraint. It is used inefficiently even when it is allocated to genuinely high priority programs if tying causes it to be used to purchase relatively high cost goods and services. Aid for resource developments poses all of the usual problems of tied aid and project aid, although often in an extreme form because of the scale of the projects.

Although aid for specific purposes and tied aid are likely to be less efficient than untied aid in support of a recipient's general development program, it will often appear to be better than nothing. It is likely to be better than nothing, possibly much better, when its availability reduces the supply prices of investment and increases government revenues from the rent of mines. However, there are circumstances in which it can be worse than nothing, and it is always difficult for a recipient government to judge whether the alternative really is nothing rather than some less restrictive form of aid.

There are three circumstances in which the acceptance of aid to resource projects might bring negative net benefits to a recipient country. The first is where the availability of concessional funds from a particular source leads to the inefficient use of a valuable resource. This will only occur where there is an inefficient administrative system within the recipient country, but unfortunately there are many examples of inefficient administrative systems in the developing world. One clear example of this problem occurred in the last days of colonial administration in Papua New Guinea, when a palm oil concession was granted to a Japanese company with no experience in the industry. The development was to be financed by tied concessional finance, although there was no evidence that the home country was an efficient manufacturer of the relevant plant and machinery in Japan. The availability of large quantities of very cheap finance allowed the private investor to make a high level of equity available to the government without payment being required, but it turned out to be equity in an asset of very low value.

The second circumstance is where the recipient government's financial commitments to a project exceed the concessional element in the foreign funding, and where the taxation on the rents generated by the investment is less than this shortfall. This situation could arise where public
provision of infrastructure caused a sub-marginal project to be undertaken by private investors.

The third circumstance is where the resource project, with effective concessional financing, itself brings positive net benefits, but where the acceptance of aid that is specific to resource investments reduces the amount of aid from the same source that is available for other, higher priority purposes. In this case, the true opportunity cost would exceed the cost of the concessional finance. Alternatively, even if there was no prospect of raising the quality of aid from the relevant donor, there might be some danger that the acceptance of restrictive conditions of aid from one donor would weaken the commitment of other donors to provide aid in less restrictive forms.

It is always difficult for an aid recipient to identify the latter circumstance in practice, and high orders of political judgment are required in the administration of policy in this areas. Nevertheless, it is a crucially important area. A recipient of large quantities of foreign aid would be left with very little control over the directions of its national development effort if the terms upon which aid was provided by all donors deteriorated to the lowest common denominator amongst existing forms of aid.

Administrative systems for the receipt of aid

A country has the maximum possible control over the composition of its own development program if aid is allocated without restriction to goods and services required by the programs that are most productive according to its own priorities. It may have very little control over its own program if a large part of the resources available to it are tied to specific activities and to purchases from particular sources. It may nevertheless choose to accept aid on restrictive conditions when it brings net benefits, even though it would allocate the resources involved in the aid transfer to very different purposes were it free to do so.

A few relatively simple innovations in the systems within which aid is administered in recipient countries could remove the major distortions that are associated with project aid and tied aid, without requiring radical changes in the formal conditions that are usually applied to government to government assistance in the financing of
resource investments. However, major changes may be required in some current practices.

There is no simple expedient for managing problems associated with the provision by donor countries of finance to their own national investors. In practice, a recipient government can do no more than insist that such transactions are not aid in any sense - that they are simply a domestic transaction between the foreign company and its own government. The recipient government can then accept proposals on their competitive merits from all foreign investors that are interested in a project, without representation from foreign governments. There are potential threats to effective national management in these types of arrangement, and a host government is wise to insist on full declaration of such transactions between a foreign investor and his home government.

Government-to-government transactions would be very much more manageable under certain restraints: first, if they took the form of a commitment to provide a specified level of aid over a period of years, and, second, if the funds represented by this commitment were made available to support a specified range of activities, including major resource investments where government expenditure on these activities survived a listing of the recipient's priorities. The aid would be portable across the listed activities. The third restraint is if the commitment could be drawn down selectively against purchases from sources to which the donor expected its aid to be tied.2

The system would work most effectively if it was supported by all major donors. The recipient government would add the commitments of aid to its estimates of resources available to support public expenditure, and adjustments would be made to intended future levels of general borrowing and total public expenditure. The recipient government would allocate this total level of

2 The system suggested here is a variant adapted for a single recipient country of a multilateral reciprocal aid untying arrangement discussed by Kojima, Okita and Drysdale 1971: 327-30. The terms portable aid commitment and selective drawdown of aid have been developed in Papua New Guinea in the process of recent work to strengthen administrative structures for the receipt of foreign aid.
expenditure amongst programs through its normal budgeting
and planning procedures. Decisions to allocate expenditure
to the purchase of equity or to the provision of infrastructure
for resource investments would be made on the merits of these
expenditures relative to others, with the contribution of
these expenditures to future revenue growth being weighed
against the economic and other returns from alternative
programs.

The development program having been defined without
reference to the purposes for which aid is allocated, a range
of activities could be selected from the total program for
support by foreign donors. For the system to work efficiently,
it is necessary for total expenditure on activities which a
particular donor is prepared to support to be very much larger
than the amount of the donor's aid commitment.

Goods and services required by each aid-supported
activity would be purchased competitively, through the normal
supply procedures of the recipient government. When a source
of goods and services to which some aid was tied was revealed
to be the most efficient supplier, the aid commitment of the
corresponding donor would be run down.

The system would clear all aid commitments so long as
each donor country was a competitive source of an amount of
goods and services required by activities which it was
prepared to support that exceeded the amount of its aid
commitment. If aid commitments cleared automatically, there
would be no distortion in priorities associated with the
project orientation of aid, and no excess cost of tying
For the donor, aid might appear to be project-oriented and
tied, but this would carry no distortions in expenditure and
no excess costs for the recipient.

The system might fail to clear all aid commitments if
the priorities of the recipient allowed few activities of
types a donor was prepared to support, or if a donor was
uncompetitive as a supplier of goods and services required
within the activities that it was prepared to support.

It has already been suggested that the financial returns
to a government on funds allocated to resource investments
can be very high, so long as the projects operate within an
efficient system of rent taxes. It is likely that genuinely
profitable expenditures of this type would find their way
into a recipient's development program on their own merits,
unless the recipient placed very low value on revenue growth. The largest donors which restrict the use of their aid narrowly to resource investments are major industrial countries which are competitive suppliers of the machinery and materials required in large industrial and mining investments. These realities would assist in the clearing of aid commitments through the suggested processes.

Nevertheless, it is possible that a donor would be prepared to make more funds available in support of expenditure on resource investments than could be utilized efficiently within activities that survive a conscientious listing of the recipient's priorities. One advantage of the suggested administrative system is that it makes variations from allocation according to the recipient's priorities, and the excess cost of aid tying, clear for all to see. The recipient is in a much better position to judge whether expenditures on low priority, aid-supported activities are worth the various costs associated with them, including the cost of risking corrosion of the terms of less restrictive aid from other donors.

Each recipient needs to form its own judgments on the worth of accepting aid for low priority purposes, or for purchases from less efficient sources. Its judgment is affected by the importance it attaches to short-term economic growth, on its prospects for improving the terms upon which aid is made available through resistance to low quality aid, and on its judgment of the likelihood that acceptance of low quality aid within one bilateral relationship could undermine attempts to reduce restrictions on aid in others.

**Difficult choices on aid**

The availability of foreign aid for expenditure related to resource investments has the potential to raise substantially the national revenues of recipient countries. It can strengthen a national economy and expand its options in many areas of development.

It also has the potential for undermining budgeting and planning systems within a developing country. The attraction of 'something for nothing' is compelling, and only governments with well-organized and well-conceived structures for receiving aid are in a position to enforce critical judgments on the value of specific aid proposals.
There is always a heavy neo-colonial weight leaning against attempts to enforce national priorities in respect of foreign aid receipts. Foreign companies are active in identifying aid expenditures that are likely to be of benefit to them, selling proposals to contacts in the home government, and engineering requests for aid from officials in the recipient country. In the worst cases, officials are bribed to make the right requests. In others, officials (and relatively junior officials outside the central agencies will often do) are provided with opportunities to restore programs within their own bureaucratic control that have failed to survive listings of government priorities. A conscientious government of a developing country must lean back against the weight of well-meaning foreign ambassadors, who have plenty of time to think about the style of development that they consider best for their host country, plenty of opportunities to sell their views to one or other minister or official, and to report 'requests' back to the home government. It has to lean back against the enthusiastic aid official of the donor country, who has little understanding of or patience with the tedious processes of macro-economic management, priorities setting and budget control within which a conscientious government goes about the administration of public expenditure.

If the administrative structures are well-conceived and effective, there is little danger that aid will be squandered, or involve the recipient in net losses. The potential benefits of establishing such structures are so large that it would seem worthwhile for recipients to insist on bilateral aid arrangements that were consistent with them, even at the cost of some loss of aid which judged in isolation has positive value. Many of the interests of donor countries can also be met more easily within rational administrative structures.

One objective of some donor countries may conflict directly with important interests of recipients. Some donors may be interested primarily in advancing projects that would never get off the ground without assistance. However, individual recipients have a very strong interest in channelling concessional funds into barely marginal projects, where the reduced supply price of investment is reflected fully in increased rent. The forced development of previously sub-marginal projects does not generate rents, and, through its effect on world markets for resource-based commodities, can reduce rents accruing to all established producers.
But the reduction in world prices and resource rents is not the sole objective even of the most hard-nosed donors. There would seem to be enough common ground across the interests of donors and recipients for the co-operative exploration of improved administrative arrangements for receiving aid to be worthwhile.

The present reality is that many developing countries lack the administrative means to measure the true cost of accepting aid on restrictive terms for resource investments against the benefits of increased revenues. As a result, the international aid effort is less effective than it could be in strengthening developing economies.
Chapter 8

Problems of aid for rural development

Ralph H. Retzlaff

Thirty years have elapsed since the outset of decolonization at the end of World War II. During this period the dominant view held by the governments of most less developed countries (LDCs) of the development process in the rural sector has undergone repeated change. At first, relatively little attention was given to rural development problems by either the newly-independent governments or the donor agencies which sought to assist them. Large-scale capital intensive projects with particular emphasis on industrialization were on most planning agendas. The combination of a 'trickle-down' effect plus a labour sector transfer responsive to projected industrial demand, represented the accepted view of how rural development would be brought about. Hydroelectric dams and steel plants were to be the engines of progress and modernization. The role assigned to the rural sector was to provide labour and capital for transfer to the small but growing industrial sector.

By the mid-1950s community development programs aimed at ameliorating the general conditions of rural life had been initiated by a number of governments. In many instances these programs contained elements of activities which began during the later phases of the colonial period (Mosher 1976:1-8; Mayer et al. 1958). In some countries these efforts have had a limited impact, at best, upon the rural sector, in others they were failures (Ruttan 1975:9-16). In the ensuing decades LDC governments and donors have experimented with a succession of strategies, programs and projects, none of which has as yet brought about the desired comprehensive transformation of the rural sector.¹

¹A reflection of the shifting strategies of many LDCs can be seen in the changes in the policies of the World Bank's rural development assistance programs (Yudelman 1976:367-81).
Among the most important of these changes was the decision taken by some LDCs in the early 1960s to focus explicit attention upon modernizing agriculture as a necessary condition of rural development. Both a concern for possible food shortages as well as the problems involved in transforming traditional subsistence agriculture (Wharton 1969; Schultz 1964) brought about major changes in rural development activity, to which a number of donor agencies readily responded. At times they played an important role in helping to shape new strategies. Nowhere was donor involvement more apparent than in the technological breakthroughs which resulted in the new high-yielding varieties of wheat and rice. Other advances in biological, chemical and mechanical technology also contributed to the more efficient use of the factors of production within each country's agricultural system (Hayami and Ruttan 1971).

However, one implication of the emphasis upon a market-oriented factor productivity strategy was the downgrading in importance of the need to develop a capacity to alter structural-institutional constraints which acted as impediments to rural development. A second implication was that attention was focused upon agricultural as the dominant rural activity, and away from the remaining non-farm activities in the rural sector. Apart from the largely emergency, relief-oriented, rural works programs, little systematic consideration was given to generating adequate off-farm rural employment opportunities to match the continuously expanding rural labour force. The rapid gains in overall agricultural production and the productivity increases stemming from such things as the modern seed and fertilizer technologies in the late 1960s contributed to the hope that agricultural development could carry with it the successful development of the entire rural sector.

Those expectations were shortlived. By the early 1970s a chorus of dissenting voices began to be raised. Increasing shortfalls in the growth of new employment opportunities, particularly in the rural sector, came under attack (Myrdal 1968; Faber and Seers 1972; and ILO 1970-74), as well as the inattention to the distributional implications of existing development strategies.2 Frankel (1971) and others argued

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2An initial statement, which caused considerable discussion, came from Mahbub ul Haq, 1972:19-22. For a recent, more systematic exposition of his views see Haq 1976.
that the modern technologies introduced were responsible for the inequalities in the distribution of gains. This criticism was, however, rooted in an erroneous assumption. In time it was recognized that it was the inequalities arising from existing structural-institutional conditions in rural society that were responsible for the unequal distribution of productivity gains accruing from a biological-chemical technology essentially neutral to scale. This increased attention to persistent structural inequalities was further heightened as our awareness sharpened of the absence of change in the condition of the rural poor. An increasing number of both LDCs and donors began to stress the need to develop poverty-oriented rural development strategies which concentrated on the least advantaged, who had been largely bypassed during the previous decades.

As the concern for widespread poverty and the failure of existing development efforts to deal with the persisting maldistribution of income, wealth, status and power grew, problems on the agricultural production side of rural development re-emerged.

The present state of rural development in most LDCs in Asia can be summarized broadly:

(a) Despite the introduction of new foodgrain technologies and substantial increases in production in many countries, per capita cereal production has declined during the past decade in Asia.

(b) This decline is attributable to (i) population increase, (ii) the constraints to adoption of new technologies in a number of regions, particularly with respect to small farmers, tenants and sharecroppers, (iii) the lack of suitable site specific technologies for some regions, and (iv) a slowdown in annual productivity gains.

(c) Labour force absorption within the rural sector both in agriculture as well as in off-farm employment has failed to keep pace with increases in the rural workforce, resulting in increases in unemployment and underemployment. When projections of the limited absorptive capacity of the urban industrial sector and of total projected growth in the labour force within the next decade are considered along with rural sector employment data,
the task in the next decade assumes the dimensions of a crisis.

Major problems

Estimates of the present situation indicate three chief problem areas which must be addressed if we are to make further gains in rural development. I will not discuss limiting the rate of population growth among them. I would suggest though that the widely held neo-Malthusian perspective does not accurately reflect the full range of pressures on available resources. These arise from two sources in both LDCs and DCs: the rate of increase in population and the rising level of affluence which exerts substantial influence on the actual distribution of available resources.

**Inadequate food production.** There is a continuing need to identify and relax significant constraints on food production. This task is increasingly complex since it involves determining agro-climatic zones on an intra-country basis, identifying the principal constraints within each zone and developing production technologies and cropping systems to increase output. This process is a major responsibility for the national research institutes in the agricultural sciences. Within the total CGIAR\(^3\) system it may involve a redefinition, in some cases, of their collaborative role with the international commodity institutes both to identify research priorities in the agricultural sciences and to share responsibilities in the conduct of such research.

What is even less well understood, and to some still controversial, is the extent to which, and the reasons why, despite being neutral to scale, new technologies where available have yet to be uniformly adopted in many regions, particularly by smallholders, tenants and sharecroppers. The productivity increases of the non-adopters remain quite low. The problems here lie within the domain of the social sciences where the effective research capacity within many countries is much weaker and where counterparts at either a regional or global level to the international commodity institutes are largely absent.

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\(^3\)The Consultative Group for International Agricultural Research, set up by the UNDP, the World Bank and the FAO.
Inequity. On moral and economic grounds, as well as for political reasons clearly understood by LDC leaders, the gains achieved through rural development must reach the poor in the bottom income deciles. A major component of such an equity-oriented national rural development policy is employment generation. The picture as we have noted is increasingly bleak. Industrial growth has not generated the hoped for increases in jobs in the urban sector. Employment opportunities in the rural sector, both in agriculture as well as in off-farm activities, have also failed to keep pace with the total expansion of the labour force. There is ample evidence that in many countries rural unemployment and under-employment and consequently poverty is increasing. Its incidence varies between LDCs but it remains a dominant consideration for almost all countries within South and Southeast Asia.

But equity considerations do not end with employment. The issue is much broader. How does one alter existing programs, and what new programs must be introduced in order to assure that rural development brings about a reduction in the range of inequality and improved the conditions of life of the rural poor? The search for practical strategies to reduce inequalities must be high on all agendas.⁴

Like Janus, the ancient Roman deity, we must bestow our attention in two opposite directions. The existing rural systems must become more efficient producers of food and employment while simultaneously the extent of poverty and inequality within them must be reduced. One link between these two lies in our third major problem area.

The lack of capacity for institutional change. To some 'the principal limits to sustained economic growth and accelerated development are political, social and institutional in character rather than physical' (Umali 1977). To others institutional constraints are important, although not overriding (World Bank 1975). Both radical analysts (Haque, Mehta, Rahman and Wignoraja 1975) and conservative international lending institutions (Asian Development Bank 1976 and 1978) concur that there are significant institutional constraints to rural development. What they differ on markedly is how pervasive these constraints are, and how they are to be changed.

⁴Cline (1975:359-96) has surveyed the literature. See also the papers delivered at the Ramon Magsaysay Award Foundation, Food Crisis Workshop, 7–9 February 1977.
To achieve effective institutional change rural development programs must focus upon the structural features of both production and distribution systems in the rural sector. How the production process is organized, that is access to land, irrigation, fertilizer, seeds, pesticides, credit, and the knowledge of how to utilize them effectively, determines how productivity gains from agriculture are distributed in the society. Equally important are the extent to which participation in relevant decision-making is broadly based, and the rural poor in particular are able to enforce accountability upon those who are the gate-keepers in the resource distribution process. Increasing access, participation and the ability to enforce accountability on behalf of the rural poor are the structural components of rural development-related institutional change. Technological contributions of the scientific disciplines to this problem continue to be necessary, but they are far from sufficient. To achieve this we require the resources of a vigorous problem-oriented applied social science effort in determining reasonable, acceptable strategies of intervention to alter the status quo.

Both academics and aid agencies, in their desire to assist the development process, have at times contributed to obfuscating the underlying problems of rural development. All too frequently LDC leaders have been persuaded to believe that if they can find and adopt the right strategy, innovation, or approach, then all of the difficult problems will somehow be resolved or rendered insignificant. The radical shifts in attention which have characterized much of the past development literature have been little more than a search for panaceas. But there are no panaceas. Anderson's comment is much to the point.

Governments have a tendency to look for the easy way out and the simple solution. In this they are generally fooled. There are no miracle varieties to solve problems. There is much hard work and planning necessary after superior varieties are produced if these are to be translated to production. Research and extension must be stimulated. The whole infrastructure must be

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5 See the papers delivered at the Workshop on Access, Development and Distributive Justice, Singapore, 31 July to 2 August 1976, sponsored by the Institute of Southeast Asian Studies and the International Legal Center, New York. See also Development and Change, 1975.
revamped. Hard work is the price for solving problems. There is no other way (Anderson n.d.:60).

The problem of rural development which confronts both the LDCs, and the donor agencies which seek to assist them, is how to enable the LDCs to become increasingly self-reliant, keeping in mind their comparative factor endowment advantages, in producing the goods and services which their populations require and in distributing them more fairly and evenly to their entire populations.

