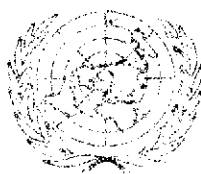




UNITED NATIONS

GENERAL  
ASSEMBLY



Distr.  
GENERAL

A/32/149 & Corr.1, 2  
18 August 1977

ORIGINAL: ENGLISH

Thirty-second session  
Item 71 of the provisional agenda\*

ACCELERATION OF THE TRANSFER OF REAL RESOURCES  
TO DEVELOPING COUNTRIES

Report of the Secretary-General

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. INTRODUCTION . . . . .	1 - 4	2
II. ROLE OF GOVERNMENTAL BUDGETING PROCEDURES IN SECURING INCREASED FLOWS OF DEVELOPMENT FINANCE ON A CONTINUOUS AND PREDICTABLE BASIS . . . . .	5 - 29	3
A. Multiyear pledging of development assistance . . . . .	5 - 9	3
B. Maintaining the real value of development assistance . . . . .	10 - 15	5
C. Non-lapsing provisions . . . . .	16 - 22	6
D. Interest and amortization receipts on past lendings . . . . .	23 - 27	8
E. Development tax . . . . .	28 - 29	9
<u>Annex.</u> Aid budgeting policies of individual member countries of the Development Assistance Committee of the Organisation for Economic Co-operation and Development		

\* A/32/150.

## I. INTRODUCTION

1. In resolution 31/174 of 21 December 1976, the General Assembly, inter alia, urged developed countries to accelerate the transfer of real resources to developing countries on a predictable, continuous and increasingly assured basis. Towards that end, the Assembly urged developed countries to consider seriously:

(a) The pledging of development assistance on a multiyear basis, in order to provide developing countries with more reliable projections of aid on a longer-term basis to facilitate their development planning;

(b) The appropriation of development assistance in such a manner as to prevent the erosion in the real value of aid in terms of the national currency of the individual donor country;

(c) The endowment of development assistance with non-lapsing authority to ensure that budgetary allocations unexpended at the end of the fiscal year for which they were appropriated were carried forward;

(d) The reallocation to development aid budgets of both interest and amortization receipts derived from development loans.

The General Assembly further recommended that developed countries give serious consideration to the establishment of a development tax to be earmarked for international development assistance.

2. The General Assembly requested the Secretary-General to submit a progress report on the implementation of the resolution to the Assembly at its thirty-second session and decided to consider the report at that session under a separate item. In accordance with that request, the present report, prepared by the secretariat of the United Nations Conference on Trade and Development, examines donor policies and practices as regards the recommendations contained in resolution 31/174.

3. The report is based on information relating to aid budgeting policies and procedures in 17 member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) that has been gathered by the Overseas Development Institute (ODI) in the United Kingdom at the request of the UNCTAD secretariat. The report reviews the principal policy issues raised by resolution 31/174 and the donor countries' responses to the recommendations contained therein. The annex to the report reproduces the information gathered by ODI on the aid budgeting policies and procedures in each of the DAC member countries. 1/

4. A principal conclusion of this report is that, despite wide variation

---

1/ Information on Canada, Japan and the United States of America was gathered by the UNCTAD secretariat.

encountered in the budgetary policies and practices of donor countries as regards the provision of development assistance, such practices in a majority of donor countries embody at least some elements of the recommendations contained in resolution 31/174. The extent to which countries adhere to the recommendations contained in resolution 31/174 depends in part on the latitude permitted to the aid agencies to depart from the broad norms established by national legislatures for the totality of public expenditures. In the main, however, countries that have made most progress as regards the recommendations contained in resolution 31/174 tend to be those that have moved furthest towards adopting and attaining the target for official development assistance stipulated by the International Development Strategy for the Second United Nations Development Decade. The adoption of concrete measures to attain the 0.7 per cent target in a planned time-frame has itself encouraged donors to undertake measures in the area of aid budgeting that, on the whole, have had the effect of ensuring greater continuity and predictability in the volume of concessional flows. However, countries which have not made significant progress towards increasing the volume of their assistance have none the less succeeded in improving the conditions of their assistance by implementing at least some of the recommendations contained in resolution 31/174. For both groups of countries, further movement in the direction of the recommendation in resolution 31/174 would serve to enhance the quality, and in some cases the magnitude, of aid programmes.

## II. ROLE OF GOVERNMENTAL BUDGETING PROCEDURES IN SECURING INCREASED FLOWS OF DEVELOPMENT FINANCE ON A CONTINUOUS AND PREDICTABLE BASIS

### A. Multiyear pledging of development assistance

5. Although budgetary practices in a majority of donor countries require that funds for development assistance, as indeed for virtually all categories of public expenditure, be appropriated on an annual basis, a growing number of donor countries now undertake multiyear country programming of their assistance programmes. While the degree of sophistication and formality of such programming varies from donor to donor, it generally includes a broad assessment of the economic performance and prospects of each recipient country and an assessment of its aid requirements, taking into account the time horizon of the planning period in the recipient country. Also, such programming provides a framework for the donor to communicate to at least the principal recipients of its aid the broad outlines of its intentions for several years into the future.

6. The desire of developing countries for pledging of assistance over a longer time-frame is not easy to reconcile with the donors' desire to retain some flexibility in their aid allocations. On the whole, donors have tended to prefer greater flexibility in their long-term aid commitments. As a result, the totality of their bilateral aid programme is rarely pledged. However, some donors such as Denmark, New Zealand, Norway and Sweden - which concentrate their bilateral aid on a few recipient countries - can effectively pledge the whole of their bilateral programme by pledging the individual component parts. Forward planning of particular aid components (technical assistance in the case of France, Italy and Switzerland), is also a fairly common feature of bilateral programmes.

7. Advance commitments to individual recipients can often be made by the aid agency without approval of the legislature. However, there are considerable variations in donor practice in this regard. In the Federal Republic of Germany, advance commitments require the formal approval of Parliament which establishes a commitment ceiling which may not be exceeded. Legislative approval of most of Denmark's grants and all development loans is in theory required, though in practice it is rarely sought. In some other countries (Finland, Netherlands, Norway, Sweden and Switzerland), Parliament may delegate its authority to the aid agency, allowing it to make forward pledges within a given ceiling either for individual projects or a complete programme. Alternatively, in those countries where Parliament exercises limited control over advance commitments (Belgium, Canada, New Zealand and United Kingdom), the aid agency may proceed to commit funds in future years, bearing in mind both the framework figures and the expected level of appropriations. The close scrutiny exercised by the United States Congress over the aid budget means that in practice forward commitments that are legally binding cannot be undertaken unless funds have been obligated. However, within broad limits the Agency for International Development (AID) can indicate, in the context of country programming exercises undertaken in consultation with prospective recipients, the general level of development aid that may become available subject to Congressional approval.

8. Whether Parliament authorizes commitments directly, delegates its responsibility or does not involve itself in commitments authorizations, the legislature ultimately controls the public expenditures through its approval of appropriations. As a result, commitments to individual recipients tend to err on the side of caution and to represent a minimum. It could be argued that as Parliaments wish to retain their annual decision-making authority in respect of public expenditures multiyear pledges to recipients may not, from the recipients' viewpoint, be significantly different from the provision of broad indicative planning figures involving no firm commitments. The practice in Sweden of authorizing the Government to make commitments up to a ceiling representing three times the level of current annual appropriations appears at first to be a model for donors which wish to give recipients firm forward planning totals. However, since Swedish aid is concentrated on a small group of recipients, provision of formal advance commitments to recipients is less complex than in the case of donors pledging aid to a larger number of recipients. In the latter countries, legislatures may not be prepared to give the aid agencies the same latitude to incur long-term obligations. The mirror-image of this system - the case of the Federal Republic of Germany where Parliament itself authorizes advance commitments to individual recipients - has the advantage that once authorized the commitments are disbursed as planned.