These issues are similar to those which confront developed nations. Trying to improve the conditions of life of a minority community in an urban ghetto in the USA or the UK is analogous to trying to reach the urban and rural poor in LDCs. There are significant differences to be sure, both in resources available and the magnitude and intractability of the problem. In both developed and developing countries planned intervention to alter the status quo is a political matter, a source of divisiveness and tension, which calls into play the basic skills of orderly conflict management on the part of national, regional and local leaders. These matters are not easily resolved. Thus, when we speak of rural development, we are in fact directing attention to the institutions which determine the nature of rural social, economic and political power. It is necessary that we see this as relevant as we proceed to design programs of rural development.

Rural development programs alter rural institutions and the processes which control their functioning. For what purposes and in which specific direction these changes are made must be made apparent if donor agencies are to assist recipient countries in successful rural development ventures. To obscure goals or avoid difficult questions is at best to risk being less effective than one might be and at worst to fail completely.

The nexus of concerns for increasing agricultural production, making the distribution of gains more egalitarian, and altering the institutional framework through which these efforts are to be carried out, are now seen by most LDC governments and donor agencies alike to imply that the principal task of rural development is to aid the rural poor. The important question is why the efforts of the past several decades have failed to bring about a significant reduction in the numbers of those living in extreme poverty within the rural areas.
Constraints to rural development

Rural development planning, to be effective, must concentrate upon the identification of the principal constraints which impede progress, and the determination of actions necessary to relax such constraints. The requisite action may involve the development of new knowledge, the alteration of existing policy, direct intervention in the rural system, or shifts in political goals and leadership styles. What is important in each instance is that there be a clear understanding of: (i) the effect of each constraint and the extent to which it can be relaxed; and (ii) the relationship of the program or project under consideration to such constraints. An assistance program which is not capable of relaxing the binding constraints in its area of activity is twice in error. First, it will waste resources and fail to achieve results. Second, it will raise hopes and expectations only to let them down again, contributing to cynicism and despair.

The categories of constraints identified here are technological, market-oriented, institutional, and political. One major limitation of past rural development activities is that these constraints were addressed separately, neglecting the fact that they are interrelated, and in many cases mutually reinforcing.

Technological

Developing countries could greatly increase their potential for both food production and employment by devoting more resources to research on adapting new varieties and developing new production techniques. As Arndt and Ruttan (1977:3) have noted: 'The capacity to develop technology consistent with physical and cultural endowments is the single most important variable accounting for differences in agricultural productivity among nations'. A major challenge lies in developing LDC capabilities for adaptive agricultural research in order to enable their national institutes to play the necessary role in generating and applying new production technology, under the specific ecological and socio-economic conditions in which it will be used (Boyce and Evenson 1975). Many LDCs lack the capacity to conduct such research on commodities of major importance to their economies. This constraint is best appreciated and least controversial, so that some limited progress has been made.
Market-oriented

(a) Price policy. Among the most frequently cited constraints to rural development are disincentives to expanded food production. These include governmental pricing policies, such as (i) domestic procurement at prices considerably below prevailing market prices, (ii) government-subsidized retail sale to the urban consumer, (iii) forced lagging of producer prices behind general inflation rates, (iv) the import of major commodities and subsidized sale to the urban consumer, and (v) excessive cost (inadequate subsidy) of inputs such as fertilizer and pesticides. These policies aim to provide cheap food primarily for the urban consumer and to capture revenue other than through direct taxation methods. They also act either directly or indirectly to depress prices received by rural producers, and consequently to reduce their incentive to increase production.\textsuperscript{6} They reflect the political leaders' dilemma in determining who gains and who loses, a point we will return to later.

(b) Taxation policies. In many LDCs taxation policies are inconsistent and at times counter-productive. They have emerged for a variety of reasons, at times owing to urgent revenue needs, at other times owing to the demands of important pressure groups. High levels of indirect commodity taxation and low rates of income and land taxes mean that the rural poor often pay a larger share of their income in taxes than the rural rich (World Bank 1975:30). Most LDCs have yet to

\textsuperscript{6}USAID, Draft Summary ... (1975) prepared by S.H. Butterfield, cited hereafter as USAID; and US General Accounting Office, Report ... by the Comptroller General ... (1975), cited hereafter as US Comptroller-General. I have drawn very heavily upon both of these papers for several parts of the discussion in the constraints section and at times have reproduced sections in the text of this chapter with only slight modifications. Nevertheless the overall structure and the particular arguments of the constraints section remain my responsibility. It has not been possible to determine the extent to which the USAID paper has actually been adopted by USAID as a guide for operating policy. The Comptroller-General's Report contains an interesting rebuttal section prepared by several of the major departments involved in aid programs. These are referred to below.
develop and implement fiscal policies relative to the rural sector which: (i) enable the government to capture a reasonable share of productivity gains, on a progressive basis, particularly where those gains are attributable to government programs such as irrigation and other infrastructure investments; and (ii) administer and enforce these measures in a stable fashion, avoiding fluctuation between harsh procurement programs in times of scarcity, and sharp drops in price supports in abundant times (US Comptroller-General 1975:13).

(c) Monetary and trade policies. In some developing countries governments have made food relatively cheap, discriminating against foreign exchange - earning food and agricultural exports. The sale of foodgrains received through commodity assistance programs has provided a short-run revenue gain, while perpetuating a long-term dependency on external assistance. In some countries these counterpart revenues have accounted for a sizeable proportion of the total annual resources available.

Overvalued exchange rates also act as a form of agricultural export taxation. When a country maintains a single exchange rate that overvalues domestic currency, the exporter is 'taxed', in that he receives less local currency than if the rate were more realistic, while importers are 'subsidized' by being able to purchase foreign goods below their real value (US Comptroller-General 1975:15).

The principal thrust of these three market-oriented constraints is that they decrease profit and hence the incentive to the producer to increase his production. Taken together they combine to frustrate a 'get the prices right strategy'. This line of criticism is relatively insensitive to equity considerations. It relies upon an indirect 'trickle-down' effect to assist the rural poverty groups who lack effective access to (or control over) the factors of production which would enable them to benefit from more favourable factor pricing. Nevertheless these are important policy constraints to all those in the rural sector at or above the level of the viable smallholder.

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7Apart from providing expert assistance in the field of public finance, which is frequently of limited value in the face of strong internal political considerations, a contribution of donor countries may lie in more enlightened commodity assistance programs (Lipton 1977).
The nature of commodity assistance programs and the impact which the different manner of such programs have upon price policy, for example, requires careful consideration lest the long-run impact of such aid be counter-productive to recipient LDC and donor goals. 8

Institutional

A longer-term perspective stresses government intervention to alter the institutional constraints in the rural system which inhibit opportunities for access to and participation in the production process, the more equitable sharing of gains, and the improvement of the conditions and quality of life of those living in the rural area. Even the most optimistic analysts acknowledge that the most difficult task in rural development is to involve an increasing proportion of the landless, unemployed, poverty groups in productive work and to ensure that they benefit reasonably from their efforts. Greatly oversimplifying, by reducing market constraints we seek to make the existing systems operate more efficiently, whereas by reducing institutional constraints we seek to change the nature of the system itself and make it operate more equitably. The second is far more difficult to achieve than the first. For those who would like to see a more complete discussion of these difficulties, I commend an insightful, if depressing, essay by Martin Rein (1976: 171-209) who has been an important contributor to the development of poverty-oriented policies for urban development in the USA and the UK.

(a) Inadequate extension, credit and input delivery. Research on new technology is of little value if extension services fail to disseminate the results to the farmers.

8Insufficient attention has been paid to the role which developed countries could play in helping to overcome agricultural pricing policy problems in developing countries. Foreign aid donors could play a valuable role by helping to finance a phased adjustment in urban food prices over several years, both to avoid sharp short-term income effects from higher prices, and to cover the period between the undertaking of farm level price increases and investment-institutional development programs to lower production costs and the actual achievement of increased and cheaper food-grain supplies (Brown 1976:30-1).
Extension services in many countries are generally inadequate, particularly for the small farmer. There are frequently too few extension workers, they are generally poorly trained and paid, and lack support facilities.

Credit requirements for the new, more productive technologies and the inadequate delivery systems for seeds, fertilizers, pesticides, irrigation, implements and machinery are constraints to increased agricultural production. Without access to credit, small farmers in particular have little opportunity to purchase the costly inputs necessary to increase production significantly. Even though credit can remove a financial constraint to increasing the productivity of small farmers, the efficient use of credit depends on such other factors as the timely availability of inputs and an effective post-harvest processing and marketing system.

What is lacking is an integrated agricultural system which is particularly responsive to the needs of the small farmers who are least capable of functioning in an independent, self-reliant fashion.9

(b) Land reform. The institutional change most frequently suggested in LDCs is land reform. In many developing countries, the existing land tenure system leaves the cultivator with only a small fraction of the benefits stemming from increased investment or labour. Land reforms dealing with both ownership and tenancy have been carried out in a number of Asian countries. Success (Japan and Taiwan), mixed results or varying degrees of failure (most of South Asia and more recently the Philippines) have been widely studied and documented. The overall record is not encouraging.10

9For a most useful discussion of the attempts to develop such institutions in Indonesia, Malaysia, Thailand and the Philippines see Palmer 1976.

10The standard literature on land reform is reasonably well known and will not be cited here. What is of interest are the newer reconsiderations of data and experience concerning various experiments with 'group farming'. The results of a seminar on group farming jointly sponsored by the ADC Research and Training Network and the Land Tenure Centre, University of Wisconsin, will shortly be published by the University of Wisconsin Press, edited by Peter Dorner. A second seminar focusing on group farming experiences in Asia, organized by the ADC Regional Research and Training Program is scheduled for August 1977.
The most formidable obstacle to land reform is the resistance of land owners who naturally oppose land reform legislation. They can and do delay the execution of land reform laws once they are passed. To the extent that existing regimes within the region derive a significant proportion of their political support from the land-owning classes, any effective alteration of the currently operating systems of land ownership, tenancy, and share cropping arrangements by itself will be difficult and unlikely. In a sense the failure of land reform in some countries raises basic questions about the ability to deal with institutional change in a piecemeal fashion.

(c) The rural social system. The problem of changing institutional constraints to foster rural development is, however, much broader than extension, credit and input delivery, and land reform. In many cases the pervasive constraints lie in the rural social system. The failure of specific institutions to operate effectively, and respond in particular to the needs of the rural poor, can often be traced to both the institutions and the society in which they operate. A 1976 ESCAP/FAO/ILO meeting on strengthening rural institutions serving small farmers put the matter as follows:

Even though [rural institutions] were intended to serve a wider target group, including small farmers, tenant farmers and the landless, it was evident that in general, the rural poor did not participate in the operations of those institutions, did not have access to the services and benefits which they delivered, and were unable to hold those institutions accountable for their failure to serve them ...

That meeting went on to urge serious consideration to the following strategies for developing rural institutions appropriate to the needs of the rural poor:

(a) The creation or promotion of appropriate institutions [and] organizations with the specific aim of treating preferentially the special needs of the rural poor in extension, credit, marketing, input delivery, opportunities for productive employment, etc;

(b) Enhancement of the capability of the rural poor to organize themselves for the more effective representation of their interests,
to promote their economic viability and to ensure the accountability of the institutions designed to serve them;

(c) The positive intervention of Government to assist the rural poor in identifying and articulating their needs more effectively, in gaining access to the agencies designed to serve them, in redressing their legitimate grievances and achieving their legitimate rights to participation in rural development;

(d) Education of national and local elite and the privileged sectors of rural society towards a system of values, norms and behaviour which recognizes the imperative of strategies of rural development based on equity, growth and social justice;

(e) Orientation of the system of incentives and rewards of government personnel to ensure that they serve the rural poor effectively, and to enhance their commitment to that goal (ESCAP 1976).

To identify these institutional constraints which deal with the distributional aspects of rural development leads to questions regarding national level political capacity and goals.

**Political**

Political constraints assume primary importance as we consider the distributional implications of rural development policy. In the past, as analysts have focused simply upon technology policy, or market-oriented economic policy, in which the main objective is increased agricultural production, they neglected to give adequate attention to political constraints. Attempts to alter institutions which impede development immediately bring one into direct contact with issues of national political goals and capacity. Just as there are technological constraints to agricultural production so also are there political constraints upon national level decision-making and action. They are far more problematic and difficult to relax.

(a) Risk averse political behaviour. Rural development is a high risk venture. It involves high stakes, demands
considerable investment, and requires recurring expenditures. Once the rural areas become the focus of attention, it is politically dangerous for the central government to reduce its level of support for their continued development. Most LDC leaders are averse to the risks and uncertainties involved, particularly where it means following development strategies other than those which have proven successful in industrialized nations. They continue to allocate maximum resources to the modern sector, on the assumption that such investments will generate the additional resources needed to develop the traditional sector at a later date. Frequently it is not really a 'trickle-down' approach, but rather a calculated risk based on estimates of the level of tolerance of the rural poor (USAID 1975:1-6).

(b) The importance of short-term gains. Political leaders feel the need for quick results. But rural development frequently involves long-term investments in physical and social infrastructure. The changes sought are slow in coming about. The dilemma is that the absence of short-run gains which lead to increases in support in the rural sector, particularly among the rural poor, fails to compensate leaders for the predictable loss of support in the urban sector. Consequently LDC leaders are reluctant to initiate a major shift in resources away from the urban-industrial sector.

(c) Uncertainties in the rural balance of power. Rural development involves a devolution of decision-making and is likely to alter the power of traditional leadership at all levels. These shifts could affect the political life of the country in a lasting way. Once within the political arena, the rural poor will resist efforts to dislodge them. Thereafter no political party or interest can afford not to reckon with them. In the long run the participation of the rural poor in national political life will strengthen the political system. But in the short run there are considerable uncertainties for national leaders. Thus it is not simply a matter of a shift from a pro-urban bias to a pro-rural bias as Lipton (1977) suggests. For the LDC leader it raises the question of whether an increasing emphasis on the rural sector should for the sake of political expediency be focused upon the rural well-to-do, or alternatively upon the rural poor.

(d) Bureaucratic ineffectiveness and non-accountability. Once political leaders have committed themselves and their countries to rural development, they are confronted with
programs which arouse expectations, but frequently do not produce results. Their ability to improve program performance is frequently limited by a conservative bureaucracy resistant to change, and unresponsive to the rural poor in particular who lack the means to hold these bureaucracies accountable for ineffective behaviour. Much has been said about the failure to implement rural development. One of the most cogent statements is by Chambers in an important study of experience in East Africa. In answering the questions 'What impedes implementation?' and 'How could implementation be improved?', Chambers notes a series of problems which appear especially prevalent and damaging at the lower levels of rural management. In their more pathological forms these are authoritarian management, wasteful meetings, excessive reports, departmentalism, top-down targetry, inadequate resources, and ineffective work programming (Chambers 1974: 37-8).

The problems confronted by LDC leaders in seeking to avoid risks involved in rural development, in coping with extremely complex and potentially rapid shifts in political power, and in facing up to the significant challenge of the reform of rural development administration, all raise questions about the capacity of LDC leaders to bring these changes about. In recognizing these political constraints the problem before donor agencies is how, if at all, they should or indeed can seek to contribute constructively to minimizing the negative effects of these constraints upon rural development.

It must be remembered, first, that while incentives through market forces are necessary, they are not sufficient to increase output. Where there is no new technology to be adopted, or where institutional constraints are binding, incentives alone can do little to increase production (US Comptroller-General 1975:110-1). Incentives play a role in encouraging farmers to take advantage of profitable production opportunities. But they cannot, in themselves, create the production potential.

Second, policy-making must always be responsive to various objectives. The simple dictum 'more incentives are always preferable' is not enough. Food prices are a good example. Higher food prices provide more incentives to producers. But what about the poor? Higher food prices hurt poor people, a trade-off that cannot be ignored politically by policy-makers in LDCs. What is needed are
adequate production incentives which, in turn, benefit consumers through larger supplies and reasonable prices of basic foods.

Third, the constraints to development discussed above are embedded in a matrix of competing political forces within every society. Altering such things as prices, taxes, tariffs or exchange rates alters the balance between those who gain and those who lose, and consequently modifies the distribution of power within the society among the competing groups. Any government which seeks to alter its policy on these matters must carefully assess the trade-offs involved. Donors cannot ignore such policy consideration when seeking to proffer solutions in the form of programs and projects.

Finally, if they are to survive, LDC governments have to be concerned with both production and equity. This implies a rejection of earlier 'trickle-down' strategies. The view that the key to the development process is the transfer of capital from large traditional agricultural sectors to small but growing industrial sectors has given way to agricultural and rural development policies which stress the need for a dual strategy reflecting both growth and equity. The joint stress on growth and equity also is necessary in view of the extreme difficulty in trying to implement redistributive policies in the absence of productivity gains.

Do we know how?

There is an assumption which runs through much of the rural development literature that has remained largely unchallenged, with few exceptions such as that of Paddock and Paddock (1973). It is, simply put, that we do know how to bring about the types of social, economic and political changes associated with rural development. After several decades of experience, much of it ill-digested, how certain is our knowledge? How confident should we be about our ability to design and implement programs and projects which will remove the existing constraints to rural development and improve the conditions of life in rural areas, particularly for those living in abject poverty?

The agricultural sciences can specify the optimum amount of water, fertilizer and pesticides required for a given variety of seed, in a particular soil type and environment, and attach reasonably precise probability figures to a likely range of yields. But as we move away from the subject matter
of the agricultural sciences, and into the social sciences, particularly those other than economics, our knowledge becomes far less certain.

In how many cases are we able to specify interventions aimed at altering a set of institutional and behavioural conditions, within a specific geographic and cultural location, and make a realistic assessment of the set of outcomes related to a particular policy choice? There are wide gaps in our understanding. These gaps affect the degree of certainty with which proposed actions can be specified. *Ad hoc* intuitive criteria continue to dominate most areas of social development policy. They involve the expenditure of large sums, influence the fate of millions, and entail high risks generating discontent.

We lack effective methodologies for evaluating ongoing rural development programs. Evaluation systems are only now being developed and often lack the capacity to assess the types of social benefits most directly related to the problems of poverty (Fox n.d.). In her excellent introduction to evaluation research, Carol Weiss captures the interplay between design, implementation, and evaluation problems in poverty-oriented programs within the USA. She stresses the urgent need for knowledge where planned social intervention is involved.

Social intervention is plagued with a series of important (but not necessarily insurmountable) shortcomings. One is the state of social science knowledge. Programs based on intuitive wisdom and extrapolations from past experiences are not good enough. Important theoretical and research contributions are due. Even with the present state of knowledge, programs do not put into practice all that is known. Most programs are born with roots in existing agencies, traditional professions, established procedural arrangements. Rather than innovative programming, there is tinkering with the mixture as before. Moreover, programs are often poorly managed. There has been insufficient attention in many fields to developing the kinds of administrative skills that lead to optimal use of time and talent. The structure of programs, too, has often been deficient. Fragmentary projects are created to deal with broad-spectrum problems. Each program
tackles one facet of a complex, interrelated issue, not only uncoordinated with complementary efforts but often competing and jockeying for power and prestige ...

Much remains to be done to improve social programming. Many moderate, piecemeal, cheap solutions have been tried, and evaluation research has found them wanting. If we take evaluation results seriously, we will have to embark on more fundamental social experimentation. Social institutions will have to take greater risks in the search for effective programs (Weiss 1972:128).

The absence of effective communication and exchange of knowledge between those conducting poverty-oriented research and action programs in developed countries such as the USA and the UK and their counterparts in LDCs concerned with rural development is unfortunate, since the problems of the poor in both settings bear marked similarities.

**The role of donors**

Discussions of the intentions of donors are relatively rare. This is unfortunate. A clarity of purpose should exist and inform the actions and expectations of both donors and recipients alike. Where public awareness of these intentions is absent or where attempts are made to proffer the inconsequential in place of the significant, self-delusion and disillusionment rapidly ensue. The donors' role in rural development frequently is supported by at least three sets of justifications.

The first and most frequently stressed reason is humanitarian. It is widely used to evoke broad-based public support within donor countries, by presenting aid as a disinterested national act of compassion to those in dire need. Such motives are to be commended. But within recipient countries, continued stress on humanitarian purposes by donors gives rise to what might be termed the 'anti-begging bowl response'. In effect LDCs feel obliged to square national dignity with seeming perpetual dependence upon external assistance. It is a delicate matter, with substantial counter-productive potential, particularly when applied to rural development assistance.
The second reason given for assistance is economic. An economically strengthened recipient country can potentially be a vigorous and active trading partner with the donor country across a range of commodities: indeed most people would agree that if aid can be said to have a logical evolutionary form, it should be in the growth of trade relationships. But the snail's pace at which the UNCTAD discussions have progressed, and the acrimonious debate in the inappropriately named North-South Dialogues have led many critics of aid to give greater weight to other more specific economic reasons for aid. These include (i) developing sources for the purchase of raw materials required by donor country industries; (ii) developing markets for the sale of donor country manufactured goods; and (iii) creating conditions for the disposal of agricultural surpluses created within donor countries. A comparable set of risks attend the interpretation of intent here as well.

The third set of reasons lie in the realm of international relations and diplomacy. Economic development is widely believed to contribute to national stability in LDCs and assistance is therefore seen as the contribution to a stable international order. Closely related is the potential of aid to contribute to friendly regimes, wherein goodwill accrues to the donor. Past evidence suggests that little weight should be given to this by donors. Other uses of assistance in the area of international relations and diplomacy (or the withholding of assistance such as in the case of the Allende regime in Chile) are well known, and need no further elaboration.

In whatever combination of humanitarian, economic and diplomatic reasons aid may be given by the donor, aid has an impact upon the internal political system of the recipient country (Haq 1976:76). Humanitarian, economic and diplomatic motives merge. The sophistry whereby aid which is in support of (or which otherwise does not disrupt) the status quo in a country is seen as 'non-political', while aid which seeks to support alterations of the status quo is seen as 'political intervention', is at best self-deluding and intellectually misleading. No donor, not even the World Bank, has unlimited resources. A finite quantity of assistance reaches and benefits a limited number of people and thus plays a part in shaping the systems of production and distribution within a country - a directly political act. This very important point must be clearly recognized, and a particular assistance program assessed in this light. Their clear realization of
these considerations lie beyond many of the otherwise inexplicable decisions and actions of recipient countries. Thus a critical set of choices for a donor committed to the support of a poverty oriented strategy of rural development, involve identifying programs and projects mutually acceptable to both recipient and donor.

But who will be the beneficiaries from a change in the status quo? The donor needs to assess this question explicitly and to be ever mindful of the fact that the ultimate purpose of development is an improvement in the human condition, in the lives of people. Both a new system of basic rural education and a hydro-electric dam have an impact upon people, though the nature of that impact will vary considerably. The resources used in one project must also be assessed in terms of foregone opportunities in other areas. Therefore a clarity of purpose is essential for the donor.

The emergence of poverty-oriented strategies of rural development make recognition of its political potential imperative, and the role of giving assistance more complex. Poverty, both urban and rural, has both absolute as well as relative dimensions. To bring the conditions of living of a subset of the rural population up to some minimum acceptable threshold of income, nutrition, health or whatever also implies an alteration in their relationship to the remainder of society - a change in the system of social stratification and power. The challenges to the donor in participating in this process are substantial, and clearly will vary markedly across countries and regimes.

The past history of rural development programs suggests pitfalls for the donor. In discussions with a cautious, conservative LDC leadership 'technical experts' have been known to 'oversell' possible programs, often assisted in this task by interested internal ministries or departments. The danger here lies in the promotion of a panacea, a cure-all which if adopted will supposedly make all other hard choices unnecessary. As one rural development analyst has noted: 'The most serious criticism ... of the modern [seed] varieties is that for at least a generation most Governments felt the green revolution would solve all their rural development problems and it consequently discouraged ... [the initiation of other] programs to help the poorest villagers' (Collier 1977). The history of rural development programs is replete with these single factor solutions which held out a promise of avoiding difficult and unpleasant
choices. At present it is now fashionable to 'sell' all manner of programs on the basis of their ability to alter income distribution and aid 'the poorest of the poor'. Our knowledge of what to do in a given situation is at best imperfect. More often than not, as noted earlier, we do not know how to help the poor.

A second problem arises from the practice of 'pushing money'. Most forms of development assistance are complicated and laborious, but rural development is particularly so. It requires long-term adaptive agricultural research, the creation of new institutions, and the alteration of individual and group values and behaviour - all of which are time-consuming and subject to alternating periods of action and inaction. But LDC ministries and donor country aid agencies operate on fixed annual budget cycles, where the failure to use appropriations can result in their subsequent reduction. The consequences of 'pushing money' for poverty-oriented rural development programs can be most unfortunate.

Standard AID or LDC pressures to move money smoothly and within predetermined and relatively short time periods can be expected to result in project goal displacement toward more easily achieved results, generally moving from the non-participating rural poor up the income scale to those who have a high absorptive capacity already and who often can proceed effectively without many elements of the AID-supported program (USAID 1965:21).

A third problem which limits the effectiveness of aid agencies in contributing to poverty-oriented rural development arises from practices which they themselves have adopted of using narrow economic growth criteria for project selection, design and evaluation (Dorner 1975:63-4). Aid given on the basis of these criteria usually works counter to the needs of the mass of the people at the bottom of the present income distribution pyramid. Such practices should be abandoned. In calculations determining project selection the benefits accruing to the poor should be weighted more heavily, and 'social benefits' should be more effectively assessed.

What is to be done?

Given the problems which confront aid donors, and the
pitfalls which beset assistance to poverty-oriented rural development programs in particular, what role should national aid programs seek to play in the next decade or longer?

The provision of bilateral assistance programs (one of the 'classic' roles directly played by national donors in the past) is likely to be less feasible in the coming decade. Large-scale capital assistance will increasingly be provided through the World Bank, the regional development banks such as the ADB, and perhaps the capital assistance programs of the OPEC nations. Individual nations will continue to gain a seat at the decision-making table through their participation in various country consortia, and in multilateral agencies such as the CGIAR.

Providing operating personnel, the second classic role of donors, is likely to decline within the several LDCs in Asia in the coming decade, as the supply of trained professionals available within these countries increases. In addition, the emphasis upon 'indigenous solutions' and 'appropriate technology' will contribute to a decrease in demand for those whose experience is derived exclusively from developed country situations.

There are, however, several roles which bilateral donors will be increasingly called upon to play. These involve both new activities as well as adaptations in earlier patterns of support. The first of these is support for the development of local professional competence within LDCs to address the complex problems of rural development. LDCs are placing increasing stress upon self-reliance in government agencies, research institutes and training institutions (including but not limited to tertiary level institutions). There will be more questioning of the appropriateness to the LDC's problems of donor agencies' home country training programs. As a consequence, sustained efforts at building institutions within the LDCs will be required. Countries such as India and the Philippines are at one end of the institutional development spectrum, while Nepal and Indonesia are at the other end. In a number of cases, however, such an effort will have to extend over several decades, so that the need for innovative training programs within the institutions of DCs will not yet be reduced. Aid agency support for such programs is likely to be required for quite some time.
The search for new knowledge is the second area of rural development assistance within which bilateral aid programs can extend support. Donor support for experimental programs aimed at improving the capacity to carry out poverty-oriented rural development programs is especially needed. The difficulties encountered by rural development programs in the past decades have underscored the inappropriateness of models drawn from the experience of the developed western nations. As the expertise within LDCs increases, a useful mode of assistance will be the joint effort of LDC and DC specialists in 'co-operative problem solving' in the design of programs and projects. This is already taking place, and in a number of cases with good effect. But it is far too limited in extent. The institutional location (whether in a DC or LDC) will vary depending upon the nature of problems addressed, and whether proximity to an 'action setting' is necessary. The objectives are both the generation of new knowledge and the reinforcement of LDC professional capacity.

In order to discharge effectively these training and knowledge building roles, the donor country must have access to a body of expertise within its own country, willing and able to devote long-term career patterns to such goals. In some countries, such as the USA, that pool of available expertise is rapidly declining owing to other unrelated changes, but a considerable resource continues to be available. In other countries, a task for their donor agencies will be to devise the means to enlarge such a pool of expertise and improve the institutional relationships required to sustain it (Hardaker 1977).

Conclusion

The role of bilateral assistance for rural development suggested here stresses the importance of recognizing its fundamentally political nature. It emphasises the integrated nature of rural development activity and the need to recognize the linkages between technological, market-oriented, institutional and political constraints. It stresses the importance of their joint consideration in both research and program development, if the goals of growth and equity are to be tackled effectively. Further it places primary emphasis upon assisting LDCs to become more self-reliant, through enabling them to develop the necessary professional competence, institutions and knowledge so that they can direct their own programs of planned social, economic and political change successfully.
There is one final caution to be uttered. As Haq has pointed out, while few LDC leaders can afford not to pay at least some lip service to programs which make a direct attack upon poverty, still the restructuring of political and economic power which is necessary for such a program has hardly begun in most developing countries. He goes on to remind donors that they risk disappointment:

The most ardent supporters of poverty alleviation programs at present are generally the aid-giving agencies, but, with the best will in the world, their role in fashioning and implementing new development strategies can only be marginal and not very decisive (1976:10).
Chapter 9

Forms of aid: aid to the rural sector

R.T. Shand

Rural aid programs, these days, are expected to blend in closely as components of national rural development programs of less developed countries, and attention of donors and recipients is concentrated on the appropriate selection of these components, and on the problems of effective implementation. Despite the accumulated experience of aid over the past quarter century and more, achievements have been scarcely satisfactory. In this survey it is argued that there are, amongst others, two major reasons for the short-comings of aid performance: first, that objectives of rural development are seldom spelled out in a form definite enough to provide a basis for detailed policy formulation, and second, that it is only rarely that the strategy options for rural development available to the policy-maker to achieve these objectives are clearly set out and evaluated.

The problems of identifying objectives and determining priorities is admittedly difficult. Objectives vary from country to country and may change over time, but it can be argued that closer specification than now occurs is possible and necessary. It might also be argued that the range of conditions within rural sectors of the Third World is so great as to deny the possibility of a simple classification of strategy options for the development process and the feasibility of comparing these alternatives. The reverse is contended here: that in fact there are only a limited number of combinations of broad strategy options available for the development of rural sectors, that these are amenable to a useful degree of quantitative evaluation to assist the process of choice, and that these strategies and evaluation procedures are basic to an understanding of possibilities for aid to the rural sector.

This study attempts to identify and explore these strategies and their implications for aid programs. It will
seek to identify their key characteristics and components, relate them to the various objectives of development policy, consider their suitability for aid programs and projects and examine their contribution in recent years in Australia's project aid expenditures.

Objectives and rural development

For most of the period since World War II, rural policy-makers have been almost exclusively concerned with growth or growth-related objectives. Spurred by high population growth rates and the desire for higher living standards, there was a strong drive for maximizing the rate of growth of sectoral output and income, often with only superficial consideration of the spread of benefits within the sector. Given the shortage of foreign exchange prevalent in this period, alternative policies were also evaluated and judged in terms of their likely impact on the balance of payments through export expansion or import substitution. The planners' approach to the rural sector tended to be sectoral and aggregate. From the viewpoint of aid, this preoccupation with growth implied a simple process for evaluation of alternatives. Discussion thus centred not on what was to be achieved but rather how best to achieve it and on the limits to and constraints on effective rural aid programs. Dispute was concentrated on questions such as the relative merits of multilateral and bilateral mechanisms, commodity versus financial assistance, the appropriate mix of finance, technology and training, and whether program or project aid was preferable.

Retzlaff observes in another contribution to this monograph (p.168) that experimentation with a variety of strategies, programs and projects has not produced 'the desired comprehensive transformation of the rural sector'. Two comments are worth making on this failure. First, development planners in a great many less developed countries, particularly in the early years after World War II, did not give a high priority to the rural sector. Second, even when and where they did, it was often nominal only. Thus, under development policies that promoted the rural sector as a source of capital and cheap labour, of low cost raw materials for industry and final products for the urban consumer,¹

¹Michael Lipton (1977) argues forcefully that resource allocation in less developed countries is urban biased, reflecting the power, articulateness and organization of urban interests.
conditions were simply not conducive to high returns from rural aid expenditures. In recent years two important shifts in policy emphasis have taken place among planners. First, greater emphasis has been given to the role of the rural sector in overall development planning. This was born partly of disappointment with the industrial, urban-based, lead sector approach, partly of recognition of the necessity to attend to the most pressing problems of rural poverty and unemployment, and partly of optimism that the sector is in fact capable of achieving a fast growth rate, which if broadly based and sustained can stimulate faster growth rates for the economy as a whole. This has created a more favourable climate of policy for the rural sector and thus for aid programs as well.

Second, the objectives of rural policy have broadened. To the original sectoral growth rate/balance of payments orientation have been added goals of greater distributive justice in rural incomes and of rural employment generation. There is also a greater awareness that past policies have bestowed benefits of growth unevenly within the rural sector and have frequently widened the various regional, occupational or farm size group gaps in living standards. Whilst this broader interpretation of objectives of rural development is welcome, it makes the task of achievement more complex. Difficulties are apparent in determining acceptable definitions of the new aims and in establishing priorities among them. Definition has been particularly elusive for the objective of an equitable distribution of rural incomes. Is greater equality to be achieved by redistributive measures, for example, by land reform, or only through policies that determine the distribution of year-to-year increments to rural income, or are both sets of measures to be used? Again, given that objectives other than high sectoral growth rates are to be satisfied, and that trade-offs are required, what level of sacrifice in the rate of growth is acceptable on these grounds and where will the sacrifices be made? It is only when such questions are resolved that realistic policies can be explicitly formulated both for the national effort and for the aid contribution.

It is clear though, that given this reorientation of objectives, there is a need to reassess the potential of available strategies to determine their potentialities in relation to these objectives.
Strategies of rural development

The range of types of rural development strategies available to a less developed country are determined, on one hand, by the local population/resource relationship, and on the other by direct or indirect market linkages with the materially and technologically advanced societies of the developed economies.

Trade exchanges between Western Europe on one hand and Asia, Americas, Africa and the Pacific on the other, were initially restricted to a few high value goods (spices, palm oil, etc. among agricultural products), but expanded as the pace of industrialization quickened in the course of the colonial period. Agricultural production for such exchange in the colonies became more organized to meet European demand. This was initially achieved in two ways: (i) through fuller employment of resources then available to indigenous communities; and (ii) through land settlement.

It was also during the colonial period that, in Western Europe, a third key process commenced - that of the application of scientific method to agricultural production through experimental research. These three processes, available as options in various combinations, provide the basic strategies for rural development in the Third World today. Precisely which are available as options to particular countries depends upon their natural resource endowments and upon the historical timing and nature of their linkages with the more advanced economies.

Various aspects of these linkages will be discussed below, but the one that requires special general mention is the consequence of contact upon the size and growth rate of population in Third World countries. Demographic factors, more than any other in recent years, have conditioned attitudes towards choice of development strategies. Given the magnitude of the problem of population pressure current and in prospect in South Asia, China and in Java, this is understandable, but it has served to divert attention from the fact that the range of strategy options for most developing countries is still wide and is determined not only by demographic considerations.

Strategy I: enlargement of the exchange economy

European explorers, traders and colonizers found the
outside world in widely varying conditions of material well-being and sophistication. At one extreme were the highly specialized occupational structures of South and East Asian communities producing a wide range of goods and services for subsistence and for trade within long established exchange networks. At the other were the subsistence-oriented economies of Africa, Southeast Asia and the Pacific in which production for exchange was of negligible or relatively minor significance. The important characteristic of the latter communities was the availability of unexploited resources, both of land and labour. Given an adequate stimulus or incentive, these reserves could be tapped. Individual producers raised total production either with additional output of one or more commodities produced traditionally (e.g. palm oil in West Africa) or introduced for the purpose (e.g. commercial rubber in Southeast Asia).

The crucial components of this strategy were (i) the selection of producer units with a capacity to respond to new economic incentives with production of a marketable surplus, (ii) selection of commodities and production technologies suited to the area concerned and with an export demand, and (iii) establishment of effective market linkage through creation of infrastructure and provision of appropriate transport, processing and marketing services, both for those commodities exported and those imported as incentive goods.2

In colonial times, this was never recognized formally as a development strategy. The initiative for encouraging such additional production was sometimes taken up for private gain by traders, sometimes for revenue purposes by colonial governments or for higher motives by some missionaries. It was apparently not until comparatively recently that governments assumed prime responsibility for planning rural development with substantial financial backing, so that it could be said to have emerged as a distinct strategy.

The extent to which colonial governments depended on this strategy varied greatly. For tropical Africa, Lord

2 The scope for production expansion of this type has been studied extensively at the theoretical and empirical levels in recent years in the Research School of Pacific Studies of the Australian National University (by Fisk, Shand and others) in relation to the Southeast Asian and Pacific regions; by G.K. Helleiner et al. in relation to Africa, and generally by H. Myint (1965) in his 'vent for surplus' model.
Hailey (1945) reviewed three alternative approaches used for resource development: ³ (i) in some areas progress seemed most likely to be achieved through large-scale land alienation to expatriate Europeans, for example in Kenya, Nyasaland and Northern Rhodesia; (ii) in cases where there was a large indigenous population (and/or the climate was unfavourable), output of local produce was best stimulated by efficient marketing by European entrepreneurs granted monopolies for the purpose. This was the pattern, for example, in French and Belgian equatorial territories, and most German colonies in Africa; (iii) in still other colonies economic considerations, and a policy of recognizing indigenous land rights, led to the encouragement of peasant production. It was, however, exceptional for primary emphasis to be placed on indigenous development, as it did occur in Burma, Ivory Coast, Ghana and other British West African colonies.

Even where expansion of peasant production was the dominant strategy, it was rarely applied in a manner that would maximize the rate of advance of smallholders, nor meet all their development needs. Where policies encouraged mixed strategies of encouraging both peasant and European development of resources, efforts often tended to be concentrated in and around European enclaves of land settlement, mining, etc. Resources for public investment were typically limited, particularly before World War II, and efforts to encourage peasant production tended to be concentrated where resource endowments were rich and the development potential promised a substantial marketable surplus. Further, public investment tended to flow to those areas which had a longer colonial history in which surpluses had already been built up. Remoteness, small populations, problems of access, low initial resource productivity, discouraged the colonial effort. For example, the small isolated island populations of the Western Pacific made Britain a reluctant and relatively late colonial power in that area (Scarr 1967). Exploitation of resources and encouragement of local development initiatives were poorly organized and financed and belated compared with areas in South and Southeast Asia which were more favourably located and endowed.

The historical process of market linkage was most uneven and selective. Thus although it can be said to have

³ Especially sections on 'The State and the Land'. See also Pim (1940:11-2).
commenced more than four centuries ago, it was still possible in the 1930s for explorers to penetrate a hitherto isolated area in the highlands of New Guinea with a population not far short of one million. New contacts are rare now and are with small communities. More relevant currently are the weaknesses of these past contacts, in terms of the limited nature of the infrastructure created. Whilst there are few communities now still totally isolated from the global market economy, for large numbers the linkage costs are high and the economic incentives for participation in it are correspondingly low.

With independence, national governments had to face the task of extending market linkages to areas and communities largely or wholly ignored in the colonial phase and of improving weak market linkages in order to raise the level of income incentives to disadvantaged areas or groups. This strategy still competes strongly for resources in most parts of the Third World, particularly in Africa. Even in India, a country relatively well served with transport and marketing infrastructure, there are still some hill areas and remote tribal communities with high cost market linkages. Many parts of the Outer Islands of Indonesia lack infrastructure of port facilities and rural main and feeder road systems. In Papua New Guinea, this strategy absorbed the majority of public investment funds allocated to the rural sector from the end of World War II until Independence. Expenditures since Independence show a prolongation of this strategy and indeed some expansion.