9. Of those countries able to enter into long-term commitments, some are reluctant to do so except for the financing of specific projects, an attitude that reflects scepticism about the recipient countries' over-all capacity to implement development plans effectively. As a result, the formal commitment of some donors and institutions, such as the European Development Fund, does not become binding until an elaborate country programming exercise has been followed by rigorous project appraisal.

B. Maintaining the real value of development assistance

10. The real value of official development assistance (ODA) disbursements has been eroded noticeably in recent years by rapid price increases, a phenomenon that has not been without consequence as regards continuity and predictability of aid flows. Erosion in the real value of assistance as a result of unforeseen price changes renders the efforts of recipient countries to plan foreign exchange budgets and allocate resources in a longer-term context less effective. To the extent that declines in real transfers from abroad have to be compensated by reallocation of their own limited resources, the required adjustments impose additional burdens on the recipients.

11. The impact of price changes on projects that are in the process of implementation differs from the effects of such changes on commitments for which disbursements have not yet begun. As regards the former, the effect of unforeseen price changes is to compel donors, recipients or both to allocate additional funds to the projects if the original objectives are to be maintained in the face of unforeseen price changes. The procedures frequently adopted in such cases include allocating resources from contingency funds, requesting supplementary appropriations or budgeting during the implementation period for anticipated price changes.

12. Japan has experienced difficulties in dealing with the higher costs of its development assistance programme resulting from price increases since 1973. While Japan eventually absorbed the full amount of the increased costs, the negotiations leading up to the decision are believed to have delayed disbursements. Had procedures existed to meet the contingencies, some of the difficulties that Japan encountered might have been avoided. In the United States, on the other hand, unforeseen price changes have not seriously impeded the execution of projects since procedures exist to mobilize any additional resources required to maintain the objectives of projects. In the case of cost overruns, for example, AID submits a request to Congress in the form of a notice to undertake additional expenditures. If Congress does not respond within 15 days, AID automatically acquires the authority to undertake additional expenditures.

13. A particularly difficult problem arises when commitments are made in current prices and translated into disbursements only after a lag of several years. When sharp price increases have occurred in the intervening period, it will be necessary either to increase the disbursements relative to the original commitment so as to maintain the real transfer originally envisaged, or to allow the price increase to reduce the delivery of actual goods and services below that originally intended. Clearly, if legislatures wish to have their original intentions regarding the delivery of real goods and services reflected in the actual disbursements, it will be necessary to ensure that through time the levels of commitments and flows in the pipeline are adjusted for price changes.

14. The practices of the various donors in dealing with this issue vary considerably. The United Kingdom plans all public expenditures over the medium-term in constant prices. Projected aid appropriations for the coming four years are indexed to compensate for anticipated cost increases. The first year's figure

becomes the aid ceiling for that year, while the projected figures for the following three years are translated into annual appropriations, provided cuts in public spending do not intervene. Such cuts occurred in 1977 (as they did in Finland, another donor which fixed its rolling aid plan in terms of constant price) with the result that the real value of expected appropriations for the next two years was not maintained. It was, however, felt that the public expenditure cuts would have bitten deeper into the aid programme if planning figures had not been set in constant prices. In the absence of an aid target such as the 0.7 per cent ODA target, indexation of aid expenditure forecasts still remains a useful method of expressing government intentions and probably goes some way towards maintaining the real value of aid when cuts are unavoidable.

15. Two other donors - Norway and Denmark - also budget their development assistance in constant prices. Norway plans to achieve (and exceed) the 0.7 per cent target by planning for gross aid expenditure over a four-year period in constant prices. The Danish plan, which aims to achieve the 0.7 per cent target by 1979-1980, involves a five-year planning period in which annual targets for disbursement appropriations (net of amortization) are fixed in constant prices and derived from an annual ODA: GNP target designed to ensure a smooth progression to the 0.7 per cent figure by 1980.

#### C. Non-lapsing provisions

16. Budgetary allocations which lapse at the end of the fiscal year for which they are appropriated tend to reduce the amount of aid transferred from the donor country below the level which has previously been determined by the legislature. Although funds can be reauthorized the following year, the cumulative effect of lapsing is to reduce the total available for development assistance. Donor aid agencies, faced with the possibility that funds would otherwise lapse, may also be tempted to distort their allocation criteria in favour of fast disbursing projects or programmes rather than see their appropriations returned to government revenues.

17. The object of non-lapsing provisions for aid appropriations is not to accelerate the flow of development assistance, but to avoid arbitrary losses in the aid budget. Where appropriations are endowed with non-lapsing authority, the unspent funds form a pipeline which does not have to be revoked by Parliament when new appropriations are made. Legislatures may be aware of the existence of pipelines and, although they may not formally take the size of the pipeline into account when voting new appropriations, they could well be influenced by a growing accumulation of undisbursed aid funds. The existence of non-lapsing provisions consequently does not assure predictable disbursements in real terms, nor remove the need for donors to plan disbursements to keep them broadly in line with appropriations. It does, however, provide an element of flexibility to aid programmes, lessens the risk of unwarranted end-year spending undertaken to avoid arbitrary losses and protects the nominal value of aid appropriations.

18. Sweden is the only donor which automatically endows all aid appropriations with non-lapsing authority. However, most donors make non-lapsing provisions for

at least part of their aid budgets. The appropriated funds in the United States aid budget do not lapse until the sums are spent. Each year, unspent funds which have been appropriated can, in practice, be obligated for future expenditures. All of France's aid to its ex-colonial territories can be carried forward from year to year, though allocations to the rest of the world have only nominal carry-forward facilities.

19. In the case of both Canada and the Netherlands, aid was endowed in the past with non-lapsing provisions. In the Netherlands, recently adopted provisions are expected to impose more stringent disbursement conditions, although the authorities expect to maintain a pipeline of non-lapsing funds. In Canada, commencing with the estimates for the period 1977-1978, the non-lapsing authority has been revoked principally because of a rapid accumulation of funds in the aid pipeline, some of which was not even committed. In Finland, grants do not lapse, while committed loans are allowed a four-year disbursement period. In Belgium, all lottery funds and aid items voted in the special budget are protected from lapsing if unspent: as a result, losses due to lapsing are limited to a normal rate of 5 per cent of the aid budget. While Switzerland has no special provisions for unspent aid funds, only 2 per cent of the aid budget was lost in 1976 due to lapsing, while in New Zealand losses are kept to a minimum in spite of a lack of non-lapsing authority, because of close control of disbursements and flexibility in shifting funds among projects. Certain Danish funds can be disbursed up to two and a half months after the end of the fiscal year, while the United Kingdom has limited carry-forward facilities (up to \$10 million per year), and in the Federal Republic of Germany normally lapsing funds can be carried forward for one year but at the expense of including the carry-forward in the following year's appropriation total.

20. It may be argued that non-lapsing provisions are only relevant if multiyear planning of disbursements is ineffective. Good planning in the long-term and strict monitoring of disbursements within the fiscal year can help to alleviate the problem of lapsing funds and remove pressures for hasty end-year aid decisions without encouraging the accumulation of a massive pipeline (as in the case of the Netherlands). New Zealand, for example, finds no difficulty in disbursing all its bilateral aid by virtue of its Forward Aid Plan. At the same time, the need to carry funds over from one year to the next and the speed with which pipeline funds can be spent would both be favourably affected by employing less complex disbursement procedures such as reducing the need for sophisticated project appraisal, elaborate tendering schemes and stringent end-use tying. If such changes were made, the significance of the erosion in the real value of the pipeline would be much reduced.