The potential contribution of this strategy of enlarging the exchange economy to national objectives of rural development relates to its impact on rural income growth and distribution through expansion of output and employment. In terms of output and income expansion, the impact depends upon the strength of the economic incentive provided through new and improved market linkages, the resources available to individual producers and the numbers of producers affected. The benefit/cost ratios for this strategy have been high at times with impressive expansion of output. This seems to be the case in the Papua New Guinea highlands. But equally there are many areas in which the benefit/cost ratio can be expected to be low for any of a number of reasons, for example where market linkages are with small isolated communities, where an expanding population is already pressing heavily on a limited resource base, and where the infrastructure costs of providing market access are high. This would be the case in many development programs for hill areas in Third
World countries. The *distributional* effects of this strategy are typically favourable in that they promote development in backward regions, notably among hill farmers and in tribal areas. Its impact on *employment*, however, is restricted. It leads principally to the greater utilization of existing on-farm labour resources, though some opportunities are created with the development of local transport and marketing facilities and trading opportunities.

Given the limited progress in infrastructure development made during the colonial period, and the typically restricted public revenues available after independence in most less developed countries, it is not surprising that this strategy has been of major importance in international programs of aid to the rural sector. It has been prominent multilaterally through the United Nations Development Program (UNDP), International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) loans for early-stage development. It has also been a feature of bilateral loan programs. Analysis of recent Australian aid shows that of total accumulated expenditures on projects that were on-going in 1977-78, it absorbed $A64 million or 54 per cent (Table 1). Of this, Southeast Asia received 90 per cent and the Pacific Islands 9 per cent. Indonesia alone was allocated about 40 per cent and another 26 per cent went to the Philippines. Important items were $14 million on road development (West Kalimantan Province) and $13 million on railway upgrading in Indonesia, and, in the Philippines, an integrated program of road and agricultural resource development ($13 million).

**Strategy II: extending the land frontier**

Historically, land settlement was the second source of growth of agricultural output during the colonial period. This strategy is made possible by the geographically uneven distribution of population and the opportunities thus created for exploitation of unutilized land. The distinction between Strategies I and II is that, in the former, the population is already located, while in the latter it has to move. The shift in population covers many forms, ranging from voluntary unassisted migration of communities or individuals to formal, government-organized settlement schemes.

In colonial times, the frontier was typically extended by expatriate private enterprise, using imported capital, technology, management and even labour, and was organized as
Table 1

Total Australian aid expenditure on on-going projects under Strategy I to 1977-78

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($A'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>30</td>
</tr>
<tr>
<td>Burma</td>
<td>2,405</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>289</td>
</tr>
<tr>
<td>Fiji</td>
<td>60</td>
</tr>
<tr>
<td>Gilbert Islands</td>
<td>313</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25,463</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4,615</td>
</tr>
<tr>
<td>New Hebrides</td>
<td>97</td>
</tr>
<tr>
<td>Pakistan</td>
<td>596</td>
</tr>
<tr>
<td>Philippines</td>
<td>16,302</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>1,092</td>
</tr>
<tr>
<td>Thailand</td>
<td>8,127</td>
</tr>
<tr>
<td>Tonga</td>
<td>27</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>100</td>
</tr>
<tr>
<td>W. Samoa</td>
<td>4,766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64,282</strong></td>
</tr>
</tbody>
</table>

Source: Australian Development Assistance Bureau (ADAB), 1978.

large-scale estate units. The role of the public sector was restricted to the provision of transport and marketing infrastructure such as port facilities, roads and railways. In many places even this involvement was limited and these enclaves of foreign enterprise were virtually self-sufficient.

Resettlement of smallholders was not generally a feature of agricultural policy in colonial times. There were instances of voluntary and large-scale migration and resettlement in some countries, for example in Burma (Richter 1969:144-6), but this was comparatively rare. Formal, government-sponsored settlement schemes were as uncommon, largely because colonial administrations did not have the finance for the heavy investments required. After independence, the extension of cultivation under the old estate system was unacceptable to

4 The Gezira scheme in the Anglo-Egyptian Sudan was a notable example.
many ex-colonies and in some the existing estates were expropriated or at least discouraged from expanding.

New national governments had, however, little or no experience in organizing settlement schemes based on smallholders. Consequently this land settlement strategy has been in a state of flux during the past two decades, as various alternatives have been tried out. Voluntary or partially assisted migration schemes were attractive to government for their relatively low cost in terms of public investment but many have generated neither a substantial flow of would-be settlers, nor a significant and sustained expansion of production in the settlement areas. At times these have been promoted with the purpose of relieving population pressures elsewhere. This can be successful where small numbers are involved but not where pressures are on a large scale, as for example in Java. Additionally, expected and actual incomes in settlement areas need to be substantially higher than those in home areas to counterbalance the private social and economic costs of migration.

For some perennial crops such as tea or oil palm there are substantial economies of scale, particularly in processing under existing technologies. The challenge has been to evolve production organization on a large scale with smallholder schemes that will retain these economies.5

There are some examples of schemes with large-scale processing units drawing their supplies solely from smallholder units. Some have been successful, such as the Kenya Tea Development (KTDA) settlements and the Malaysian Felda Schemes. Others have been troubled by problems of ensuring continuity of supplies for processing from smallholders. The 'nucleus estate' concept is an intermediary type designed to tackle this problem. In such schemes large-scale processing units are supplied both by an estate, usually

5Malaysia appears to have shown the most initiative of any country in experiments with public sector land development schemes. This commenced in 1955 with recommendations for a Federal Land Development Authority, and by 1970 there were 1,090 schemes on peninsular Malaysia. These ranged from Felda Schemes, planned by a specialized national agency, in which all development costs are fully financed by government, to Unsubsidized Schemes in which projects are financed almost entirely by participants. For an important analysis of these types see Lim Sow Ching, 1976.
expatriate-managed at least initially, that assures continuity of supply of a large proportion of total factory input, and by smallholders organized either on a settlement scheme, on a village or on a mixed basis. Depending on government policy and the severity of capital shortage, part or all of factory and estate operations may be financed locally or externally.

Formal settlement schemes are frequently criticized for requiring heavy expenditure on administration, extension and social services, and thus for being expensive in terms of capital investment per settler, and providing benefits only to a fortunate few. Whilst this cannot be denied, it is necessary to consider this strategy in the wider context of objectives since they can achieve a fast rate of growth of output and of exports. It may well be that the overall development program needs such a component, especially if other development programs that are being carried out have low yields in terms of additional output.

Formal land settlement schemes have quite commonly been assisted by aid agencies, in spite of misgivings about the capital costs per settler. Multilateral agencies such as IDA have financed many smallholder components of such schemes, one example being palm oil in Papua New Guinea. International assistance is also provided on a bilateral basis. For some crops with a high requirement of technical skills, especially in management and processing, expertise is transferred from ex-colonial powers with previous involvement in the crops. This ranges from short-term consultancy work to long-term involvement and partnership in the settlement schemes themselves. The Commonwealth Development Corporation (CDC) engages in such partnership, particularly in nucleus estate development. CDC makes a capital contribution towards a nucleus estate and for a factory unit, around which a smallholder settlement scheme is developed. The overall scheme receives the benefits of CDC's technical and managerial skills, though the extent to which this arrangement can be classified as aid varies with the type of agreement signed with the host government.

Land settlement schemes were never a feature of Papua New Guinea's programs for rural development. A few rather unsuccessful schemes were implemented after World War II, mainly for ex-servicemen. The Hoskins Oil Palm Scheme on West New Britain is a successful instance of a fully financed settlement of smallholders. Australia has allocated little aid for resettlement schemes. In 1976-77 it provided
assistance worth only $3.3 million to on-going projects (Table 2): a rice scheme in Fiji and others in Kenya and Sri Lanka. There seems no obvious reason why Australia should not become more heavily involved in land development schemes.

Table 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($A'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td>1,054</td>
</tr>
<tr>
<td>Kenya</td>
<td>1,344</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>867</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,265</strong></td>
</tr>
</tbody>
</table>

*Source: ADAB, 1978.*

Strategy III: increasing resource productivity

The process of expanding the exchange economy with marketed surpluses from production additional to customary subsistence levels of output has been responsible for considerable growth of total output and of per capita output and income, and many countries still have further prospects of this type. However, within a given production technology, this strategy has a restricted potential, set by the limits to which production units will devote time as labour to economic activities at the expense of other activities such as household tasks and leisure.

At this limit, increases in total output will then follow from increases in population, provided that the additional population can exploit new land. As long as the area under cultivation increases in this fashion labour remains the scarce resource. With low densities of population and rates of population, there is often a reasonable chance that total output may rise in parallel with population. With higher densities and rates of growth this opportunity diminishes and the shift in population has to be to more
distant locations. Such adjustments have of course seldom occurred either because the move was not made sufficiently attractive or because no land was in fact available. Either way higher population densities have led to the familiar declining average and marginal labour productivities. In the former cases the problem of population pressure is localized, as it is, for example, in Indonesia, and there are still at least two development strategies available: to facilitate migration and to raise resource productivity.

Once land becomes the scarce factor, increases in per capita output can only come from raising resource productivity. In these circumstances this can arise from technological innovations that raise output per unit of labour (largely through mechanization) or per unit of land (by higher yielding crop varieties or animal breeds). In Bangladesh, for example, the only strategy option available is to raise resource productivity by intensifying land use and raising yields, through irrigation and high yielding crop varieties, etc.

The strongest arguments for this third strategy arise from the universally accepted objective of higher living standards for larger populations and the fact that other strategies have only a limited capacity to contribute to this. Another source of stimulus is derived from the market - the prospect of stronger competition and lower prices for a commodity. The best illustration in recent times is that of Malaysia which after World War II anticipated strong competition for rubber from synthetics with lower costs of production. Research was initiated that led to the development of new high yielding varieties that were used to replace most estate and much smallholder rubber by the mid-1960s. This greatly reduced the cost of rubber production and enabled producers to absorb lower prices. It also increased output and so helped to avoid a major decline in export earnings from this, Malaysia's most important export industry (Fisk 1969:194-6).

Intensification of food crop production has traditionally been based upon the development of irrigation systems, to raise the number of crops per year or to reduce yield fluctuations due to climate. It is not surprising therefore that initial efforts to raise land productivity in labour surplus economies were made for irrigation areas that were thought to have the largest potential for productivity

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6 Land reform is discussed below.
increases. In food grains, research produced high yielding varieties requiring more water and a greater degree of control than was necessary for traditional varieties. They were highly responsive to chemical fertilizers but generally needed more protection against pests and diseases. The advances embodied in the new technologies that are evolving for crops and livestock industries in less developed countries represent a major new scientific involvement in research, large-scale participation of the public sector at all levels to facilitate participation by farmers, and closer industrial linkages with the rural sector.

The public sector, in particular, is required to:

(a) take a leading role in fostering national research programs for development of new technologies, which in turn necessitates heavy expenditures on education to generate the appropriate professional manpower at all levels;

(b) finance large-scale development of irrigation with construction of facilities ranging from large dams and canal systems to small-scale river lift schemes and tubewells;

(c) organize efficient delivery systems for inputs by creating or adapting institutional arrangements for timely and adequate supplies for the farmers. These range from information (the extension system) to material inputs (seed, fertilizers and plant protection materials and equipment) and finance (short- to long-term credit); and

(d) develop an effective planning and administrative system for implementing development programs that incorporate these new technologies.

Implementation of the other strategies required many of the same inputs from the public sector: public investment in infrastructure, research and extension systems and institutional arrangements for provision of credit. Demands on the public sector arising from this productivity-oriented strategy are, however, intensified and expanded in all areas. Sustained achievement of rising productivity requires a stream of innovations over time from a research system sensitive to problems at field level. The extension system must be capable of quickly and effectively transmitting a two-way flow of information between researchers and farmers.
New institutions have to be created and old ones adapted to these new demands. The introduction of high-yielding varieties of wheat and paddy led to the virtual creation of a seed replacement industry. It generated heavy demands for inputs of industrial origin that needed substantial adaptation on the part of institutional suppliers. New credit needs could not be met from existing institutional sources.

It is not surprising therefore that, in the face of these sudden and comprehensive new demands, there was less than adequate response, so that new opportunities arose for aid programs to assist the adjustment process. It is not possible here to list these exhaustively, but a few comments are offered on a key component, agricultural research. It was quickly recognized that few countries had inherited national organizations for agricultural research with the professional manpower or other resources to mount the programs of research required. Both international and domestic research institutions have been evolved to meet the problem. An expanding program of international research has been established on key agricultural commodities over the past two decades or more, in order to develop more productive technologies. Originally started for wheat by the Rockefeller Foundation in Mexico, it is now a network of research institutes that covers most of the crops of significance in global consumption patterns. This approach has had its successes and its problems. The problems centre largely on the difficulties of international transfer of technology. While for high yield varieties (HYVs) of wheat from Mexico there has been rapid and widespread adoption elsewhere, success in transferring HYVs of paddy from IRRI in the Philippines has been quite limited. Experience with paddy has, however, provided valuable guidance for future varietal research. This clearly has to be nationally based and has to take account of local conditions (agro-climatic, pest and disease, etc.). This has only served to strengthen support for the alternative approach to the research problem - that of building up domestic research capacities through training programs and institutional assistance, to enable less developed countries to meet these greater demands.

Critics of this productivity-raising strategy point to the fact that it has favoured areas, and groups within these areas, who are already well endowed with resources, and that it has therefore widened income disparities between regions and farm size groups. In so far as the new technology has been adopted, these criticisms have some justification
(PEO/ANU 1976), but it should be remembered that this is still an early stage in the evolution of these technologies. Considerable effort is now being applied to extend the sphere of influence of the new technology to a wider range of production conditions, for example to rainfed and flood prone areas. It must also be remembered that some groups, particularly small and marginal farmers, have been unable to enjoy the benefits of the new technology because the institutional setting for such things as credit on reasonable terms has yet to be adapted to meet their needs, rather than because of any limitations inherent to the technology. It is to be hoped that a broadening of the research effort and appropriate institutional change will extend the influence of this strategy.

Australia already contributes directly to this multinational research effort and to the international agencies which support the development of research systems, such as the IBRD. Considerable aid is also being given on a bilateral basis under the heading of this strategy. In 1977-78 for example $52.5 million was spent on such on-going items.\footnote{This does not include expenditures on new commitments that may have been made during 1976-77.} Analysis by type of assistance (Table 3) showed that the majority was allocated to assist the development of animal industries and about one-fifth was allocated for crop industries. A breakdown by destination (Table 4) indicates that 66 per cent was absorbed by those most dependent upon technological progress: Indonesia, India, Bangladesh and Pakistan. Other Southeast Asian countries (Malaysia and Thailand) received most of the remainder. Given Australia's experience in rural research, and the growing demand for technologically based development in rural industries, this would be a logical area of growth for Australian bilateral assistance both in terms of technical expertise and for local development.

**Strategy IV: institutional change?**

Institutions can be considered as established customs, practices and laws, or as organizations for promotion of a public objective. Both are relevant here. On the one hand differences in established institutions between communities provide an important explanation of observed variations in responses to strategies of rural development. On the other, they are important instruments for effective implementation.
of public policy.

Table 3

<table>
<thead>
<tr>
<th>Industry</th>
<th>Amount ($'000)</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal</td>
<td>31,088</td>
<td>59</td>
</tr>
<tr>
<td>Crop</td>
<td>8,371</td>
<td>16</td>
</tr>
<tr>
<td>Forestry</td>
<td>778</td>
<td>1</td>
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<tr>
<td>Fisheries</td>
<td>247</td>
<td>1</td>
</tr>
<tr>
<td>Unspecified</td>
<td>12,035</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: ADAB 1978.

Table 4

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($'000)</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>2,480</td>
<td>5</td>
</tr>
<tr>
<td>Bhutan</td>
<td>74</td>
<td>neg.</td>
</tr>
<tr>
<td>Burma</td>
<td>1,892</td>
<td>4</td>
</tr>
<tr>
<td>Fiji</td>
<td>1,243</td>
<td>2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>24,653</td>
<td>47</td>
</tr>
<tr>
<td>India</td>
<td>6,744</td>
<td>13</td>
</tr>
<tr>
<td>Korea</td>
<td>397</td>
<td>1</td>
</tr>
<tr>
<td>Laos</td>
<td>2,552</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5,816</td>
<td>11</td>
</tr>
<tr>
<td>Nepal</td>
<td>714</td>
<td>1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>573</td>
<td>1</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>389</td>
<td>1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>260</td>
<td>neg.</td>
</tr>
<tr>
<td>Thailand</td>
<td>2,505</td>
<td>5</td>
</tr>
<tr>
<td>Tonga</td>
<td>568</td>
<td>1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,569</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52,479</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: ADAB 1978.
The question of whether institutional change should be considered as a distinct development strategy revolves largely around the objectives of policy. To the extent that, say, distributive justice is concerned there is often a strong case for considering it separately, especially where severe inequalities in land ownership exist. Inequality may also have to be considered in relation to its effects on output growth, as for example in instances where land owned by large landholders lies idle. But often the argument for institutional change is not clear-cut one way or the other. This seems to be the case with land reform in India. On balance I find it more useful to regard institutional change, whether as reform or innovation, as an integral part of each of the three strategy options outlined above. Aid for institutional change is similarly considered as a component of each of the three strategies. This is not meant to diminish in any way the importance of institutional change, but rather to place it in a more dynamic context of economic development.

Choice of strategy

Up to this point, each strategy has been separately considered, but most countries are faced with the opportunity of using some or all of them and thus of deciding upon the relative emphasis to be placed on each. For example Indonesia faces the question of the relative weight to be placed on alternatives under Strategy III for Java, as against alternatives for the Outer Islands under the first two strategies. In Papua New Guinea there are regional alternatives of further development of market linkages in the highlands, land settlement opportunities on some of the smaller islands and of raising yields and production in longer established cash crop areas with sizeable population concentrations.

These strategies have been discussed as though they are discrete, as they are in many instances. It should be kept in mind, however, that they can be interrelated and combined. Thus technical advances that raise resource productivity in labour surplus areas, such as higher yielding paddy varieties, may also favourably alter economic prospects in settlement and even in remote areas. Again, the infrastructure created for smallholder settlement schemes may also benefit the existing population of the settlement area and stimulate them to produce a marketable surplus.
The pros and cons of each strategy were broadly set out in this paper in relation to the objectives of output growth, fairer distribution of income and employment creation. The classification of strategies does allow some scope for comparative assessment of these in quantitative terms, for example in benefit/cost analysis. Even though forecasting may be only in terms of rough orders of magnitudes, it should enable better ordering of alternative options and encourage better informed decision-making. It should also allow donor countries to gain a better appreciation of the likely nature and extent of the impact of aid programs and projects.
Chapter 10

Forms of aid: population control

Gavin W. Jones*

During the 25-year period 1950-75 a population industry was born, grew to significant proportions, and was labelled variously as essential to mankind's future, as showing promise, and as being a failure (Mauldin 1975:32).

'The population field' can be defined to cover a very broad area, since the growth and movement of population are basic factors in development and are influenced rather directly by a number of government agencies in most countries, including those responsible for health, education, manpower, city and regional planning and hardly less directly by those responsible for rural development, transportation and economic planning. Population policy has, indeed, even been defined so broadly as to cover all government policies which intentionally or unintentionally influence population variables. It would be hard to think of a policy which did not qualify. In the present context it is better to confine the discussion to policies designed to influence population growth and distribution. So far, relatively little international aid has gone into direct interventions in population distribution (although World Bank support for Indonesia's transmigration project is one example). Nor has the substantial investment in health and disease control since World War II been aimed at influencing population growth; rather, the rapid population growth which resulted was an

*A confession is in order. I have served time in the 'population establishment', working for nine years for the Population Council in a number of countries and more recently as Australian representative on two World Bank population evaluation missions. This may account for otherwise inexplicable prejudices in this survey.
unintended consequence of the success in meeting the goals of eradicating or controlling diseases and improving health.