21. Although lapsing is rarely a problem for multilateral contributions, some donors are inclined to use such contributions as a means of disbursing funds which would otherwise lapse or accumulate in the donor's pipeline if retained for bilateral use. In these instances, the donor has no guarantee that the contribution will do anything more than accumulate in a pipeline within the multilateral organization. Scrutiny of the disbursement performance of multilateral organizations should therefore be considered before donors assume that rapid expenditures of aid can be achieved by transferring either their annual lapsing appropriations or pipeline funds to a multilateral body.

22. In conclusion, the recommendation that aid appropriations should be endowed with non-lapsing authority seems to be favoured by donor agencies, though its implementation by individual donors tends to be at the most partial (except in the case of Sweden). Though budgetary rules generally militate against automatic carry-forward provisions, many donors have devised methods of overcoming this obstacle. There is a strong case, however, for donors to adopt a common practice, if only to avoid the risks that recipients might treat donor programmes which are known to have non-lapsing funds with less urgent attention than the others. Consequently, donors, such as the Federal Republic of Germany, Italy and the United Kingdom, which allow only minimal carry-forward on unspent appropriations should be encouraged to make special provisions to ensure that losses are automatically avoided. For donors which currently permit no carry-forward (Australia, New Zealand and Switzerland), the possibility exists that exhaustion of their annual appropriations may be at the expense of other donors' accumulated pipelines. Thus, even though their annual losses which result from lapsing may be small, they should be encouraged to adopt with all donors the principle of non-lapsing authority for aid funds.

#### D. Interest and amortization receipts on past lendings

23. The prevalent practice in most donor countries is to allow receipts of interest and amortization to revert back to general revenues. The general budgetary practice of not earmarking particular categories of revenues for particular purposes need not preclude allocating reverse flows for further lending since these are in respect of gross sums which have already been voted upon by legislatures. It has been argued that automatic allocation to aid budgets of both interest and amortization receipts would enhance the flexibility of aid agencies and ministries in administering their aid programmes, and would also insulate somewhat aid programmes from the vicissitudes of annual parliamentary proceedings. It could also be argued that reverse flows should be allocated automatically to aid budgets since part of the reflows accrue from lending at terms which would not now qualify as ODA and since part of the reflows originate from countries which today would be eligible for grants or at least terms softer than those on the loans generating the reflows.

24. In France, a part of the operations of the Caisse centrale de coopération économique (CCCE), an institution with special responsibility for development loans, is regarded as "own account" and return flows on this lending may be used for further lending by that organization. Similarly, in the Federal Republic of Germany the Kreditanstalt für Wiederaufbau (KfW), may use amortization receipts (but not interest payments) in a similar way. In Japan, the amortization receipts from previous lendings by the Eximbank and the Overseas Economic Co-operation Fund revert to those agencies and are available together with new borrowings from the Trust Fund Bureau for new lending. The interest payments on past loans of the Eximbank are available to that institution to defray its operating costs.

25. Although each of the above three countries has mechanisms for recycling payments on account of past loans, the reflows involved account for only a small fraction of the lending programmes of these donors.



26. Other donors do not make provision for the direct allocation of loan payments to aid agencies. In Canada, the reflows from past lending are not viewed as an important source of financing since the magnitude of the reflows has not been significant. The recent decision to cancel the debts owed to Canada by the least developed countries has further reduced the significance of these reflows. Until recently, repayments arising from the foreign aid programme of the United States reverted to AID for further lending. However, the desire of Congress to exercise closer control over the budget has resulted in the revoking of this provision so that all reflows now revert to the United States Treasury. Italy finances parts of its development lending programme directly from private markets. Consequently, interest and amortization receipts generated by development loans must be used, at least in part, to service the loans raised in the private markets.

27. A third group of countries, while allowing reflows to revert to the general revenue, undertake budgetary procedures which normally produce a result equivalent to allocating the flows directly to the aid agencies. Thus, the Scandinavian countries set their budgetary aid targets on a net transfer basis. Since the net transfer equals gross disbursements less interest and amortization payments, once such a target has been set an increase in reflows on account of past loans automatically gives rise to an equivalent increase in budgetary allocations. Similarly, the United Kingdom projects and presents its aid appropriations on the basis of the new flow of official aid (i.e. disbursement net of amortization but not of interest).

#### E. Development tax

28. The recommendation to institute a development tax, the proceeds of which would be earmarked for concessional assistance, reflects a growing concern that unless provision of development assistance were isolated from the vicissitudes of short-term political and economic circumstances aid flows would continue to stagnate and decline in real terms (A/31/186, paras. 61-65). The procedure of earmarking the proceeds of a particular tax for the financing of a specified programme is not new and is used by a number of countries in funding domestic programmes. However, the canvassing of donor views on the proposal indicates that there is at present little support for the concept of a nationally levied development tax on incomes. The views of individual Governments of DAC member countries is set out in the annex.

29. The only experience to date with a development tax is that of Norway, a country that financed most of its aid programme between 1964 and 1974 from revenues raised from a development aid tax levied directly on incomes. This tax was abandoned in 1974. The reasons given for this are that the costs of administering the tax were high and that it was less progressive than the normal income tax.

ANNEX

Aid budgeting policies of individual member countries of the  
Development Assistance Committee of the Organisation for  
Economic Co-operation and Development

CONTENTS

	<u>Page</u>
Australia . . . . .	2
Austria . . . . .	4
Belgium . . . . .	5
Canada . . . . .	7
Denmark . . . . .	9
Finland . . . . .	13
France . . . . .	16
Germany, Federal Republic of . . . . .	19
Italy . . . . .	22
Japan . . . . .	24
Netherlands . . . . .	26
New Zealand . . . . .	30
Norway . . . . .	32
Sweden . . . . .	36
Switzerland . . . . .	40
United Kingdom of Great Britain and Northern Ireland . . . . .	42
United States of America . . . . .	46

## AUSTRALIA

### Annual appropriations, disbursements and commitments

1. Australia's aid disbursements are financed entirely from central government funds appropriated annually by Parliament or authorized by special legislation. Appropriations are for gross aid disbursements during the fiscal year (July-June). Return flows of interest and amortization on past development loans (which amounted to roughly 1 per cent of gross disbursements in 1975) are paid into the consolidated revenue fund and are not taken into account in determining the annual aid appropriation.
2. The aid appropriation is divided into a number of items. The amount appropriated for any item may be increased by a supplementary appropriation by Parliament or by the Treasurer, appropriating from the Treasurer's advance. Any such increase is normally subject to an agreement that expenditure on other items will be reduced.
3. Budgetary appropriations are normally lapsing. Under the legislation which set up the Australian Development Agency, however, provision was made for aid appropriations to be paid into a special Development Assistance Fund which meant that unspent appropriations did not lapse at the end of the fiscal year. This Fund is to cease operations in June 1977 and no further provision against lapsing is to be made. The significance of the demise of the Fund is, however, questionable since it is reported that only small amounts of aid were ever carried forward as a result of its existence. The position now is that all aid appropriations lapse if unspent during the fiscal year, except those authorized by special legislation, for example, IDA contributions. In the latter cases, appropriations lapse only in accordance with the terms of the legislation.
4. Since 1976/77, the Aid Bureau along with other departments has been required to submit details of existing and purposed commitments to the Government prior to each fiscal year. On the basis of these submissions, the Government determines a financial limit on commitments requiring funding in the current and future fiscal years for each item of the aid budget. This system effectively authorizes the Aid Bureau to enter into commitments up to the prescribed limit without need for further approval. Any other commitments require the specific approval of the Government or the Treasurer.

### Forward planning

5. The Government has a three-year rolling system for projecting public expenditure and receipts. These projections provide the framework for Government budget policy and the basis of the commitment ceiling established annually by Government. Like most forward projections they do not, however, permit departments to anticipate the level of expenditure in future years. And since the projections are subject to at least annual revision, they do not provide a firm framework for aid planning.