Aid for population control: the past two decades

When we talk of aid in the population field we are talking primarily about aid for fertility control, which has normally been in the form of support for family planning programs. Such programs do not have a long history. The first was India's in 1952, but few countries followed suit before the 1960s, and it was not until the late 1960s that the major countries of Southeast Asia (Indonesia, 1968; the Philippines, 1970; and Thailand, 1970) initiated official family planning programs. By 1975, thirty-four developing countries had adopted an anti-natalist policy, and within their borders lived 77 per cent of the population of the developing world. An additional twenty-nine countries, with 15 per cent of the population, support family planning purely on health and welfare grounds. Only 8 per cent of the people in developing countries live under governments which do not support family planning at all.1 Most of these are in Africa and Latin America. In Asia, there is almost universal governmental support for family planning programs, not only in the non-communist countries but also in China and Vietnam.

Despite a lot of talk about maternal and child welfare and the freedom of couples to plan the size of their families, the key motivation for western (and, more recently, United Nations and World Bank) aid in the field of population has been a concern with rising rates of population growth in the developing countries and a sense of foreboding at the implications of projections, current in the 1960s, that the population of the developing world would double in thirty to thirty-five years, compared with a paltry 35 per cent growth during the same period in the populations of western nations.2 The forebodings stemmed from various sources: pure altruism directed at averting the disaster which many felt would befall the developing countries if such growth were allowed to occur; enlightened self-interest, which foresaw that in an

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1 For more details, see Nortman 1976.

2 It has since become clear that population growth in western nations is likely to be considerably less than this, and that population growth in developing countries may be less massive than was previously believed.
interdependent world any such disaster would also be visited on the western countries in the form of spin-offs of various kinds; the environmentalists' concern with ecological issues and resource limitations; and of course the muted but nevertheless real concern in many quarters that the political implications of population growth in the 'have-not' (and coincidentally, non-white) nations to a point where they could boast almost 80 per cent of the world's population by the end of the twentieth century would not be favourable to the 'have' (and coincidentally, mostly white) nations.

It is not possible to judge the relative strength of these assorted motivations in influencing the growth of aid in the field of population control. This aid has grown enormously from a modest beginning in the 1950s. In the past fifteen or so years, international assistance for population activities increased more than a hundredfold - from $US2 million in 1960 to over $US280 million in 1977.

There has been a marked shift in the relative importance of different aid donors since the early 1960s. Indeed, as recently as 1962, a private, American non-profit agency, the Population Council (itself funded largely by Ford, Rockefeller and the Scaife-Mellon family of Pittsburgh) was still contributing 50 per cent of the very modest sum of about $4.8 million allocated as international aid in the field of population in that year. The Swedish International Development Authority, which gave its first grant for family planning activities in 1958, was the only government assistance agency involved, followed by the United Kingdom and Norway in 1964. Private agencies carried the field until the mid-1960s, when the 'heavies' began to make their appearance - first, the United States Agency for International Development (USAID) in 1965, then the United Nations system in 1967 and the World Bank in 1969 (see Table 1). Since then, the most notable trend has been an increase in funds supplied by governments other than the USA, a substantial part of which is channelled through the United Nations system and the International Planned Parenthood Federation.

After its late start, United States aid for population control built up dramatically, and passed a total of a billion dollars in the years since 1965 or about 60 per cent of all international population assistance over that period. In the 1969-71 period, the time of sharpest increase, the pressure on USAID to spend the available funds was intense, the feeling being that funds left unspent would provide a
### Table 1

**Sources of funds for population control, 1965–76**

<table>
<thead>
<tr>
<th>Year</th>
<th>Foundations (Pop. Council, Ford, Rockefeller)</th>
<th>International Planned Parenthood Federation (IPPF)</th>
<th>USAID</th>
<th>World Bank</th>
<th>UNFPA</th>
<th>Sweden</th>
<th>Norway</th>
<th>Other countries (UK, Canada, Germany, etc.)</th>
<th>Total(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965–69</td>
<td>23</td>
<td>2.5</td>
<td>18.1</td>
<td>0.0</td>
<td>2.0</td>
<td>2.6</td>
<td>0.0</td>
<td>0.3</td>
<td>46</td>
</tr>
<tr>
<td>1970</td>
<td>35</td>
<td>10</td>
<td>74.6</td>
<td>0.0</td>
<td>4.0</td>
<td>6.5</td>
<td>1.0</td>
<td>8.7</td>
<td>136</td>
</tr>
<tr>
<td>1971</td>
<td>23</td>
<td>15</td>
<td>95.9</td>
<td>0.0</td>
<td>6.0</td>
<td>9.2</td>
<td>3.9</td>
<td>15.1</td>
<td>162</td>
</tr>
<tr>
<td>1972</td>
<td>25</td>
<td>26</td>
<td>123.3</td>
<td>0.1</td>
<td>12.5</td>
<td>12.7</td>
<td>5.5</td>
<td>23.0</td>
<td>215</td>
</tr>
<tr>
<td>1973</td>
<td>23</td>
<td>30</td>
<td>125.6</td>
<td>0.5</td>
<td>26.6</td>
<td>13.7</td>
<td>12.5</td>
<td>29.7</td>
<td>235</td>
</tr>
<tr>
<td>1974</td>
<td>25</td>
<td>35</td>
<td>112.4</td>
<td>2.6</td>
<td>46.1</td>
<td>18.3</td>
<td>12.7</td>
<td>30.4</td>
<td>234</td>
</tr>
<tr>
<td>1975</td>
<td>22</td>
<td>42.6</td>
<td>110.0</td>
<td>10.3</td>
<td>68.7</td>
<td>29.4</td>
<td>13.6</td>
<td>38.5</td>
<td>256</td>
</tr>
<tr>
<td>1976</td>
<td>20</td>
<td>45.2</td>
<td>135.2</td>
<td>n.a.</td>
<td>87.0</td>
<td>32.0</td>
<td>23.1</td>
<td>28.2(^b)</td>
<td>284(^b)</td>
</tr>
</tbody>
</table>

\(^a\) Total is for major sources of funds, i.e. it excludes the World Bank and UNFPA because their population funds are entirely supplied by member countries whose total funds for population are listed elsewhere in the table. However, some foundations and the IPPF receive part of their funds directly from governments and to the extent that this is so, the 'Total' column is an overestimate.

\(^b\) Incomplete - no data for some countries.

**Source:** George Washington University Medical Center 1977a; miscellaneous other sources.

Figures are for actual disbursements rather than commitments. The difference is sometimes great. For example, in 1974 the World Bank committed $82.6 million but only disbursed $2.6 million.
poor basis for seeking continuing large or larger appropriations in later years when the level of support in Congress for family planning programs might not be as strong. In those years, there was really an inflation of family planning support - 'too much money chasing too few viable family planning programs'. The result was some excesses. Not that the total level of financial support for family planning programs was ever as great as is commonly imagined. It constituted only 2 to 3 per cent of total international development assistance in the 1970s and only 4 per cent of total US official aid disbursements. But the rate of increase in US assistance for family planning programs was very sharp and coincided with an absolute decline in overall aid levels. The earnestness with which leads on ways to dispose of family planning money were pursued by USAID personnel was sometimes in sharp contrast to the cool reception given proposals from host country planners for development assistance in fields such as malaria eradication. The conclusion not uncommonly drawn was that the US was attempting to buy development 'on the cheap' through family planning programs, a conclusion that gained further credence from President Johnson's rather unfortunate use of Stephen Enke's claim that '$1 invested in family planning is worth $20 spent on development programs'. The suspicions generated by American actions contributed to the backlash against family planning observed at the World Population Conference in Bucharest in 1974.

The entry of the United Nations into the field was equally dramatic. After a two decades-long rearguard action by an unholy alliance of Catholics and Communists to prevent the UN system from supporting family planning programs, the breakthrough came in 1966, when the General Assembly passed a resolution calling on the UN and its specialized agencies to provide technical assistance in the field of population, including fertility control. In 1967, a Trust Fund was set up to finance such activities, and the United Nations Fund for Population Activities (UNFPA) was established in 1969. When it became clear that the financial resources available

3 See Symonds and Carder 1973. The Catholics were opposed to any resolutions or actions by international agencies which might encourage the practice of what were regarded as illicit methods of birth control. The Communists had no objection in principle to family planning, but argued that population control was being put forward as a cheap but ineffective alternative to economic assistance.
to other arms of the UN through the Fund (and later the UNFPA), were to be very considerable, the alacrity with which the specialized agencies - FAO, ILO, UNESCO and so forth - discovered previously undetected links between their own work and the task of disseminating family planning throughout the developing world was notable, as was the size of the budgets required for their programs.

The case of the World Health Organization (WHO) is interesting. As the United Nations specialized agency with the most obvious role to play in assisting member nations in the field of population, WHO kept out of the family planning field until 1966 as a result of pressure from Catholic and Socialist member states and the feeling that population control programs would divert funds from health services. Between 1966 and 1970, WHO evolved a population assistance policy, integrated with health services, but still in a very small way. As Finkle and Crane have shown (1976:373), the rapid expansion in WHO's family planning role in the 1970-74 period was prompted not by a philosophical conversion on the part of its Secretariat so much as by 'territorial considerations' (to protect its special relationships with health ministries in developing countries from encroachment by the World Bank) and by the prospect of using UNFPA money for health purposes.

By 1977, international aid in the field of population control had reached some $US280 million a year. This is only a rough estimate, and in some respects understates and in others overstates the total sums going into population control. In the past, training of young scholars in the fields of demography and public health has had large but difficult-to-measure spin-offs in subsequently building an informed public on the issues of population in their home countries. Thus, Colombo Plan aid in the form of scholarships awarded by the Australian Government for the study of demography at the

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4WHO Director-General Candau, in a speech in 1966, attacked the population control movement for its 'reversal of priorities' and for 'diverting funds from public health in order to establish family planning programs' (Finkle and Crane 1976:373). The weakness of this argument was clear, in the face of evidence that excessive childbearing has serious health consequences for mothers and children. In the mid-1960s, Chile's and Colombia's maternity hospitals were treating two to five cases of 'botched' abortions for every ten babies they delivered.
Australian National University, for example, can in this sense be considered aid for population control. So can some of the aid going to health ministries in countries where there is no official support for family planning but where the health ministry actually conducts family planning programs under another name. On the other side of the coin, however, many planning ministries, sensing that population money is more readily available than other money, are adept at giving a 'family planning' slant to programs whose real thrust lies elsewhere. Moreover, the $280 million estimate includes funds with only an indirect relevance to population control, such as advisory assistance and other support for the conduct of population censuses.

Not only has the magnitude of aid changed dramatically, but so too have its directions. In the early days, when few governments in developing countries had mounted official family planning programs, the effort was mainly in the field of training and research in the demographic and bio-medical fields - an effort in which the United Nations Population Division was also involved. Pressure was growing in certain circles - notably among medical people, economists, and some academics and civil servants - in many countries to establish official family planning programs. Agencies such as the Population Council attempted to encourage official acceptance in various countries by seeking out 'friends of family planning' in high places. In Thailand, for example, the support was enlisted of an influential general who headed the National Research Council, who could to some extent counter another influential voice, that of the deputy secretary of the Ministry of the Interior who was prone to argue eloquently but irrelevantly the stagnationist theories of the 1930s (when he was studying abroad) as sound grounds for doing nothing in the field of family planning.

But the tide was running strongly in favour of family planning and by 1970 not only Thailand but also the Catholic Philippines, mixed-race Malaysia and many other countries of widely differing background had official policies to reduce population growth rates by means of a family planning program. The official sponsorship of family planning throughout much of the developing world, and the greatly increased international funds available to support it, led to marked changes in the kinds of aid given. Technical assistance to family planning programs in the form of resident advisers and evaluation missions became important from the mid-1960s onwards, as did the supply of contraceptives. Pills are a
big element in the cost of most programs, and here USAID stepped in on a large scale: in 1974, it supplied 20 million cycles of pills and 300,000 gross of condoms to Indonesia alone, at a cost of some $4 million. Concern was occasionally felt among donor agencies that some family planning programs were overly reliant on foreign funding, and there was sometimes a half-hearted attempt to impose the criterion that the country should progressively take over a larger share of its total family planning budget. However, it was sometimes recognized that countries were often putting more into their own programs than was apparent at first sight because, especially in countries where family planning programs were integrated into health services, many expenditures which might have been imputed to family planning were subsumed under the general costs of the health ministry.

In actual fact, few population programs have been over-endowed with foreign funds, although in some cases they have certainly been over-endowed relative to general public health programs. Rather, both health and family planning have been seriously under-endowed with local funds. As already noted, even after the rapid build-up in funding, programs receive only some 2 to 3 per cent of the total funds available for development assistance, or to put it another way, some 0.1 to 0.2 per cent of annual world spending on defence. The level of funding for population control is not too high, but it has expanded too fast in some directions in some periods for fully cost-effective use to be made of it. There is a great deal of waste, overlap and repetition, ineffective conferences and training programs are mounted, and in planning agencies and universities throughout the Third World it is a recognized fact that for somebody with a taste for international travel, population is the field to be in. Examination of research proposals submitted to funding agencies would suggest that the *sine qua non* of any advance in knowledge in the field of population is two air conditioners and one land rover.

The investment of funds by the donor agencies in activities aimed at 'swinging the balance' of public opinion, or rather of opinion in circles where it counts, in favour

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5 In recent years, family planning programs in a number of major countries (Bangladesh, Colombia, Egypt, Pakistan and, until the last couple of years, Thailand and Indonesia) have still been receiving more than half their funds from foreign sources (Nortman 1976:Table 10).
of policies to control population growth can be, and has been, criticized as meddling in the internal affairs of other countries. And it is also true that some of the arguments used in this context, even those based on complex-looking demographic-economic models, relied more on the weight of their users' convictions than on hard scientific evidence for the deleterious effects of rapid population growth. Yet it does remain true that in many developing countries there were serious lags in introducing for public or official debate issues of rapid population growth which deserved a serious airing and some serious policy decisions. This neglect was partly due to a dearth of trained demographers or public health professionals in many of these countries; and to the extraordinary neglect by European and American economists of the complex interrelationships between population and economic growth, and hence a similar neglect of these relationships in the training offered in the west to economists from developing countries. Only in the late 1960s did a concern with these issues begin to blossom again amongst economists. Even so, French economics, very influential throughout Francophone Africa and other areas, appears still to be heavily influenced in these matters by the trauma of the French loss of the population race against Germany.

The dearth of people in many Third World countries with a thorough and relevant training in fields of demography and demographic-economic interrelationships meant that the hoary arguments equating population size with military might and larger markets, and the Catholic arguments against contraception in areas such as Latin America, could be left unchallenged to dominate the field. I would argue that the educational and research role of foreign aid in the field of population through the 1960s was of great importance in influencing the adoption of policies to control population growth in country after country. And as more countries changed their policies, the weight of international legitimacy shifted in favour of countries with such policies. Quite influential around 1967 was the World Leaders' Declaration on Population, the brainchild of John D. Rockefeller III, which was signed by thirty national leaders from countries as diverse as Colombia, India, Iran, Tunisia, the Philippines, Australia and the United States and presented to the United

6The Tempo model, produced under contract for USAID, was one such model in which the deleterious economic effects of rapid population growth were in fact built into the model because of its neo-classical framework and the form of the production function used.
Nations on Human Rights Day.\footnote{It was first presented on Human Rights Day, 1966, with 12 signatories. By Human Rights Day, 1967, the number of signatories had risen to 30.} The support then given for population programs by the United Nations systems and the World Bank was a further important step in this direction.

But if, in Asia at least, all appeared to be sweetness and light in the late 1960s, in parts of Latin America and Africa dismay was felt at the growing pressures to adopt family planning programs, and by the time of the World Population Conference in Bucharest in 1974 a strong backlash which had been building up for some years reached its peak - a backlash against the by then conventional wisdom that rapid population growth is a serious obstacle to economic growth in developing countries, needing to be tackled by vigorous efforts in the field of family planning. The debate has been summarized elsewhere (Finkle and Crane 1975; Mauldin et al. 1974 and Jones 1977b). It is too complex to be covered in detail here. While there were valid points of intellectual dispute, concerning the extent to which rapid population growth is a problem and the relative emphasis to be given to overall social-economic development and to family planning in tackling this problem, the Bucharest debate can be properly understood only if viewed in its context as part of the Third World broadside against the stance of the west in matters of trade and development and the attempt to institute a New International Economic Order. This is why, for example, the stance of India at Bucharest bore so little relationship to what India was actually doing at home in the field of family planning (and, shortly thereafter, compulsory sterilization). Bucharest did serve to re-emphasize the importance of a concerted development strategy rather than undue reliance on family planning in tackling development issues; but the extent to which the main motives of the attack on the family planners at Bucharest lay elsewhere is illustrated by the continued list of countries newly announcing population policies incorporating family planning programs since that time, notable amongst these being Mexico and Brazil.

But this is all background. I believe that we have now reached a reasonably balanced situation in which a fairly high proportion of developing countries (including all of the ten largest developing countries) see the need for official efforts in the field of family planning. Sufficient
international funding support is available. The debates that raged over population issues around the time of Bucharest have 'cleared the air' and perhaps made it easier for countries to adopt an independent stance in population policy, without feeling unduly pressured in any one direction by other countries, especially potential donor countries. Birth rates are turning down in a great many developing countries (Mauldin 1976) and the shrill cries of the prophets of doom who saw mankind rushing like lemmings to a disaster generated by its unbridled procreative proclivities are somewhat muted. The question at issue, then, is the appropriate role for international aid for population control in this new context.

The determinants of fertility

Before attempting to answer this question we must first attempt to understand the role which any government programs can play in the field of population control, for foreign aid from official sources is restricted to helping such programs. And in seeking an answer to this prior question, it is necessary to know what it is that determines fertility levels, and which among the diverse influences at work might be amenable to alteration by means of government programs.

The determinants of fertility are many and complex, and debate rages around their relative importance (Jones 1977a). Clearly enough, the birth of a child requires sexual intercourse between a man and a woman, a period of pregnancy and, finally, a successful delivery. Anything which influences the length of the period during which a woman is exposed to the 'risk' of intercourse or its frequency within that period, anything which influences the chances that intercourse will result in pregnancy, and anything which influences the chances of the pregnancy's being brought to term, will have a bearing on the fertility of that woman and, more broadly, of the community as a whole. To say this immediately brings to mind a list of factors influencing fertility: the health of people, which is likely to affect their fecundity or capacity to reproduce; conventions about age at marriage which, in a society which taboos pre-marital intercourse, will affect the length of period during which a woman is regularly having intercourse; the extent to which abortion and/or contraception are sanctioned as means of breaking the links between intercourse, pregnancy and childbirth; and one step further back, the desire for children among couples and the society in general, which is likely to influence the more
proximate determinants of fertility. Points of possible governmental intervention readily come to mind: influence on the age at marriage through minimum marriage laws, expanded education and so forth; increasing the availability and acceptability of contraception and/or abortion as means of birth control, perhaps through an officially-mounted family planning program; and influence on the desire for children by changing the social and economic setting within which the desire for children is determined. Possible policies here are legion: commonly cited are attempts to lower infant mortality rates; expanded education especially for girls; increased employment opportunities outside the home for women; urbanization; industrialization; housing policies; and improved social security. Finally, the government could provide direct incentives or disincentives for having fewer children. Such measures have been pioneered in Singapore (Chen and Fawcett forthcoming), though in most countries they would necessarily have to be oriented to a more rural setting.\textsuperscript{8} Finally, the government could take more Draconian steps such as the compulsory sterilization campaign which recently contributed to the downfall of the Indira Gandhi government in India.