6. Australia does, however, have forward planning arrangements with its main recipients. In the case of Papua New Guinea, it has entered into a commitment to provide \$A 180 million annually between 1976 and 1981; in the case of Indonesia, the commitment is of a lump-sum to be disbursed over three years; and in the case of the South Pacific, it has committed a lump-sum to be provided on the basis of a three-year rolling programme (with indicative planning figures for each country). These commitments are made via intergovernmental agreements and are subject to annual Parliamentary approval of disbursements under the agreements. While there are no specific provisions to offset the effects of inflation on aid commitments generally, the multiyear agreement with Papua New Guinea contains a provision for an annual supplement to be made in the "light of prevailing circumstances", and that with Indonesia is to be reviewed before the end of the second year. The only other "multiyear pledges" are those made in the context of formal agreements on individual projects or multilateral contributions.

#### Multiyear pledging

7. Australia has a medium-term rolling programme for aid and other public expenditure for internal planning purposes. But plans for future aid disbursements are subject to revision, and there are no firm plans for achieving the 0.7 per cent ODA:GNP target. Apart from individual project agreements and commitments to multilateral organizations, a significant proportion of bilateral aid is pledged on a multiyear basis to Australia's major recipients in the context of intergovernmental agreements.

#### Maintaining the real value of appropriations

8. There is no provision for an automatic adjustment in aid appropriations to take account of inflation but the change in the value of the Australian currency is a factor taken into account when annual appropriations are decided. The multiyear aid agreements with Papua New Guinea and Indonesia also provide for upward adjustments to be made in the light of inflation.

#### Non-lapsing provisions

9. There are now no specific provisions to prevent the lapsing of unspent appropriations, except for those contained in special legislation authorizing the appropriation for certain aid expenditures (see para. 4 above). The Australians take the view that non-lapsing provisions are not essential to ensure the effectiveness of aid spending.

#### Recycling of interest and amortization

10. Interest and amortization receipts are paid into central government funds and cannot be taken as an addition to Parliamentary appropriations for development assistance. Since Australia's programme consists largely of grant aid, such return flows are in any case small.

## AUSTRIA

### Annual appropriations and forward planning

1. A small and decreasing proportion of Austria's aid is financed out of central government funds. In 1974, only 37 per cent of the total was financed from federal budget appropriations. These appropriations are made annually and are for disbursement in the following fiscal year (January to December). The rest of the Austrian aid programme is financed from Central Bank borrowing, the private market, ERP (Marshall Aid) funds and Lander budgets.
2. Deterioration in the Austrian balance of payments and the desire to limit the budgetary deficit (even though aid appropriations represent a very small proportion - about 0.25 per cent - of the federal budget) have obliged the Austrian Government to look to the private capital market for an increasing proportion of its aid finance. Concessionary loans to multilateral organizations as well as bilateral development loans are largely financed in this way, though interest subsidies are provided out of budgetary funds.
3. Austrian aid is weighted heavily in favour of multilateral contributions, the bilateral share consisting mainly of concessional official export credits and a small technical assistance programme.
4. Austria's first venture into medium-term aid planning began in 1976 when a three-year rolling plan was first implemented. Unfortunately, details of the plan were not made available in time for inclusion in this report. Similarly, responses from the Austrian authorities to the recommendations contained in General Assembly resolution 31/174 have not been received, although it is known that Austria voted in favour of the resolution.

## BELGIUM

### Annual appropriations, commitments and disbursements

1. Parliamentary authorization for funds for development assistance is given in November each year. The Belgian Government has stated its intention to achieve the target of 0.7 per cent of GNP for its net aid disbursements, but in 1975 only 0.59 per cent was achieved, while the 1976 ratio declined to 0.51 per cent. Budgetary appropriations are made with a view to achieving the disbursement target, but delays in payment authorizations (particularly for some multilateral contributions) have often retarded the rate of disbursement. It was not expected that the 0.7 per cent target would be reached by 1980, though if the new coalition is formed from the three traditional parties (Socialists, Christian Democrats and Liberals) as now seems likely, it is possible that a clearer policy on development co-operation will emerge. At present, however, there are no explicit annual targets, though a new Government may be prepared to commit itself to a rising annual aid/GNP ratio. The 1970-1975 plan, on the other hand, did fix annual targets both for volume and ODA/GNP ratios.

2. The role of Parliament is restricted to approving the annual budget figures for estimated expenditure and the general orientation of development policy. Aid appropriations (like those for public works) fall either within the ordinary budget (in which case disbursements have to be made the following year) or, in the case of large-scale projects involving durable capital investment, they can be voted in the special budget (under article 53:01 and 83:01) and in this case authorized funds can be carried forward indefinitely. For the Belgian authorities, commitments cannot be binding beyond the fiscal year; moreover cash commitments are considered to exist only when the pledge has been approved by the Finance Ministry. Thus, political control is further subjected to administrative control. In the case of the special budget, Parliament votes in advance both commitments (credits d'engagement) and payments authorizations (credits d'ordonnancement), the latter usually being about half of the former. Administrative control is exerted by the Financial Inspectors, who authorize the commitment to a specific project, and by the Cour des Comptes which directs the Treasury to make payments.

### Multiyear pledging

3. The above procedure makes multiyear planning of anything other than an indicative nature rather difficult. However, for traditional recipients of Belgian aid, non-formal methods of forward planning are employed. In the case of Treasury loans, India, Pakistan and Bangladesh are aware that the amount available is likely to be at least as much in nominal terms as it was the previous year, similarly Administration General de la Cooperation au Developpement (AGCD) grants and technical assistance to Zaire, Rwanda and Burundi can be expected to be maintained from year to year. Even though general aid agreements, approved by Parliament exist for the above countries the amount of aid has to be determined by annual negotiation. Legally binding commitments exceeding the first year are not possible within the framework of annual budgeting, even though AGCD makes its own estimates of likely costs and disbursement rates for internal purposes.

#### Preventing the erosion of the real value of aid

4. Parliamentary appropriations are voted annually in current prices and there is no possibility of adopting constant price budgeting under the present system. Since the global amount of aid has been a rising total in recent years both in nominal terms and as a proportion of GNP, it is felt that by aspiring to an aid/GNP target, the necessary compensation for inflation is made. In the case of individual recipients, it was felt that current price budgeting and the absence of built-in provisions for inflation enabled the donor to discriminate in favour of countries which Belgium considered more deserving of its aid while not appearing to reduce the amount of aid allocated to recipient countries whose performance was considered unsatisfactory. Payments are made in Belgian francs except for multilateral contributions, which are made in dollars.

#### Non-lapsing provisions

5. At present, all AGCD project aid financed from the proceeds of the national lottery can be carried forward indefinitely. In addition, commitments for durable capital investments which have been authorized in the special budget can be carried forward from year to year. As a result, Belgium's aid pipeline represented in 1976 just over one third of annual disbursements. Authorizations in the ordinary budget, however, lapse if not disbursed in the following year, and the AGCD suffered a 5 per cent loss in its budget in 1976 due to lapsing, mainly due to undisbursed commitments to fellowships and university co-operation. Aid officials are, however, expressly forbidden to seek or devise rapidly disbursing projects to avoid losing potentially lapsing funds at the end of the year. If the proposed Development Co-operation Fund were to be approved by Parliament (see above) this would be partly financed out of undisbursed aid appropriations and would thus overcome the problem of annual lapsing.

#### Recycling of loan backflows

6. All intergovernmental loans are made by the Ministry of Finance, and all repayments of interest and principal revert to the Treasury. If AGCD were permitted to make loans (as proposed in the lapsed bill to set up a Development Co-operation Fund) return flows on these loans would be made available for new lending. Otherwise, the Belgian Government does not intend to set up a special fund for recycling loan backflows.

#### Development tax

7. A development tax to finance the Belgian aid programme was also considered inappropriate in view of the existence of the national lottery, the proceeds of which are already used for this specific purpose. It is, however, doubtful that most purchasers of lottery tickets realize that their payments are being used largely to finance overseas aid. A public opinion survey conducted on behalf of AGCD in 1975 found that only 7.8 per cent of the sample were in favour of a special development tax.

## CANADA

### Annual appropriation, commitment, and disbursement procedures

1. Canadian aid is financed entirely by the federal government budget and is appropriated on an annual basis. The budget process in Canada commences each year with Canadian International Development Agency (CIDA) drawing up projected figures for all expenditures in the next five-year period. The projections derive their rationale from a document called the programme forecast. These figures are examined by the Cabinet which decides on the budget level for the forthcoming year, and are then embodied in the form of estimates presented to Parliament. The funds for aid are classified under headings comprising multilateral aid, food aid and special programme and administrative costs. The bilateral component is divided into grants and loans. These estimates are referred to a Standing Committee of Parliament which examines them and refers them back to Parliament which finally embodies them in an Appropriation Act.

### Non-lapsing provisions

2. Until recently, the legislature did not impose any restrictions on commitments appropriated by it. Funds committed but not disbursed would still be available for the Agency's use in future years. This provision was known as the non-lapsing authority. As a result of this authority, grants and loans that were authorized but not disbursed accumulated in a backlog of unspent funds. In 1974, an over-all disbursement ceiling was imposed on the Agency's expenditures beginning in fiscal year 1975/76. This set a limit for the first time on the amount of drawing-down of committed funds that would be allowed in any fiscal year, and in effect eliminated the non-lapsing provision in CIDA's budget. This arrangement brings CIDA in line with the rest of the government departments which do not have non-lapsing authority.

### Multiyear pledging

3. Although the Canadian Parliament votes aid appropriation on an annual basis, the Cabinet empowers CIDA under a forward commitment authority to undertake multiyear commitments with a high degree of assurance that the commitments will be honoured. The forward commitment authority ranges for a period of five years. Under the five-year commitment authority, CIDA can make tacit commitments up to a level of 90 per cent of the current year's disbursements. This forward commitment authority applies to programme countries and regional funds. CIDA prepares for each of these countries a document called a "Country Program Review" that outlines its aid intentions for each recipient for the next five years.

### Interest and amortization receipts

4. As regards the reflows of funds from previous lendings, the practice in Canada is to revert them back to the consolidated fund. At the present time, no

/...



mechanism or machinery exists for automatic allocation of these funds to the aid budget. The feeling in Canada is that in view of the limited volume of reverse flows, which will be reduced further by the recent decision to write off debts of the least developed countries, interest and amortization receipts are not a significant source of potential financing.

#### Maintaining the real value of aid

5. Canadian aid commitments are undertaken in current prices. However, the growth of a backlog of unspent funds which have been committed but not disbursed has created a difficulty for Canada since the commitments are undertaken in current prices and their real value has eroded over time. When additional resources are required as a result of cost overruns or unforeseen increases in project costs, the procedure has been to go back for additional authorization and this has in practice been obtained without much difficulty.

#### Development tax

6. This proposal is not viewed with favour by aid officials since it does not at this time find much political support.

DENMARK

Annual appropriations, disbursements and commitments

1. Danish aid disbursements are now a/ financed entirely from central government funds appropriated for each fiscal year by Parliament. Gross aid appropriations for a given year are determined in accordance with the target ODA:GNP ratio for that year, contained in the five-year rolling programme for aid appropriations. The target appropriation figure is net of amortization and relates to the April-March fiscal year. The GNP figure used initially is estimated GNP for the calendar year (e.g. 1977 for fiscal 1977/78). Since the aid budget is voted at the beginning of the fiscal year, adjustments are generally required to bring appropriations into line with ODA:GNP target as revised GNP estimates become available. These are made by means of a supplementary aid appropriation towards the end of the fiscal year. In this way, annual aid appropriations are automatically protected from the effects of domestic inflation during the fiscal year.
2. The main budget vote for aid contains a number of individual items under the broad heads of multilateral and bilateral aid. The major part of multilateral aid is specifically voted for different organizations. The bilateral aid vote is divided into sums allocated to the different types of aid, e.g. loans, projects, but aid for individual projects or country programmes is not voted separately by Parliament.
3. The annual appropriations bill also contains details of the remaining four years of the five-year rolling programme for disbursement appropriations. The aggregate figure (in constant prices) for appropriations in each year is derived from the ODA:GNP target for that year set at level designed to achieve steady growth to the 0.7 per cent target in 1980 and - at present - a continuation of that rate of growth in real terms thereafter (the target for 1980/81 is 0.73 per cent GNP). The rolling programme is disaggregated into the same component parts as the annual appropriations. Parliament gives its approval to the programme when it passes the annual appropriations. Formally, it is not bound by this approval to appropriate accordingly in future years. In practice, its prior approval of a target figure for aid, combined with general parliamentary and public support for an expanding aid programme, means that appropriations are likely to be in line with the target. Thus, unless Denmark's economy goes seriously into reverse, planned aid appropriations in future years are effectively protected from erosion via domestic inflation and their growth in real terms is assured.
4. The Danish International Development Agency (DANIDA) is responsible for the more detailed planning and disbursement of aid, subject to existing policy guidelines, to the allocations made in the budgetary appropriations and to the need for Parliamentary approval or authorization for certain commitments. Parliamentary authorization is required for any grant-aided project commitment involving

---

a/ Until recently a small proportion of aid funds was derived from the excise tax in coffee imports.

expenditure of over DK 3 million and for any loan agreement. Authorization is received via submissions to the Finance Committee of Parliament and the Committee's decisions are approved by Parliament when the supplementary appropriation bill is passed near the end of the fiscal year. Loan commitments are additionally subject to an annual commitments ceiling contained in the main Finance Bill and set so as to limit the rate of loan disbursements in future years. These loan and project agreements are legally binding on the Danish Government.

5. Aid appropriations lapse if they are not spent in the financial year for which they are voted. b/ This is in accordance with general budgetary procedure in Denmark. In principle, lapsing could lead to considerable losses of appropriated aid funds. The Danish aid programme has grown rapidly in recent years and this, together with the supplementary appropriations near the end of the fiscal year, has inevitably increased the work-load of DANIDA. Meanwhile, DANIDA's establishment has remained virtually static since 1971, largely as a result of public expenditure curbs and economic difficulties. None the less, annual aid disbursements have kept pace with appropriations.

6. The main factors responsible for this achievement are:

(a) The large proportion of aid provided to multilateral institutions which has helped to lower administrative burden of the increasing programme, and poses few disbursement problems to Denmark;

(b) DANIDA's internal budgeting procedures which are designed to allow for the tendency to under-spend and for the end-year adjustment to the aid appropriations. There is a policy of budgetary over-commitment and spending performance is monitored periodically throughout the year;

(c) The use of country-programming covering a large proportion of bilateral project and technical aid;

(d) Budgetary flexibility achieved via the judicious use of the somewhat complicated general budgetary procedures and a certain latitude allowed DANIDA by the Ministry of Finance and the Finance Committee of Parliament.

7. There are two main sources of budgetary flexibility. First, payments under certain heads can be brought forward from (and/or carried forward to) the next financial year to compensate for under or over-payments in relation to aid loans may be advanced or delayed according to the needs of the aid budget. These adjustments are not, in theory, cumulative in that the funds budgeted for different heads in the following fiscal year are effectively debited or credited accordingly. Second, where funds have been committed for the year in which they are appropriated (which means broadly that there must be a legal agreement stipulating the funds to be advanced in the fiscal year), they may be disbursed within two and a half months after the end of the fiscal year.

---

b/ Or shortly afterwards in certain cases - see below.