There is a great deal of disagreement in the academic literature about the relative importance of various influences on fertility. The 'demographic transition' theory is a shakier theoretical prop than was once thought. This theory long dominated the field and underlay the popular Bucharest arguments that 'development is the best contraceptive' and that, further, family planning programs could achieve little in the absence of thoroughgoing social and economic development (Teitelbaum 1975). In fact, fertility declines have been initiated in a wide variety of social and economic settings,\textsuperscript{9} and there is no readily-identifiable 'threshold level' of social and economic development at which birth rates will automatically start to fall. And just as well, because countries such as Indonesia, India and Bangladesh are still a long way from the levels once considered necessary.

\textsuperscript{8}For a summary of pilot programs already undertaken in such settings, and a proposed scheme, oriented to Malaysia, see Ridker and Muscat 1973. For a broader treatment of possible policy interventions, see Ridker 1976.

\textsuperscript{9}Both in the European historical experience and in developing country settings in recent years, a number of cases can be cited in which birth rates started to decline before the spread of a number of important aspects of development which are often considered to be prerequisites of a decline in fertility.
Coale (1973) has classified the prerequisites for fertility decline into three categories: (i) fertility must be within the calculus of conscious choice of parents; (ii) reduced fertility must be advantageous to parents; (iii) effective techniques of fertility reduction must be available. On the first two of these, Caldwell (1977) has argued that demographic transition theorists have erred in underestimating the degree of rationality with which illiterate peasant couples in developing countries face questions of family size and the degree to which parents (or, more particularly, fathers) may benefit economically and otherwise from having many children. He argues (1976) that westernization is a potent force for change, especially for change in the net flows of wealth between parents and children, which have an important bearing on fertility levels. Clearly, no amount of availability (physical or psychological) of contraceptives will induce declines in birth rates if parents perceive it to be in their best interests to have more children. However, it can be argued that in any society there is a certain proportion of parents who, for one reason or another, wish to avoid having more children, and that some proportion of these will avoid births they would otherwise have had if contraceptives are made readily and cheaply available through the good offices of a family planning program. Even in Bangladesh, where the social and economic setting provides rather barren ground for dramatic success in family planning, field projects indicate that as many as 15 per cent of reproductive-age couples are potential regular users of contraception. The proportion is much higher in countries where economic and social changes are taking place on a large scale. I will return to this point shortly in evaluating the success of family planning programs to date.

Options for policy interventions

Nothing is more certain than that successful economic development will be associated with reduction in birth rates. Apart from a few 'nouveau riche' oil-producing countries, it is impossible to find a country in the higher per capita income brackets (say, above $US1500 per annum) which does not have low levels of fertility. There is little disagreement with the proposition that fertility is more likely to come down in countries where gains are being made in education, greater equality of income distribution, liberation of women, improvement of health and nutrition, raising real incomes and, perhaps most important of all, involving the poor in development programs and spreading an ideology of development.
which is oriented to the dignity and welfare of people rather than to increased production of goods and services per se. But how to bring about such an ideal state of affairs remains as much a puzzle as it ever was.

For the countries with the greatest problems (India, Bangladesh, Indonesia) it is not an option simply to wait for development to take care of the population problem. The population problem is itself one of the barriers (perhaps a major barrier) to successful economic development. And this is true to a lesser degree in other developing countries. Hence the call for emphasis to be placed on those development programs which will influence fertility in the desired direction, as well as on family planning programs. But there are some real problems in attempting to use development programs to influence fertility. Development is, after all, the goal, not the means to a goal. The developmental policies which are generally seen as having a long-term effect in depressing fertility (widening educational opportunities; bringing more women into the workforce, especially the modern sector; industrialization; improvement of social security and welfare policies) are the kind of policies which no self-respecting developing country has been without for the past two decades. Governments, then, have been 'doing the right thing', but in many cases this has not brought about either development or lower fertility. Bearing in mind our limited understanding of the extent to which development programs of various kinds can influence fertility,\(^{10}\) it is rather far-fetched to assume that arguments based on the fertility effects of particular development policies would ever be strong enough appreciably to modify the mix of development measures that planners would otherwise propose (Demeny 1975: 158). Moreover, such arguments would be no basis for transferring funds away from family planning programs into other development programs. The chance, for example, that transferring the family planning budget into educational expansion (which would finance between 1 and 5 per cent more education in the typical Southeast Asian country) would result in as large a decline in fertility as would using the funds for family planning is remote indeed. The fact is that expenditure on family planning is not particularly large in money terms and is likely in most cases to have a more direct impact on fertility than any alternative use of the funds.

\(^{10}\)For an excellent summary of the state of our knowledge (or lack of it) about the determinants of fertility, see Cassen 1976:788-803; also Ridker 1976.
Nevertheless, there is enormous variation in the quality of family planning programs (Rosenfield 1974) and in their apparent effectiveness, while their costs, though relatively low, are tending to increase. Some evaluation of the record to date is therefore in order.

Probably few programs in the field of international aid have been so readily written off as 'failures' without any attempt to define first in realistic terms what would constitute 'success'. And yet surely, by any standard, a family planning program in a low-income rural setting which succeeded in recruiting more than 25 per cent of 'eligible' women (married women aged 15-44) as continuing users of contraception within six years of the start of the official program must be counted a success. Such a result has been achieved both in Thailand and in East Java and Bali by the Indonesian program, and probably in a number of other places as well. Many examples of failure can also be cited.

A number of careful efforts to evaluate the impact of family planning programs have been carried out in recent years.11 The accumulating evidence suggests strongly that the downgrading of family planning programs at Bucharest was misplaced. Freedman and Berelson (1976) in an imaginative analysis in which they studied family planning acceptance rates, prevalence of contraceptive use, crude birth rates and changes in crude birth rates in the light of the social setting and the intensity of family planning program efforts in forty-six developing countries, found that for all four dependent variables, 'program effort' has an independent, significant effect of its own. Indeed, in all cases the net effect of 'program effort' was slightly larger than the net effect of 'social setting'. However, the interactive or joint effects of 'program effort' and 'social setting' were more dominant, explaining 40 to 60 per cent of the total variance in the dependent variables. 'Social setting' not only affects people's interest in fertility control but also affects the collective capacity to implement such a program.

A more recent study by Mauldin and Berelson (1977) confirms and strengthens these findings. Again it shows that in multiple regression analysis of factors influencing fertility declines, family planning program effort is more

11 In particular, see Freedman and Berelson 1976; Lapham and Mauldin 1972; and Mauldin and Berelson 1977.
highly associated with crude birth rate declines than are the various 'demand' factors, either singly or in combination.12

It is now possible to compile a list of countries and regions in which significant declines in fertility have taken place which would not have been readily predictable on the basis of demographic transition theory. Such regions include Bali and East Java in Indonesia, parts of rural Thailand and the Philippines, and states such as Haryana in India.13 The list could no doubt be widened. Developmental factors can be cited in some of these areas which may have facilitated the fertility decline, but none of them would have featured on anyone's list, compiled ten years ago, of areas where family planning programs were likely to succeed. In all of them, a dynamic family planning program appears to have had an important role in the fertility decline which has taken place. We do not fully understand why programs should have succeeded there and failed elsewhere. But whatever the reason, the record does lend support to the argument that family planning programs should be strengthened in all countries in order to meet the existing demand for contraceptive services, however limited that may appear to be. Social change tends to beget more social change, and the growing use and availability of contraceptives in a society will foster their wider and more rapid acceptance once family

12 There is also a moderately strong relationship between socio-economic conditions and program effort itself (Mauldin and Berelson 1977:181). But the independent effect of program effort is quite clear.

13 For an analysis of the Indian record, see Visaria and Jain 1976. Other Indian states including Kerala and Maharashtra have also done very well in family planning, but their good performance was more predictable on grounds of social and economic development. Other analyses of the Indian record, based on multivariate analysis of data for states, conclude that both strong family planning inputs and a high level of development are associated with high family planning performance (Amonker 1975; and World Bank (IBRD) 1974:150-8). Perhaps just as interesting as the internal variation within India is the fact that some Indian states have performed much better than regions in other countries where social and economic conditions appear equally or more favourable.
size norms begin to turn down.\textsuperscript{14}

The most intractable cultural regions appear to be sub-Saharan Africa and the Moslem world (Mauldin and Berelson 1977:Table 5), where social and family structure place a positive weighting on large numbers of children. Here Kingsley Davis's (1967) argument that 'reliance on family planning allows people to feel that "something is being done about the population problem" without the need for painful social changes' may have most relevance. Even so, family planning has an appropriate role to play here as well, provided that primacy is given to the reordering of the familial, social and economic structure which appears to be a precondition for the attainment of low levels of fertility in these areas.

Both in recent years and in the demographic transition in the west, then, significant fertility declines and large-scale adoption of birth control have occurred under widely differing developmental conditions, though the greatest successes tend to be in countries or regions where the social and economic setting is favourable. No rigid limits can be set on the possible impact of a family planning program, even in a country where many of the supposed preconditions to fertility decline have not been met. Therefore there seems to be every reason to proceed as far as possible with development of a dynamic family planning program as part of a total development strategy, before succumbing to the temptation to introduce more coercive measures. In countries with good prospects for social and economic development, with reasonably good administrative infrastructures, such sustained efforts in family planning might be enough to accelerate the downward trend in fertility and facilitate the attainment of zero population growth within thirty to fifty years in a context of rising levels of living. This may well be true of countries such as the Republic of Korea, Taiwan, Malaysia, Fiji, perhaps Thailand and the Philippines. The problem arises in those countries with poor prospects for sustained social and economic development (partly because of their population problem), a weak administrative structure, and a social system with a built-in motivation for large families.

\textsuperscript{14}As Notestein has aptly put it: 'It is true that values mediate behaviour; but it is also true that behaviour mediates values, as any observer of fashions in dress must agree' (Notestein 1975:541).
The best efforts to achieve fertility reduction through a supply-oriented family planning program will not work in this setting, or in any event will not have a large enough impact. In such settings, aside from the somewhat utopian goal of accelerating development so that it will 'automatically' take care of the fertility problem, there is a need for policies influencing the demand for children, either through giving extra weight to those development programs which can be expected to have a specially large impact on this demand, or through introducing direct incentive or disincentive programs. Whether more Draconian measures exemplified by India's program of compulsory sterilization are ever justified is an important ethical issue, and the position taken will depend on a judgment as to the welfare implications of present population trends, the likelihood of influencing these trends in other ways and the extent to which individuals bear the full social costs of their childbearing. At the very least, prudence and common sense would suggest that these 'harder' programs not be tried until voluntary family planning and the milder 'beyond family planning' measures have been given a fair test and have proved inadequate.

In the whole area of 'beyond family planning', there is a good deal of experimentation going on through slanting social and economic development projects to give the maximum demographic impact (for example, expansion of factories employing female labour in rural areas, expansion of female enrolment in the school system, concentrating economic and social development programs in certain areas to test their impact on fertility, improvement in income distribution, programs aimed at lowering infant mortality and improving nutrition). The evidence is not yet in and the demographic impact of such projects will be very difficult to measure. There is also some experimentation with incentive programs — rewards and penalties to make fertility control more appealing to the couple, and to bring the private costs and benefits of childbearing more in line with the social costs and benefits. But pilot projects along these lines are relatively few and their success is not yet easy to evaluate. There is increasing agreement that because people's fertility is influenced by and, in turn, vitally affects the welfare of the communities they live in, community-oriented population and development strategies which will mobilize community

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15 For a classic, but now somewhat dated, exposition of this line of argument, see Kingsley Davis 1967; see also Ridker 1969.
pressures for appropriate behaviour by individuals are needed (McNicoll 1975).

The role of foreign aid

Finally, what has been, and what should be, the role of foreign aid in efforts to lower birth rates? So far, its role has been quite broad. For example, in the 1969-75 period, UNFPA allocated 39 per cent of its program funds to family planning delivery systems, program management and evaluation, and clinical studies of fertility control methods; 28 per cent to basic data collection, population research and training; 14 per cent to communication, school and other population education programs; and the remainder to population policy formulation and implementation, program development and multisector activities (George Washington University Medical Center 1977b:J-277).

USAID has been allocating its funds (1965-77 period) to six major areas: development of adequate family planning services (49 per cent); information programs (12 per cent); manpower and institutional capacity and utilization (16 per cent); demographic data (9 per cent); development of adequate population policies (5 per cent); development of adequate means of fertility control (9 per cent). In strengthening family planning field programs, AID's biggest contributions have been the supply of contraceptives and surgical equipment to family planning programs in over one hundred countries; development and testing of new or improved contraceptive distribution methods, including the community-based systems now in use in Indonesia; support for training of personnel and institution building; and providing technical consultation for family planning programs.

Largely owing to the strong personal convictions of the Director of the Office of Population of USAID, their philosophy has always been supply-oriented, discounting the possibility of deficient demand.16 This supply-oriented strategy, though backed up with rather questionable arguments and documentation, has been more effective than its critics

16The philosophy has been outlined in many places. See, for example, Ravenholt 1976.
expected or, perhaps, wished. The most serious weakness of the AID program has been the Congressionally-imposed requirement that it tender each year for supplies of oral contraceptives, resulting in arbitrary and sudden changes in pill brands which have distressed users and caused serious setbacks to family planning programs in a number of countries, including Thailand.17

The World Bank's population projects have a far higher construction component than those of other donor agencies, perhaps partly because the Bank feels more at home with construction, even in the field of social development, perhaps partly because this is the sort of use to which recipient countries prefer to put loan money. Construction reaches 60 or 70 per cent of the total package in many Bank projects, usually provided for rural health centres, training centres for nurses and paramedics, and so forth. The Bank follows very strict accounting procedures, and disbursement of funds in Bank projects has, to date, been very slow. It can be argued that the Bank should have paid more attention to the need to increase demand for family planning services and should have given more encouragement to research in this area. The Bank is also well placed to build population control into multisectoral rural and urban development projects, rather than to concentrate on population projects in isolation, but has not moved in this direction as yet.

Now that very large funds are available from other donors for support of family planning programs, the foundations (Ford, Rockefeller and the Population Council) and the Canadian International Development Research Centre put more of their funds into research, and increasingly into research with a population policy emphasis. This is helping to redress the balance of funding for research, because it is arguable that USAID's funding for non-contraceptive research has been excessively concentrated on generation of basic demographic data and too little on addressing the fundamental issues of the relation between population and social structure. The foundations have also been important contributors to basic biomedical research into improved contraceptive technology. The foundations are keeping in the forefront of the policy debate: for example, the Population Council has created a Center for Policy Research and Ford and Rockefeller have a grants program to support policy-related research projects.

17 For evidence on the problems caused in Thailand, see Keeny 1973:124-5.
 Altogether, probably about $18 million a year is going into social science research in population, and in view of the very basic unanswered questions about determinants of fertility alone, this sum cannot be considered excessive.

This in brief, then, is what the aid donors are doing. Is it what they should be doing? Foreign aid should rarely, if ever, be crucial to the success of population control programs, though there is evidence that it has been crucial in the early stages of some programs. But in most cases, if the political will, the administrative capacity and the funding to run a successful family planning program cannot be generated locally, no amount of foreign expertise and funding is likely to redress the balance adequately. There is an observable tendency for too much of the success to date in family planning programs to be appropriated to themselves by donor agencies. A case in point is the Indonesian program. It is quite incorrect to attribute the early success of the Indonesian program in East Java and Bali to the World Bank loan in support of the program. Not a cent of Bank money had yet been disbursed at the time when the program was already achieving notable gains. The dynamism, the organizational structure was almost entirely Indonesian, though support from other donor agencies, notably USAID, in areas such as the supply of pills and development of reporting systems, was undoubtedly valuable.

There are many ways in which foreign aid can play a useful supplementary role in population control programs. In principle, such aid should go mainly into removing bottlenecks, into providing commodities requiring scarce foreign exchange, into training and the dissemination of useful knowledge generated internationally (as well as to helping to generate that knowledge in the first place, for example in the development of new contraceptive technology), and perhaps in 'topping up' local budgets to enable the program to expand faster than would be possible if it had to rely on the budget the national government was willing to make available. Local budgets often skimp badly in the research area, and foreign aid here can be particularly useful, not only in supporting entirely new research efforts, but also in replicating research findings well established in studies elsewhere, necessary if such research is to influence policy in the country concerned because of the prevalence of the 'not invented here' syndrome. Another area where foreign aid can be valuable is in supporting pilot projects which local budgetary agencies may be loath to fund because their worth is not yet proven.
Technical assistance remains a key area of foreign aid in the population field. Many countries embarking on population programs do not have trained communications experts, demographers or persons trained in evaluating the statistics generated by the program. Consultants, provided they are sensitive to cultural attitudes and constraints, can play a useful role in the period when nationals are being trained in these fields. Whether they can play an equally useful role in the field of management, an area in which many family planning programs are notoriously weak, is more doubtful.

Finally, foreign aid donors, despite all the pious claims of 'responding only to country requests', do exert an influence on governments in various subtle and not-so-subtle ways. Rather than condemning this, it is perhaps more constructive to recognize that it is so and to aim to make the pressures positive ones. The very availability of aid for population control from such a wide variety of donor agencies, including the UN system and the World Bank, gives a sense of urgency and legitimacy which may influence governments to embark on family planning programs. To invoke the stringent accounting procedures required by the World Bank may be to strengthen the hand of those who are trying to close off those loopholes in local accounting and tendering procedures which facilitate corruption and nepotism. Aid donors may be able to strengthen the hand of those attempting to develop community health services and expunge the elitism and urban bias so prevalent in developing country health structures.

The possibility of counter-productive pressures is just as real, however, and everyone will have their own definition of what such pressures are. It is well to recognize that some of the aid-giving agencies, for reasons of institutional aggrandisement, need to give money for population activities just as much as the recipient countries need to receive it. The observer could be excused at times for likening the competition between aid donors to that of the multinationals clamouring for a lucrative new telecommunications contract. Busy family planning program administrators are besieged by a constant stream of foreign visitors, with individually mostly legitimate concerns but collectively offering competing, overlapping and redundant projects. (Bangladesh was recently scoring some twenty per month.) The hassled administrator could be excused for wishing them all to hell so that he can get on with the job of controlling population growth.
There are lessons here for Australia's involvement in the field of aid for population control. As Arndt has noted in this monograph, a project by a small donor country can cost the recipient almost as much in terms of the time and energy of high-level administrators in the recipient government as a much larger project under World Bank or other auspices. Moreover, Australia cannot lay claim to particular expertise in designing or monitoring population projects. Therefore the practice whereby Australia's aid for the Bangladesh population project (Australia's first foray into this field) has been built in as an integral part of a much larger World Bank project is one that should continue to be followed in other projects, provided that Australia's voice is heard in the design and evaluation of the project and her concerns do not diverge too widely from those of the other donor agencies involved in the project. There is no place for 'prima donnas' in effective aid projects.
Chapter 11

Forms of aid: food and health transfer

A. Bridger

In this chapter it will be argued that the urgent health problems of developing countries relate to poverty, to infection, to malnutrition and undernutrition, to lack of accessible potable water and to multiple environmental hazards. Such basic threats to health are unlikely to be conquered by conventioned health service techniques, however sensitively and intensively they are applied.

The question is how to make more judicious use of all resources, in view of the insufficiency of funds and inadequate numbers of qualified or trained personnel to maintain services, let alone improve them. A system must be devised to cope not only with current problems but, at the same time, at least make sure that the ground is being prepared for a better future. Obviously the position will vary greatly from one country to another. In a country which has to struggle constantly against famine and other threats to the very existence of its inhabitants, the order of priority in the government's allocation of funds will be very different to that which exists in a country suffering from the grave and undesirable consequences of affluence. But there are certain basic rules which are equally valid everywhere since good health and welfare is a fundamental desire of human beings. Good physical and also mental health is the desire of all. Inseparable from this is adequate nutrition to enable continued enjoyment and preservation of that health.