8. It may be argued that the pressure to keep disbursements exactly in line with appropriations in order to avoid losses to the programme is harmful, encouraging ill-considered aid decisions and reducing the effectiveness of aid. DANIDA officials contest this and, while maintaining that DANIDA is understaffed, argue that the pressure to spend is desirable in that, without it, a pipeline of undisbursed funds could easily accumulate. This would conflict with the objective of increasing real resource transfers to least developed countries.

#### Future planning

9. As earlier indicated (see para. 3) Denmark's aid disbursements are planned in the context of a five-year rolling programme for aid appropriations designed to achieve specific ODA:GNP targets for each year.

10. Multiyear pledging to individual recipients takes place in two ways; first, via commitments of loans or project aid approved by Parliament, and second, via country programming in relation to the four main or recipient partner countries. Only the former is legally-binding in the Government. The latter, i.e. country programming, is an indicative planning exercise, which excludes loans, and is carried out on the basis of four or five years rolling plans for the individual countries. The country programmes are drawn up in conjunction with the recipient countries. The programme figures are expressed in terms of current prices. Adjustments within limits to allow for cost increases are permitted in respect of those larger projects which require initial Parliamentary approval and further adjustments are possible if they can be justified. Otherwise, there is scope for the reallocation of funds within the country programme and this, combined with the actual growth of aid receipts (usually in excess of indicative plan figures) helps to prevent the adverse effects of inflation on project planning.

#### Multiyear pledging

11. Denmark currently has a medium-term rolling plan for its aid programme (see above). Its existence is believed to have helped Denmark to maintain the growth of the aid programme during the current recession. Apart from individual project and loan commitments, the multiyear pledging of aid to individual countries is restricted to the four main partner countries and is a moral rather than legally-binding obligation to provide aid up to the amounts indicated for future years. Given constitutional constraints, it is as firm as is possible. Although an extension of the present programming approach is being considered, it is unlikely that Denmark would extend the system to more than a few of its current aid recipients. Apart from the administrative problems of so doing given DANIDA's small staff, it is felt that in many cases the amount of aid given is so small as to render the procedure inappropriate. Further, some recipients are not themselves in a position to enter into a planning exercise covering four to five years. The provision of indicative aid figures alone to such recipients might improve their planning potential but Denmark is not prepared to "pledge" aid without knowing how

it is to be spent. Finally, Denmark is unwilling to lose the flexibility presently enjoyed under the current partial programming approach to bilateral aid (which might be interpreted as a way of saying that there are certain of its recipients with which Denmark does not wish to enter into a longer term or closer aid relationship than at present exists).

#### Maintaining the real value of aid appropriations

12. Current procedures for aid planning and appropriations ensure a growth in the real value of aid appropriations consistent with GNP targets - so long as there is not a decline in GNP. Planned disbursements to individual recipients are not automatically protected from the effects of inflation but this is not deemed necessary or desirable. While the aid programme continues to increase, resource transfers to individual recipients tend to be more than maintained in real terms and there is some formal provision for cost adjustments in respect of individual projects. Automatic protection is considered to be undesirable because it would reduce the flexibility of the programme.

#### Non-lapsing authority

13. Denmark is not prepared to endow aid appropriations with non-lapsing authority. It would run counter to established practice and create an undesirable precedent for other ministries. Moreover, it could well lead to the emergence of pipeline problem.

#### Recycling of interest and amortization

14. Return flows of interest and amortization on past development loans revert to the Treasury. There is no need to alter this practice. Return flows of interest are now negligible and scheduled to disappear with the current interest-free loan policy. Meanwhile, since aid is planned net of amortization, return flows of amortization are effectively recycled to the aid budget when the gross appropriations are made.

#### Development tax

15. The official view is that a direct link between development assistance and the question of taxation could have a negative impact on the necessary positive attitude of the population towards development assistance. Further, officials point out that, given that the provision of international aid is seen - or at least promoted - as a social welfare obligation akin to that underlying domestic social welfare provisions, it would be inconsistent to make a special case of aid.

## FINLAND

### Annual appropriations, disbursements and commitments

1. The Finnish aid programme is financed entirely from central government funds appropriated annually by Parliament prior to the fiscal year (January to December). Appropriations, which are voted for gross aid disbursements, are of two sorts: estimate and transferable. c/ Estimate appropriations can be exceeded within certain limits with the approval of the Ministry of Finance, and beyond those limits with the approval of the Cabinet. (So far, however, the problem of Finland's aid budget has been one of underspending rather than overspending.) Transferable appropriations have to be used within two years after the budget year. The development credits (or loans) appropriation is an estimate, and unspent portions lapse at the end of the year. All other appropriations in the aid budget are transferable appropriations and are effectively non-lapsing for three years.
2. The aid budget is divided into four heads (excluding that for administrative expenditure): multilateral assistance, bilateral grant assistance, development credits and humanitarian assistance, and, further, into subheads. The bilateral grant assistance and development credits heads also include a plan of utilization indicating appropriations for the three programme countries and aggregate appropriations for other countries. Parliamentary approval is required for reallocation of funds between heads and subheads. Reallocation of funds within a plan of utilization under a subhead or head can be approved by the Cabinet.
3. When approving the budget, Parliament also authorizes the Government to make commitments for current year and two succeeding years. The authorization for the latter two years covers only a part of the projected appropriations in the following two years. It appears (from DAC sources) that the ceiling on authorized grant commitments for the current fiscal year corresponds with last year's appropriations and that for loans is generally above the current year's appropriation figures. Commitments and pledges to individual countries and multilateral organizations are always subject to Parliamentary approval.
4. The carry-forward provisions for multilateral, humanitarian and bilateral grant aid have permitted the emergence of pipelines, due to disbursement delays. That for multilateral aid is relatively small - currently just over 10 per cent of annual appropriations for that head, while that for bilateral grant aid is just under a quarter and that for humanitarian assistance is roughly 16 per cent of respective appropriations. These pipelines, however, are not taken into account when annual

---

c/ These appropriation types exist in the rest of the budget together with fixed appropriations. Fixed appropriations lapse if unspent in the fiscal year and can only be exceeded if Parliament approves a supplementary budget.

budgets are prepared. Thus, although the pipelines lead to some loss in the real value of the aid appropriated to recipients, they do not adversely affect the level of subsequent appropriations.

5. There has also been some growth in the pipeline of committed but undisbursed funds. This is especially marked in relation to loans (or development credits). Loan commitments are made under individual loan agreements which usually involve disbursement over a four-year period. This period may be extended by mutual agreement. Thus, while appropriated loan funds lapse if not spent, commitments are effectively rolled forward. Since the disbursement rate for loans has been relatively poor (between 1970 and 1975 some 40 per cent of total appropriations lapsed), d/ and commitments have been increasing, the commitments pipeline for loans has grown considerably, amounting to twice the level of the 1975 loan appropriations at the end of 1975. Clearly, time-lags between commitments and disbursement effectively reduce the value of aid allocated (although some time-lag is inevitable given that loan commitments cover a multiyear disbursement period).

#### Forward planning

6. The annual aid budget is planned in the context of a five-year rolling plan for all budgetary appropriations. The aid budget rolling plan is prepared by the Ministry of Foreign Affairs, "adjusted" by the Ministry of Finance and submitted to Parliament together with the rest of the plan as an annex to the annual budget. The plans are made in constant prices but are subject to annual revision and do not in any way authorize ministries as to future expenditure.

7. Aid programming takes place in respect of three countries via three-year rolling programmes revised annually. The aid totals for the second and third years are indicative only, and made in current prices on the basis of Parliament's advance commitment authorization (see para. 3 above). The planning figures given to recipients are thus less than likely appropriations. The multiyear agreements entered into with individual recipients are legally binding as far as they do not exceed authorizations given by Parliament (and as far as this authorization can be considered legally binding in international law). The allocation of funds to different projects within the country programme can be changed during the annual consultations between Finland and the recipient country. No special provisions exist to allow for the effects of inflation on any forward commitments.

---

d/ Although it improved (along with disbursements under other heads) in 1975 with lapsing funds accounting for 19 per cent appropriations.

#### Multiyear pledging

8. This exists in respect of programme countries and, to a lesser extent, of other bilateral and multilateral recipients. There is no evidence to suggest that Finland proposes to change its current procedures.

#### Protecting the real value of aid appropriations

9. All projected appropriations in the five-year rolling plan are set in constant prices. This device clearly provides no protection against cuts in the projected appropriations, and without such protection inflation-proofing is of only limited value. The Finnish authorities are, however, considering the possibility of adopting a target date for achieving the 0.7 per cent ODA:GNP ratio. If a target date were adopted and aid planning were changed accordingly (e.g., in line with the other Nordic countries' procedures) so as to ensure meeting the target on time then the real value of aid appropriations (and their growth) would be assured.

#### Non-lapsing authority

10. Grants can already be carried forward and while annual loan appropriations are lapsing, committed loan funds may be disbursed over a four-year period. The latter arrangement appears to provide sufficient flexibility but has led to the growth of a significant pipeline of undisbursed commitments.

#### Recycling interest and amortization

11. The Finnish view is that adoption of this part of the resolution would not in practice increase the funds available (of which, it might be added, there is currently no shortage!). Moreover, Finland intends to phase out loans to the least developed countries among her recipients and has also decided to allow these countries to postpone repayments of principal on past loans until 1980. Fifty-three per cent of Finland's total aid disbursements in 1975 went to least developed countries, but it is not clear how far the above policy would reduce the level of return flows. The latter amounted to US\$ 0.6 million in 1975, roughly 1 per cent of total disbursements, and consequently are not currently of major significance.



## FRANCE

### Annual appropriation, commitments and disbursements

1. France's aid is financed largely out of budgetary funds, though the Caisse centrale de coopération économique (CCCE) also raises loans on the capital market. Each ministry presents estimates of its budgetary requirements and the aid appropriations for disbursement are voted annually by Parliament in the lois de finance. France adheres strictly to the principle of annual budgeting, with the result that each programme authorization voted by Parliament is legally binding for one year. However, supplementary budgets, (lois rectificatives de finance) are not unknown, and the Ministry of Co-operation has obtained increases in its over-all ceiling to cope with excess expenditure on technical assistance in the last two years. The impression given by aid officials was that multiyear pledging would only be feasible if France had an annual target for the volume of aid disbursements. At present, under the seventh Development Plan (1976-80), France intends to raise its net aid disbursements to 0.7 per cent of GNP by 1980, though with the qualification that it expects other industrialized countries to do likewise. Aid represented 0.62 per cent of GNP in 1976, but there is no systematic plan to achieve individual targets in the intervening years of the plan. In view of the current budgetary crisis (French ODA represents a heavier burden on the budget than on the balance of payments) and the poor economic situation, it now seems less likely that the 0.7 per cent target will be achieved by 1980; it was moreover felt that it would not be an appropriate time to introduce a form of general multiyear planning of aid even of a non-legally binding nature.

2. However, precedents have been set in the adoption of multiyear plans for other types of government expenditure under the seventh five-year plan. Under the loi de programme, the Ministry of Defence was allocated a rising annual proportion of the national budget (16 per cent in 1977) for each of the five years of the plan, though difficulties in implementing this multiyear arrangement are already being felt. Similarly, the programme d'action prioritaire committed a global sum to export promotion over the five-year period 1976-1980. The possibility of including overseas aid in this latter arrangement (which involves a non-legally binding multiyear pledge fixed in 1975 prices, not as a proportion of government spending) was considered but rejected on the grounds that too many ministries and too many types of credit were involved.

### Multiyear pledging

3. Lack of enthusiasm for formal multiyear planning is echoed by aid officials. Since a legally binding commitment is not possible beyond one year, given the strict budgetary rules, moral and political commitments to individual recipient countries are considered more suitable for long-term projects where each tranche is voted annually within the individual ministry's budget, while recipient countries, in so far as they are themselves in favour of the multiyear planning of aid inflows, can normally count on the same volume of aid as the previous year as a minimum. Much

/...

therefore depends on the long-term political relationship between the recipient country and France. Most of the countries aided by the Ministry for Co-operation negotiated long-term co-operation agreements circa 1961 on independence. These agreements encompassed military, cultural and economic co-operation but were of a general nature not involving the stipulation of figures relating to aid transfers. At present these agreements are being renegotiated, the intention being to set up a commission mixte for each recipient country within which the nature and extent of France's medium-term interventions would be outlined. Such commissions mixtes are already operating for 10 of the 26 countries in question, but in the case of one West African country, an early entrant into the scheme, the over-all aid figure fixed for 1976-1977 had to be renegotiated owing to subsequent disagreements on projects previously accepted by the commission mixte.

4. For countries outside the scope of the Ministry for Co-operation and the Secretariat of State for the Overseas Departments and Territories (DOM/TOM), the only facility for multiyear planning is the moral commitment embodied in the annual protocoles financiers (loan agreements) drawn up with the Treasury that the volume available is not likely to diminish from year to year. There is however no means of guaranteeing its rate of increase.

5. Finally the only part of French aid expenditure which can be said to be multiyear planned is the share (albeit large - it was 47 per cent in 1975) of technical assistance. This is largely due to the fact that contracts for technical assistance personnel are usually of two years' duration and salaries are indexed to compensate for inflation.

#### Preventing the erosion of the real value of aid

6. As indicated above, technical assistance expenditure is adjusted for inflation on an individual basis by indexation of salaries. This can, however, mean that the actual number of co-operation personnel provided diminishes in relation to the planned level, while the budgetary appropriation for aid remains fixed. The other alternative is to diminish the funds available for capital aid (in the case of the budget of the Ministry of Co-operation). Mention has already been made of the possibility of supplementary budgets to finance overspending, but the basic rule of budgeting in current prices and on an annual basis applies to all French government expenditure. Estimates of expenditure on projects may include a 10 per cent margin for inflation, but this seems rarely adequate, even on the faster disbursing projects. Constant-price budgeting is not allowed under French budgetary rules.

#### Non-lapsing provisions

7. The annual programme authorizations may or may not lapse according to which ministry is in receipt of the credits. Broadly speaking, all aid allocated to the Francophone world is endowed with non-lapsing authority while expenditures in other countries are much more closely controlled. The budget of the Ministry for

Co-operation is voted to the credit of the Fonds d'Aide et de Coopération (FAC), and once here it remains available until disbursed. Technical assistance commitments are automatically disbursed within the year, while for committed project aid there is an automatic carry-forward from one year to the next. In the past, even non-committed budgetary funds were allowed to remain in the FAC without lapsing for three or four years, but in the present budgetary situation this is unlikely to be the case. Similar rules relating to non-lapsing apply to the budget of the DOM/TOM Secretariat of State, and any other loans which CCCE makes on its own behalf (mainly to the Ivory Coast, Gabon, Senegal and the United Republic of Cameroon) are outside the scope of legislative control. In the case of grants and loans to the rest of the world, however, only one tenth of the credits voted in the annual budget can be carried forward (for one year only) in the case of technical co-operation. Any undisbursed residue must return to the Treasury. Capital aid (usually in the form of Treasury loans) is divided up into annual payment credits which, if undisbursed after a year, lapse and return to the Treasury. Thus the countries which France considers to be outside her specific political and cultural sphere of influence seem to be much more harshly treated on this count.