To achieve perfect results under present conditions would mean quality only for a very few. We should be far more concerned with quantity for all and be prepared to compromise at least for the time being by seeking to avoid the worst. To achieve this there must at least be an international exchange of experience, permitting errors to be
confessed. This is the more necessary because many of the errors that have been made in individual countries arose when well-intended actions created negative results. Evaluation would enable many of the projects or proposals promoted by well-intentioned but naive fools or ideologists in the field of public health to be stopped, at least at a national level.

In medicine itself, as taught in our universities, the emphasis is placed on the teaching of precise data and sophisticated techniques and the more the patient is viewed, not as a human being, but a conglomerate of organs or a scientific problem, the more remote applied medicine becomes. The formula for preventing the development of such a trend in medicine is to devise new curricula, new methods, and even new structures of medical training which emphasize a rational social use of health resources and which gear regional health systems to the needs and special characteristics of their populations.

The rational use of medical resources depends not only on the structure of the public health system, but just as much upon the degree to which the individual consumer of health services—the actual member of such a public health system—can be motivated to make use of what is available to him or her. The most effective public health system is one which best serves the health interests of both the individuals and the community and does this by interesting individual users in their own health by keeping them informed, actively involved, and conscious of their share of responsibility for its care. The result is that they participate in the operation of the system and enjoy the fruit of their own efforts. A public health system, geared to the pattern of human behaviour, designed neither for the highly intelligent nor the illiterate, will generate a feeling of confidence and well-being. It should attend to the body and its infirmities, to matters of hygiene and disease as well as to meeting the needs of the psyche and alleviating anxiety.

**Malnutrition**

The UN World Health Organization (WHO) estimates that 90 million children under the age of five suffer from malnutrition in the world today. Of these, 10 million suffer from severe malnutrition, that is from a shortage of calories and protein. This can prove fatal. But more often malnutrition
opens the door to other diseases, respiratory infections, pneumonia, bronchitis, middle ear infections, croup, tonsillitis and the common cold. Then comes diarrhoea, either the result of gastric infection or the reaction of a poorly nutritioned intestine to yet another gastric insult. Mortality rates for children are about 100 times higher in developing countries than in developed ones, the greatest killer being the diarrhoea-pneumonia complex. In many developing countries children do not receive a minimum acceptable standard of nutritional, social and health care. Malnutrition has not been conquered, in fact in many countries with increasing populations, it is becoming more prevalent.

Paradoxically the emphasis often given to infant and child care in the less developed countries has been a barrier to long-term improvement in health. Illogically, they are nurtured through one critical period only to enter a more prolonged critical period of early childhood. Thus 50 per cent of children in many parts of the world who reach the age of one year will still die by the age of five owing to the superimposed effects of infection on malnutrition. Until there are necessary changes in social structure, education, food production and distribution and in health care this situation is likely to continue. Some 'modern' correctives are harmful and should be changed. For example, only recently publicity has been given to the possible adverse effects of the delivery of condensed milk for infant feeding to developing countries - indeed we here in Australia were recently made aware of the lurking pitfalls of this form of feeding in our own society despite our sophisticated health system. The mass of the population living in dire circumstances in developing countries cannot afford to buy enough milk and cannot keep it clean. They dilute it excessively and, far more important, tinned milk is given in preference to breast feeding. This practice is particularly prevalent in urban areas and among working mothers. Consequently there is a vast increase in gastroenteritis in weaning months.

Deficiencies in protein and other nutrients can lead to retarded brain development with irreversible neurological changes in the new-born and even in the foetus. Protein malnutrition which occurs later, that is after the first few months of life, can result in decreased mental development and apathy. This, however, does not seem to result in permanent damage. Recovery may be complete, provided that protein intake becomes adequate. An exacerbating factor is that protein deficiency normally results in an apathetic
emotionless child. This apathy then affects mother-child interaction and so indirectly impairs child development as well.

Malnutrition of course is not confined to the young. Its extensive ramifications right through life are of the utmost importance not only to the health of the people but the health and wealth of the nation. The effects of malnutrition on pregnancy and lactation are well known, for example, (i) spontaneous abortion with its resultant effect upon the mother producing either debility or serious infection; (ii) a higher incidence of toxaemia of pregnancy; (iii) still births. All add to a depressing life situation. There is increased incidence of contagious disease because of a poorly developed auto-immune system. Anaemia either from poor food intake or parasitic infestation leads to lethargy and resultant poor productivity. Absenteeism from school and work further aggravates the whole socio-economic problem and leads only to a further wastage of resources.

The image in the industrialized world of the characteristics of malnutrition in developing countries is often grossly distorted and based on pictures of helpless individuals in refugee war camps or war-torn countries. This is seldom not the general case. The appearances of malnutrition are far more subtle. Retarded growth and development is difficult to assess unless the child's age is known. Moreover, in adults the apathy of protein deficiency or the debility of anaemia may be covered by a greater dependence on alcohol or drugs.

There must be proper evaluation of the nutritional status of populations, with knowledge of their food preferences and social and cultural customs. Additional information is also needed concerning the availability, production, distribution and processing of food. With such information it becomes possible to design politically feasible programs which may provide the desired health effects. If possible such programs should be field tested in pilot studies before being established on a large scale and then continually re-evaluated as they are implemented.

In low income countries emphasis must be given to protein supply in two main categories:

(a) to provide protein rich foods for the needs of infants who cannot be breast fed and during the weaning period;
(b) to raise general protein intake and to improve its distribution to ensure that all can obtain their physiological minimum required intake.

Food priorities in the Third World

Agricultural policies in less developed countries tend to concentrate on increasing cash crops and developing food processing industries, often with an eye to potentially lucrative urban and export markets. This has resulted in very little attention being paid to the real needs of the rural people, particularly women. It becomes increasingly difficult to maintain self-sufficiency in staple food crops such as maize, cassava and sorghum. Until recently, very little research had been done on these traditional crops and this, combined with the emphasis on cash crops, has resulted too often in a shortage of staple foods. To compensate for this governments must import grains such as wheat and rice for sale in the rural areas as well as in the towns, so adding to overseas expenditures.

It is important to determine priorities at the grassroots level in any attempt to modernize food utilization systems. Although initially a costly process, government assistance is essential to raise standards of processed food in rural markets. Control of hygiene in the processing and preparation of food is also important to protect the health of consumers.

It is necessary to study the day-to-day routine in rural households, particularly the processing and cooking of food, in order to develop and evaluate food utilization systems and to ensure correct modernization. Much information is often gleaned from mothers at baby clinics, at schools where snacks or lunches are provided, in group consultation with families and through demonstrations and discussions with women's associations. Many new ideas and techniques for food technology will come from rural women themselves and much can be gained by exchanges of information between communities and even countries.

Population control

There is no doubt that the very best contraceptive is good nutrition. When asked about family planning by Schreiner (1976) Cicely Williams commented:
If we look after the quality of the population the population will look after itself [experience has taught her that it is no good distributing contraceptive devices to a population where young children continue to die in droves from diseases or malnutrition], but once parents realise that they can raise two or three healthy children they then begin to think about limiting family size. In the poorest communities safety is still seen to be in numbers of children. Voluntary birth control will only come with understanding. (Interpolation in original.)

The role of nutritional scientists in research

Nutritional scientists should be much more closely involved in the planning of agronomic reform. In looking at many major nutritional programs supported by governments and international agencies, it becomes clear that nutritional scientists have had little involvement in their conception, development, administration or evaluation. This is a mistake. The quality as well as quantity of foods available for the poorer classes in less developed countries should be a priority element in planning for higher agricultural productivity. The nutritional content of crops promoted should be scientifically assessed under the varying circumstances in which they grow. Storage and processing procedures should be evaluated both for unnecessary waste and for their effect on the quality of foodstuffs. Alternative sources of protein such as aquaculture should be exploited to their utmost, especially at village level.

Nutritional scientists can contribute greatly to improving the food situation. An example worth remembering is that of Britain in World War II where nutritional principles were applied rigidly to an island of some 50 million people which for some time had imported 50 per cent of its food. The success achieved was in the recognition that in many aspects the health of its people was better at the end of the emergency than at the beginning, which was directly due to close and successful collaboration between food scientists and planners.

Health transfer

Health has a major role to play, not only in being a good in its own right, but as a major component of economic prosperity and social development. Improving people's health widens their horizons, makes them more able to control their
own destiny, lifts their productive capacity and makes them more responsive to programs designed to improve the economic conditions of the community.

The health of a population is influenced by many factors: climatic, geographic, cultural, administrative and economic. In developing countries the health problems concern mainly the younger age group, in contrast to western societies, where they lie chiefly with the older age group. Malnutrition, rapid population growth, poor maternal and child welfare, poor environmental sanitation, parasitic infestation, lack of access to primary health care, unsafe potable water are but some of the many pressing problems.

Medical training

The design and implementation of a health program for any country must take into account the requirements of the socio-economic conditions existing in the country. A balance between curative and preventive medicine is essential, and high priority should be given to creating environmental situations which are more conducive to better health.

Despite the well-known and documented fact that western medicine with its accent on highly trained doctors who offer personal curative treatment carried out at ever increasing public cost in ivory tower hospitals, is just not applicable to Third World countries, many of these countries still base their systems of medical treatment on our example. Thus national pride may direct aid funds into construction and support of a large hospital complex even if only to benefit politicians and bureaucrats, and will deny funds for public health programs designed for the masses. The reasons for this pro-urban and upper class bias are many and complex, and change will only come slowly with education, with its understanding of social justice and quality of life.

Modern education is not widely available in developing countries, since the majority of the population live in rural areas, and have little contact with the mass media and sophisticated educational facilities. There is, however, in some countries an increasing trend to follow the Chinese example and establish a pyramidal health tier with its foundation in a village health worker or 'barefoot doctor'. The emphasis then changes to a low-cost, integrated health delivery system based on low-key technology. In other words, the stress is on quantity rather than quality.
Disease transmission

The pattern of disease throughout all developing countries has a basic similarity and can be classified as follows:

1. **Faecally related**
   - (diarrhoeal)
   - (internal parasitic (hepatitis)

2. **Air-borne**
   - (tuberculosis)
   - (pneumonia)
   - (upper respiratory infection)
   - (malaria)
   - (trypanosomiasis)
   - (schistosomiasis)
   - (onchoceriasis)

3. **Vector-borne**
   - malnutrition

(i) Faecally related disease can only be controlled by proper attention to water and sanitation. Individual curative measures have only a short-term effect if the environmental situation producing the disease continues.

(ii) Air-borne. The most common diseases are tuberculosis, pneumonia, diphtheria, bronchitis, whooping cough, meningitis, influenza, measles, smallpox and chicken pox. Poor quality housing and environmental conditions are principal factors in the spread of these diseases.

(iii) Vector-borne diseases can only be eradicated by removal of the vector. This will include public health and sanitation measures to remove suitable breeding grounds for these insects. Constant vigilance is required as otherwise a resurgence of the vector and disease will occur. Unfortunately this has been the case with malaria with the dual problem of vector resistance to insecticides and parasitic adaptation to chemotherapeutic agents.

More recent work by the World Health Organization has been towards the development of suitable vaccines against the parasite itself. Protection against the disease is ensured by stimulating the individual's auto-immune system by vaccination.
As in our own country, where possible, inoculation against any of these three classes of disease is the surest way of protection. Large-scale inoculation programs are always the most direct way of obtaining mass immunity. A fine example is the almost complete world-wide eradication of smallpox by mass population inoculation.

Immunization against smallpox, typhoid, cholera, yellow fever, plague, measles, tuberculosis, poliomyelitis, diphtheria and tetanus are essential, particularly in reducing infant mortality.

Health planning in developing countries

Health planning is a management tool with which politicians and civil servants who administer health services can be helped to obtain and organize resources for priority purposes. Problems concerning the public's health, or problems in other sectors of national life which are related to health, should be defined and given an agreed priority by representatives of the public working jointly with managers and technical experts in health services. Responsible representatives of professional groups such as doctors, nurses, sanitarians, technicians and service staff should be consulted during the planning of the services they will have to implement.

Frequently the greatest hindrances to the implementation of successful health programs appear to be weak motivation, inertia in management and problems in planning. Health planning is not solely the budgeting of resources. A document which merely specifies how many hospital beds, health centres, doctors, nurses, and health workers are to be provided and the level of expenditure on drugs and equipment planned, is no real health plan at all. The plan must indicate the purposes for which facilities are to be provided, why these purposes have been chosen, how their achievement will be measured and how the specific resources will be organized to achieve these purposes. It should estimate the feasibility of the program and the anticipated constraints to be overcome. Of especial interest to potential aid donors is the question of what special development efforts will be needed to overcome these constraints and the form and sources of support that those special efforts will need.

The social and economic costs and benefits of attaining
specified national health objectives should be compared with those expected if the same resources were to be used for other desired purposes. Non-medical planners, economists and politicians must be co-operatively involved to include a wide range of values and objectives. Offsetting factors to improved health such as an increase of population must be considered. It may be more important to safeguard the health of immediately economically important groups of the population, e.g. workers in major agricultural, industrial or extractive projects, rather than to care for new-born and small children who are economically dependent. Investment at a crucial stage of time may be of great importance to the future development of a country.

The justification for health planning is that it attempts to identify unequivocally these priorities, then to distribute the available trained manpower and funds to relevant well-designed programs which will meet them. The benefit/cost ratios of simple techniques in preventive medicine and environmental sanitation are not understood by many politicians in developing countries, and the advantages that these measures can bring are not appreciated by the people. The traditional beliefs and attitudes about the causes and therefore the prevention of diseases may continue to differ widely from those which are held by the planners of health services. Therefore very effective programs such as routine childhood immunization, chlorination of water supplies, health education to improve dangerous weaning customs or habits of excretion may be thought irrelevant by the public.

When the health demands of the public can be expressed, they may be strident. They are usually overwhelmingly for curative services, whereas the most urgent health needs, from the health managers' and economists' point of view, are for preventive and promotive health programs. The ultimate remedy of course for these short-sighted demands is to be found in another sector - education. The diversion of resources to education may in fact be far more beneficial to the general health of a community than the same amount of money being spent on the highly expensive, therapeutic technologies of up-to-date hospitals.

Negative effects of aid

Unfortunately improvement will almost always bring with it new problems and these may prove to be more difficult than the old ones. Aid carries with it a negative as well as
positive repercussions. These may lie coupled with the overall ecological implications of any project. For example, man-made lakes may increase the incidence of vector breeding and so increase the incidence of diseases such as bilharia, malaria and onchocerciasis (river blindness). Irrigation projects may contaminate land producing increased hookworm infestation with subsequent anaemia and debility. Provision of powdered milk may produce enteritis in children due to poor sterilization of utensils. Indiscriminate use of DDT in malaria eradication can kill spiders, beetles, centipedes and the like, which are natural predators of human parasites such as lice and bed bugs. Supply of village water may promote the spread of water-borne diseases and increase mosquito breeding if drainage is inadequate and sanitation measures are not observed.

The possible negative effect of aid must be considered in all projects but particularly in those of water conservation, mining and land settlement. Adequate assessment of water-borne diseases must be made in irrigation and aquaculture projects.

Land settlement projects can bring more people into areas of disease to which they have very little natural resistance. Part of the project assessment should be a health component in which the following factors are examined: (i) the prevalence of disease in the area; (ii) the possibility of eliminating the disease and its cost; (iii) the provision of adequate staff for the health post; and (iv) the accessibility of the population to curative centres (health centres, hospitals, etc.).

Conclusions

The extent and nature of problems obviously vary from country to country, but when deciding priorities, the central objective - the rural and urban poor - must be kept firmly in mind. Emphasis has therefore been recommended to:

- Eradication of malnutrition, particularly in children.
- Preventative and disease eradication measures.
- Training of medical and paramedical auxiliaries.
- Continuing health and nutritional education at all levels and particularly in association with a development project.
Local production of vaccines, drugs and antibiotics which can be used by the medical auxiliary at village level.

Public health and community medicine at village level; in particular water supply, sewerage and sanitation facilities.

Greater research into the health and nutritional needs of developing countries.

The emphasis of change must be a shift from expensive and intermittent curative treatment of illness in individuals to the promotion of mass health on a continuous basis at a community level. Ideally there must be a change in the ecological, cultural and nutritional situation which permits disease to thrive.

A complete change from curative to preventative medicine is not envisaged but rather a balance between curative methods and those designed to control and prevent disease. Attempts at a more rapid shift in health education or environmental health will encounter resistance. Change will come only slowly. It must follow a sustained systematic approach aimed at altering living habits and attitudes as well as encouraging household and community action to improve water supply and sanitation practices.
Chapter 12

Charity begins at home - on development, trade and structural adjustment

Wolfgang Kasper

This study starts from the premise that aid to developing countries, that is the international transfer of gifts, falls far short of the requirements of those 70 per cent of the world population who live in less developed countries and generate a quarter of world production (Tinbergen et al. 1976: Table 1). Worldwide social policy by donations will always be strictly confined by the narrow limits of international solidarity. It is even doubtful whether the citizens of the rich countries are really prepared to put up as much as the 1 per cent of gross domestic product that has long been stipulated for aid.

The bulk of resources that can be marshalled for economic development to meet the economic aspirations of the citizens of the poor countries has therefore either to be given as credits or has to come from the developing countries themselves. In developing their own resources and in implementing more advanced technologies, less developed countries (LDCs) have a choice between an inward-looking strategy, and looking outward and co-operating with the rich countries. It will be argued in this study that the latter strategy offers by far the best long-term opportunities for fast and sustained economic growth, both in the less developed and the more developed countries (MDCs). But this strategy makes considerable demands on the will of different societies to co-operate and on the readiness of rich societies to adjust their productive structures so as to make room in world markets for the products of the new industrial countries. If, despite these obstacles, world development is allowed to go the way of trade co-operation, trade will contribute far more to development than aid ever can.

The main purpose of this chapter is to explore the preconditions of increasing trade between rich and poor, which rich
countries, like Australia, will have to create so as to facilitate co-operation and avert trade confrontation.

The effects of artificially stimulating import substitution

It has frequently been argued that the obstacles to spontaneous economic development in LDCs are so high that they can only be overcome by the suppression of international competition (infant-industry argument). Certain types of private production costs - such as the cost of developing skills, of overcoming market frictions, or of developing energy and water supply and transport facilities - are indeed much higher in LDCs than in MDCs, so that the stimulus of tariff or quota protection may be needed to initiate industrial development.

However, international experience has shown that protection opens a road to development that is dangerous and may in the longer run end in a blind alley:

(a) The impact of a new tariff on the profitability of producing a certain commodity differs greatly from the longer-run effect of an established tariff: if it is the long-term relative profitability per unit of production (in the LDC location relative to the MDC location) that matters for the viability of a new industrial development, then both the short-run and the long-run cost effects of the tariff have to be taken into account. To elaborate, let us write:

\[ \text{Unit profit} = \text{price} - \text{unit cost}; \]
\[ \Pi = p - \frac{L}{0} \cdot w - \frac{K}{0} \cdot r - \frac{M}{0} \cdot q; \]

where \( \Pi \) = profit per unit of output
\( p \) = sales price
\( O/L \) = labour productivity
\( w \) = wage rate
\( O/K \) = capital productivity
\( r \) = capital interest rate (including risk premium)
\( M/O \) = materials per unit of output
\( q \) = price of inputs

The effect of a new tariff is to raise \( p \) while unit costs remain constant, so that profitability goes up (relative to a given world level) and the chances
for attracting the protected industry increase.

However, the longer-run increase in productivity will be hampered because (i) entrepreneurs are not forced to become efficient by international price competition for their products, (ii) the limited size of many LDC markets precludes productivity growth out of economies of larger scale of production, (iii) protectionism tends to increase the prices of other products, including input prices \( q \), and (iv) industrial workers in protected groups manage to raise their wages (Little, Scitovsky and Scott 1970).

(b) Protectionism increases the size of the bureaucracy (a cost to a developing nation) and induces corruption and administrative inefficiency. The most effective control of business and multi national corporations, the control by competitors, is replaced by bureaucratic intervention, a control little suited to ensure the social benefits of industrial development.

(c) If the new entrepreneurial class of a developing country becomes accustomed to expect to obtain their profits from 'lobbying Delhi' rather than competing with other entrepreneurs, the developing country is likely to develop a class of 'Keynesian entrepreneurs' that administer demand handed out to them by government, rather than 'Schumpeterian entrepreneurs' who pioneer new opportunities and develop their own markets. This creates a serious long-run liability in countries in which there is no tradition of competitive commerce and in which genuine enterprise is the most scarce of production factors.

(d) The protection of industry means that consumers, and especially the rural sector, are exploited by higher product prices. This increases socio-political tensions (and will raise the risk premium in capital cost). The long-run political effects of the tariff are compounded by the costs of rapid urbanization, as tariff-protected factories tend to be located in large ports or big cities. There, the growth of services does not keep pace with industrialization or population growth and creates unexpected long-run social costs.
Development of domestic resources in LDCs is to a considerable extent confined by limited information about potential costs and profits. In LDCs, information cannot be derived by extrapolation from past experience, so that it is doubly important that world-wide scarcities and world-market prices prevail to steer allocation in the initial phases of development to prevent misallocation of scarce resources (such as skills and capital). Tariffs often produce the wrong market signals (especially tariffs obtained by political pressure or bribery), so that countries end up with production structures that may appear more developed, but are entirely out of line with their long-run needs.

For these reasons, tariff protection in many LDCs, especially the smaller ones, has led to an initial spurt of growth that is typically followed by industrial stagnation (Little, Scitovsky and Scott 1970; Krueger 1978; Donges 1974).

Once this stage is reached, it is essential to convert the import-substitution strategy to an outward-looking export-growth strategy (Pomfret 1975). In other words, 'infant protection' must be followed by 'teenage competition', otherwise the new industries become senescent and a social liability. This switch in development strategy has been very successful in many well-documented cases, such as Spain, Korea, Brazil and Taiwan (see, for example, Donges (1976); Donges and Riedel (1976); Balassa (1977). But the switch is not easy for a developing country to make because the tariff has by then created its own powerful interest groups (industrialists, bureaucrats and politicians who administer it, urban trade unions). Moreover, international competition can easily be branded as a reversal to colonial times and can be shown to be a vexing international constraint on national sovereignty.

The case for a switch to export orientation can be critically weakened if the rich countries threaten trade protection against new and increasing LDCs' exports. World-market access is of course a precondition for the success of the switch. In the decade 1965-75, when many success stories of industry-strategy switches were written, market access was on the whole not a limit. But new attitudes in the rich countries that developed during the recession of the mid-1970s may well force LDCs into inward-looking protection, into industrial and social stagnation and ultimately into costly confrontation with the old-established industrial nations.
The costs and benefits of co-operation

Many developing countries embarked on import-substituting strategies for economic growth during the late 1950s and 1960s; and most are now reaching the limits of their frequently very small domestic markets. At the same time, urbanization, rising aspirations and a frequently very rapid growth of the labour force and of youth unemployment make continued industrial growth the most desirable option to enhance material living standards. Access to overseas markets, the markets of the developed countries as well as those of neighbouring developing countries, is therefore becoming a crucial precondition for further growth and political stability in LDCs.

It is important to realize, however, that a part of the benefits of a closer international division of labour between rich and poor countries also accrues to the developed countries. Just as the United States profited in the postwar period from the transfer of their advanced production and management technology to Europe and Japan, so are the OECD countries bound to benefit from a transfer of their technology and a catch-up by LDCs of their own living standards and purchasing power (Abramovitz 1977; Kasper 1978a). Moreover, demographic trends in our post-industrial societies point to long-run labour scarcities, despite present unemployment. Thus long-run strategies that aim at MDC labour-saving through the indirect means of importing labour-intensive products from LDCs will remove future labour bottlenecks to growth in MDCs. The adjustment of production structures in LDCs and MDCs to different trade strategies involves long time lags (as all supply policies do), so that it would be both wasteful and sub-optimal to stem labour-saving imports now, induce LDCs to acquire more skill- and capital-intensive lines of production and hope for readjustments later.1

Of course, adjustment to the arrival on the world scene of new industrial countries also creates costs to the developed countries, most of them of a short-term transitional nature, whereas the benefits are predominantly long-term. This is why politicians and interest groups, who have a short time horizon, tend to oppose these adjustments. Apart from a general desire to perpetuate old ways and techniques and apart from the fact that international and interracial

1This 'zig-zag' line was advocated by the recent Australian White Paper on Manufacturing Industry (Australian Government 1977).
solidarity pose strict limits on the readiness of producer groupings in rich countries to make adjustments that appear to be in the short-run interest only of producers in LDCs, there are some identifiable cost obstacles to adjustment (Kasper 1978b):

(a) Certain parts of the capital stock may have to be scrapped before it has reached the end of its technically useful life and before this has been expected.

(b) Even more importantly, many types of human capital may have to be depreciated. Specific worker skills, managerial expertise and established market knowledge may all of a sudden become useless.

(c) In the case of some plants that close down in the course of adjustment, workers may have to move to new locations. This creates social as well as very high private costs. Regions which depend heavily on shrinking activities may be pushed into a vicious circle of contraction, and many public infrastructure investments in these areas may also become useless.

However, it is important in the interest of a rational debate to obtain a realistic perspective of the extent of adjustment costs. Experience in countries that liberalized in the past and adjusted to a closer integration with world markets (for example, Europe in the 1950s and 1960s under OECD/EEC auspices; Spain in the 1960s; many LDCs over the last decade) clearly shows that industries, once established, are not completely wiped out by overseas competition. Existent assets, skills and infrastructures which are combined in these industries normally constitute powerful enough preconditions for the survival of most industries and plants. All that happens is that factors of production are redeployed to produce a new, probably more specialized product range. Many means of production, that appeared uncompetitive on the basis of protected, high-price inputs and small production runs, prove to be competitive under world-market conditions, as the gains from specialization raise productivity. This aspect has gained in importance over the last generation as production runs have increased under the dual influence of technological change and a widening of markets due to lower transport costs (Fig. 1).  

2 There are of course exceptions where technological change
It must also be realized that a large share of industrial workers is not directly engaged in production, but in design, packaging and distribution. If existing firms specialize and become importers of part of their previous product range (and exporters of some products), the 'overhead part' of the workforce will hardly be affected. Moreover, integration with the new industries in LDCs offers many opportunities for bilateral, inter-firm co-operation as the new industrialists in LDCs often lack the design and marketing expertise that would enable them to gain large shares in sophisticated MDC markets.

2 (continued)

has decreased optimal production scales, e.g. where synthetics have replaced metals in products. However, the net effect is to larger runs. Technological change and lower transport costs have shifted production functions to larger optimum scales of production. A small country with an actual domestic demand of $A_{d1}$ for a specific product might have incurred only a small cost disadvantage ($C_1$) a generation ago, whereas the cost disadvantage $C_2$ becomes very large when international best-practice technology for that specific product shifts to production technology $2$ - even if the domestic market grows to $A_{d2}$.
Much international specialization between LDCs and MDCs has so far occurred even below the level of single final products. The capital-intensive early processing stages (e.g. semiconductor and transistor production or wool carding and cotton spinning) remain located in developed-country locations; the labour-intensive mass production stages of producing intermediate industrial products move to newly developed industrial locations (e.g. assembly of TV circuits or textile weaving); the skill-intensive final stages of production may again remain located in high-income countries (e.g. chassis manufacture and design, or cloth treatment, dyeing, etc.). The end result is that workers both in LDC and MDC plants earn higher incomes on the basis of higher productivity and enjoy safer jobs.

Actual adjustment costs will depend to a considerable degree on macroeconomic employment levels. Where there is high employment, expanding activities which benefit from tariff cuts and cheap LDCs imports, and will 'bribe' workers away from shrinking activities and bear the costs of retraining, whereas in conditions of overall unemployment shrinking industries feed workers into a pool of unemployed and the taxpayer is expected to bear retraining costs. Higher employment, however, will be promoted by tariff cuts in the longer run as the new profit opportunities offered by specialization and a better international division of labour tend to lead to increased investment demand. Flagging consumer demand is also stimulated by the cheaper availability of novel overseas models, which again may spontaneously contribute to higher domestic demand.

A design for accelerated adjustment

Some basic principles. Adjustment of production structures is of course time-consuming. It is therefore essential to make industrial adjustments to the arrival of new industrial nations as foreseeable and gradual as possible. Tariff cuts which are decreed as a surprise only create costly frictions and are seen to generate unemployment, as

3 In the case of Australia is seems likely that the chance for adjusting to East and South Asian imports under high-employment conditions has been missed in the early 1970s. By now, many jobs are permanently under close competitive pressure from overseas so that the structural crisis can probably only be solved against a background of unemployment. This is a cost of the failure to adjust in time to the clearly visible industrial revolution in the West Pacific region.
the ill-conceived Australian 25 per cent tariff cut of 1973 demonstrated. Preannounced and gradual tariff reductions can, however, be successful, as European experiences in the 1950s and 1960s illustrate.

For private producers in the developed countries to engage in adjustments and invest in reaping specialization opportunities it is also necessary that tariff cuts are not only preannounced but expected to be maintained, so that producers can plan firmly on the basis of a new set of relative costs and prices. Investor confidence in new price structures is very quickly destroyed if governments yield to understandable pressures to take backward steps in their program of cutting tariffs or quotas. Governments may be well advised to protect themselves against a dangerous 'credibility gap' by laying down the tariff cutting schedule in legislation, by securing international credit lines against the contingency of a temporary balance-of-payments crisis (imports may rise immediately after tariff cuts, whereas export suppliers take time to implement cost reductions) and by giving exchange-rate guarantees so that capital inflows finance the restructuring of the domestic production apparatus and cover the likely trade deficit.4

The objective of producing firm expectations of new price structures will only be achieved if all tariffs are cut across-the-board on a single formula, whereas industry-by-industry tariff reviews lead to confusing leads and lags in price/cost changes, so that profitability in individual industries may approach the free-trade state on a zig-zag course (Lloyd 1977). Industries respond to changed expectations in relative prices and profitabilities only if factor markets are flexible. It is therefore essential for a strategy of structural adjustment in developed countries to increased LDC imports, so that labour and capital markets in the former are freed from bureaucratic regulation and so that

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4 One obvious method of checking capital inflows and promoting speculative capital flight in connection with moves to liberalize trade is of course to propagate devaluation equivalents to tariff cuts, which are derived from models with short time horizons and which exclude capital flows (Industries Assistance Commission 1974; Gregory 1976). If the notion of a devaluation equivalent of a tariff cut is widely held, it both creates the likelihood of a balance-of-payments crisis and frustrates the cheap and flexible financing of structural adjustment.
factor mobility is promoted (for example, by allowing fast
capital depreciation of assets in shrinking activities, by
stimulating retraining and regional labour mobility). The
efficiency of the market in restructuring is enhanced if
domestic factor markets are opened up to international
competition simultaneously with the opening-up of product
markets, so that supply shortages in domestic capital,
management, labour and technology can be supplemented from
overseas.

**Prospective adjustments in Australia.** Despite the fact
that many industrial activities will remain viable after
tariff cuts, it would be useful in the interest of stable
expectations to identify industries, in which one would
expect a relative shrinkage after tariff reductions, and
industries that would benefit from increased international
specialization as a consequence of adjustment to more trade
with LDCs. I shall discuss below how such a projection may be
be approached on the basis of Australian data.

Relative to the neighbouring countries of East and South
Asia, whose dynamic industrial growth (Table 1) has suddenly
removed the industrial isolation of the past, Australia is
rich in land, certain natural resources such as metal ores
or coal, physical capital and skills. In addition, Australia,
being a rich, developing country, disposes of much rugged
'outback technology' that may be better suited to the
conditions and servicing standards available in LDCs than the
more refined technology of the industrial countries of the
northern hemisphere. Finally, Australia has a tradition of
political stability that would attract internationally mobile
expertise and capital which may be hesitant to locate itself
directly in Asia, again making Australia a good location for
skill- and capital-intensive activities (Kasper 1978b).

Figure 2 shows estimates of industry-specific factor
intensities (physical and skill capital). It also gives some
information about raw-material dependence of specific
industries. 5 Industries located close to the origin are

5The estimates reported here are based on industrial values-
added (1972-73) and are derived by a method first used by Lary
(1968), which has become widely imitated. It is interesting
to note that the Australian industry ranking of factor
intensities corresponds closely with industry rankings else-
where, despite the fact that tariffs have distorted product
prices. For details and alternative estimates the reader is
referred to Kasper (1978b) and Kasper and McMahon (1976).
## Table 1

**Growth and trade in developing countries**

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<td>2.8</td>
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<td>3.9</td>
<td>12.7</td>
<td>9.5(^b)</td>
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<td>400</td>
<td>6.9</td>
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\(^a\) Selected countries only  
\(^b\) 1965-71 only  
\(^c\) 1967-73 only  
\(^d\) 1971  

**Sources:** IBRD, *World Tables 1976*;  
UN, *Statistical Year Book*, various editions.
Effective rate of tariff protection 1973-74:
(Source: IAC, 1976)
-10 to 20%
20 to 36% (manuf. average)
37 to 49%
50 to 79%
above 80%

Petrol + coal ref.
Ind. chemicals
Basic NF metals
Clay, glass, cement
Paper, paper products

Fig. 2 Factor Intensities in Australian Industry

Source: Kasper 1978b: 115.
labour-intensive. It is no coincidence that these are the industries in which problems of structural adjustment to Asian imports have already become most acute, whereas industries to the northeast of the figure are naturally favoured by Australia's endowment with capital and skills, as one would expect. Physical and human capital have been separated, because industries tend to vary in their relative use of these two factors and because physical capital is internationally more mobile. Skill-intensive industries are after all probably the best long-term guarantors of high incomes and safe jobs for Australians. It can be expected that skill-capital- and raw-material-intensive industries would carry the dynamic expansion of industry and employment that would result from a more rational allocation of Australia's industrial resources after trade liberalization. It is a lucky coincidence that high capital intensities frequently are matched by Australia's resource endowment (and technology) and that capital-intensive industries on the whole offer the biggest economies of scale.

The two most time-consuming and socially costly aspects of structural adjustment are labour-skill and regional structures. In the Australian case, it has been found that the skill and labour implications of a liberalization of the Australian market would not pose large problems (Blandy 1978). Indeed, it is likely that industrial adjustment would increase job availability and give new economic chances to the mobile and young who are presently disadvantaged (Australian Bulletin of Labour 1977). The problem of regional adjustment is manageable in Australia, as the bulk of industry is regionally concentrated (Vipond 1978), so that relatively shrinking and relatively expanding activities are often located in the same neighbourhood. Thus an expanding metal-processing firm in the Botany Bay area may buy and re-use many of the production facilities (such as buildings or trucks) of a shrinking garment-making firm next door. Many of the 'overhead' workers may be retained in such a switchover.

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6 For example, a much neglected article by Bensusan-Butt (1954) would have allowed a prediction of Australia's structural adjustment problem long before it occurred. It is also worth noting that labour-intensive industries are the most heavily protected (Kasper 1978b:114-7). Tariffs have contributed to giving Australia an industrial structure that makes it difficult to promote growth through the international division of labour.
In residual, hard-core problem areas of structural adjustment there may be a role for government subsidies. However, government intervention has an inbuilt tendency to be discontinuous, and entrepreneurs have learnt that it is dangerous to build their profit expectations on microeconomic interventions. Therefore, government intervention must be used sparingly and ruled by overall and widely accepted principles that make them steady, uniform and co-ordinated in the interest of promoting the nation's growth potential. Bureaucratic activism, under which Australian entrepreneurs have suffered more than any of their counterparts in other OECD countries (except New Zealand, is harmful vis-à-vis slow-changing supply structures. There would be little confidence in a policy of promoting structural change predominantly through government intervention, so that such a policy would not lead to the necessary private new investment reactions. After all, it is known that the politicians and the bureaucracy side with established and well-organized domestic supplier interests and not with the unorganized interests of those who would gain most from structural change: the consumers, the young and the producers in developing countries.

Conclusion

Organized interest groups resist structural adjustments and frequently try to make the public and the politicians believe that accelerated adjustment would lead to a national catastrophe. Although it is doubtful whether protection can do more than merely postpone adjustments, it creates serious long-term costs. It contributes to a confrontation in world markets between old and new industrial countries that bears in itself the seed of future armed conflict. The aid purpose is frustrated if it is not increasingly supplemented by trade. Without this, international aid is seen by recipients increasingly as a means to 'buy them off'.

Australia has recently introduced additional protectionist inward-looking measures against LDC industrial products. The most important of these are listed in the appendix. Such measures have already converted its image in the region of a self-reliant, non-colonial, pioneering, rich society into an image of a petty, selfish and ruthless 'ugly Australia'. Since it is located closer than most other OECD countries to developing industrial countries, Australia will have a key role in deciding whether the rich and the poor will live in confrontation or cooperation. If the developing countries
move from 'deference to defiance' (Tinbergen 1976) vis-à-vis the privileged rich countries, income growth in both will suffer and the rich may discover belatedly that short-sighted protectionism was not in their own long-term interest.
Appendix

Selected Australian trade policies towards developing countries

1974

15 Nov. Labor government initiates restrictions on textile imports.

2 Dec. Korea is forced to consent to 'voluntary' restrictions on knitwear exports to Australia.

3 Dec. New import quotas imposed on synthetic yarns and fabrics.

3 Dec. To contain expanding flat-glass imports from the Philippines, Australia withdraws developing-country preferences for flat glass.

1975

14 Jan. Import quotas imposed on a wide range of garments.

14 Jan. 10 per cent additional duty on car tyres.

6 March Further import restrictions on garments.

6 March Taiwan excluded from developing-country preferences for furniture.

9 March Import quotas on rolled steel imposed retroactively to 1 Jan. 1975.

11 March Import quotas on refrigerators, washing machines, and clothes driers.

27 Nov. Liberal-NCP caretaker government imposes new steel tariff quotas.

1976

17 Feb. Global quotas on textile imports to replace selective barriers to imports from East and South Asia.

9 June New steel import quotas, imports in excess of quotas: 25-40 per cent tariff.
9 June Quota restrictions applied to wider range of textile imports.


17 May Government refuses Midford Products Pty Ltd permission to import children's clothing from Malaysia, after previously encouraging Australian garment manufacturers to move operations to Asia.

27 June Australia increases protection for orange juice and batteries.

29 June ASEAN economic ministers express distrust of Australia's protectionism and threaten retaliatory trade measure.

30 June Imposition of quotas on children's tracksuits to stave off competitive Asian imports.

28 July Changes in Copyright Act announced that protect Australian record industry from import competition.

2 August IAC draft recommends a phased reduction of protection for the textiles, clothing and footwear industries, which cost consumers $800 million in 1975-76.

3 August Australian Prime Minister informs ASEAN heads of state that Australia will not make trade concessions. ASEAN reaffirms 'serious concern' over Australian industry protection.

17 August Government announces that protection will be used to maintain employment in the textile, garment and shoe industries, and reduces quotas for garments by 20 per cent.

26 August Government orders indefinite deferral of general trade-policy review by the IAC.

19 Oct. Government tightens rules that ensure that Commonwealth departments buy from Australian manufacturers, irrespective of higher costs.
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