#### Recycling of loan backflows

8. A large proportion of French aid is given in the form of grants, therefore the setting up of a special fund to rechannel return flows from loans was not considered to be particularly useful. It would moreover conflict with the rule that government receipts return to the general government budget and cannot be earmarked for specific purposes. Virtually all the credits disbursed by the FAC are in the form of grants: loans represent only 1 per cent of the total. Amortization and interest payments on loans from the Treasury (which are voted gross) return to the Ministry of Finance as do return flows on development loans from other ministries. Only where CCCE intervenes to make loans on its own account from money raised on the capital markets (usually in Germany, Switzerland and France) with a treasury guarantee do the backflows remain in CCCE to be used as funds for new investment.

9. Though there is no provision for a special fund for recycling the backflows on government loans, it was pointed out that since the volume of new loans plus the costs of debt rescheduling far exceeds government income from interest and amortization payments on past loans, the French Government considered that, in practice, such receipts were recycled to development assistance, though there could be no special provision for assuring that they were supplementary to the ceiling voted in Parliament for the aid budget, or to the ceiling imposed by the Ministry of Finance on government lending.

#### Development tax

10. Owing to the principle on non-affectation of government receipts, the idea of a development tax to finance aid expenditure was not regarded favourably. Parabudgetary taxes require special legislation to permit their use for a specific purpose. Though a few precedents exist - for instance, the annual tax on television owners is used to finance the operations of the broadcasting authority - it was not considered likely that Parliament would approve such a procedure for development aid.

GERMANY, FEDERAL REPUBLIC OF

Annual appropriations, commitments and disbursements

1. Each year, requests for expenditure to be made in the following year are presented to the Federal Parliament in the Federal Ministry for Economic Co-operation (BMZ) aid budget, Einzelplan 23. In practice, however, there are two aid budgets, since Parliament authorizes not only annual cash disbursements but also votes fresh commitments each year for expenditure in the next four years. In some cases, Parliamentary commitments authorizations even stipulate the years when disbursements can be made. Both budgets are legally binding and thus there is a very close connexion between annual cash appropriations voted by Parliament and the level of commitments previously approved for disbursement in that year. All cash appropriations are based on previous commitment authorization, with the exception of emergency relief aid and some multilateral payments. A disadvantage of the system is that any multiyear commitment appears in its totality in that year's commitment budget, even though its disbursement may not begin until later. Furthermore, because of the double limitation on expenditure, disbursements in a given year cannot effectively be raised above a level which exceeds the commitments authorization voted in the past. Where the level of commitments authorizations is adequate, however, supplementary budgets to raise the level of cash appropriations to meet current year obligations can be introduced, as was the case in 1975.
2. Planning for cash payment authorizations is undertaken by the BMZ in a medium-term plan covering a four-year period and rolling forward each year. The over-all volume of aid within the multiyear plan is projected to follow the expected increase in GNP, though the recent spending curbs, introduced in order to reduce the growing deficit in the Federal budget have seriously affected the medium-term plan. Forward planning with Parliament approval is, however, possible to the extent that authorized commitments to specific types of aid are legally binding.
3. Although Germany has an extensive system of country-programming for its aid, in particular with its 20 countries of concentration, the strict budgetary rules referred to above mean that a firm commitment on aid volume can only be made for the first year of a country programme. Some major recipients (notably India) have exceptionally received firm commitments for the first two years of their programme, but BMZ is reluctant to extend this practice since the sums committed for both years have to be voted in the annual commitments budget, thus in practice reducing the amount available for other country programmes. Recipient countries are usually given to believe that they can expect at least an equal amount of aid (in nominal terms) in future years, but future volume indications of a more precise nature cannot be given, even though planning totals for the four years of the multiyear programme are calculated for internal purposes.

#### Multiyear pledging

4. Subjected to a strict annual budgeting of both commitments and cash disbursements, the German Government cannot pledge its aid beyond the coming financial year. All estimates of public expenditure appear within a four-year rolling plan, revised annually, and the BMZ establishes a medium-term plan for its aid programme on the basis of this, but both plans are subject to substantial alteration (as occurred in 1976) and firm guarantees on totals can only be given for the coming year. For individual country recipients with which the German Government has established general advance agreements, the over-all volume of aid can be committed firmly only for the first year. In view of the need for Parliamentary authorization the German Government is unwilling to give indications of aid volume beyond the first year, though a few exceptions for major recipients have been made.

#### Protecting the real value of aid against erosion

5. Budgeting in constant prices is contrary to German budgetary practice, though de facto adjustments in the over-all volume of aid are made as the rolling plan comes up for renewal each year. Disbursements are nevertheless dependent on previously authorized commitments, the value of which might have been eroded by inflation in the case of slow-maturing projects. The BMZ's share of the Federal budget is indicated for four years in advance within the context of the rolling plan for public expenditure. Monetary totals are derived from the share allocated to Einzelplan 23. But these indications of shares are subject to alteration by the Cabinet. Thus, in 1976, when the BMZ share was reduced from 2.3 per cent to 1.9 per cent, there occurred a 13.2 per cent decrease in BMZ budget in nominal terms, and a further decrease in real terms. Disbursements to individual recipients can only be adjusted on an ad hoc basis to compensate for increased costs to the extent that items in the cash appropriations budget are not exceeded.

#### Non-lapsing authority

6. Unused cash appropriations voted in the Federal budget normally lapse at the end of the financial year. Although they may be carried forward for one further year under special provisions, the amount carried forward has to be included in the following year's total for cash appropriations when Parliamentary approval is sought, so in aggregate there is no benefit from the non-lapsing provisions which can be applied.

#### Recycling loan backflows

7. Since 1971, Germany has maintained a revolving fund for amortization payments on development loans (Tilgungsverrechnungskonto). All return flows of amortization are held by the Kreditanstalt für Wiederaufbau where they are used

to finance new loans. The fund currently accounts for around 10 per cent of total German capital aid. At present, repayments of interest return to the Federal budget. The BMZ considered the possibility of recycling these backflows directly into the aid programme but judges that opposition from the Finance Ministry (rather than from Parliament) would effectively prevent such an initiative at present.

#### Development tax

8. A special Federal tax to finance the German aid programme would be acceptable neither to the Government nor to the major parties, particularly in view of the substantial tax reforms introduced in 1976, the concern about the budgetary deficit, and the general lack of interest shown by the German public for development issues. Voluntary contributions to non-government organizations active in the aid field (particularly the churches) are considered a more suitable means of raising the individual's level of involvement with the developing world.

## ITALY

### Annual appropriations and forward planning

1. Parliament does not exercise over-all control over aid volume as a whole, since bilateral loans are financed by credit institutions whose assets are all privately owned. A separate appropriation of funds to cover interest subsidies is voted by Parliament to cover disbursements over a multiyear period (currently for the period 1976-1980). Appropriations for contributions to multilateral organizations are voted separately, and a further separate vote provides appropriations for bilateral grants. Since 1971, technical assistance expenditure has been the subject of a special law covering a five-year period. Appropriations were voted in 1971 for disbursements in individual years of the programme, and supplementary financing was made available to extend the programme to 1976. A new draft law on technical co-operation to cover annual disbursements for the period 1977-1980 is scheduled for approval by Parliament in 1977.

2. In recent years, multilateral contributions and the technical co-operation programme have been the main elements of Italian net ODA flows. Although appropriations for interest subsidies for bilateral loans have been made it is not expected that any new bilateral development loans will be made before 1978 in view of the unfavourable situation on the private capital market. It is for this reason that the system of multiyear planning adopted for technical co-operation could serve as a model for a law to co-ordinate financial aid, which does not currently benefit from any systematic forward planning. Despite both inflation and the fall in value of the lire, budgetary appropriations made in 1971 for the five-year technical co-operation programme were adequate to ensure growth in real terms. The new draft law provides for total expenditure of \$184 million for the period 1977-1980 with increasing annual nominal figures for disbursement in each year of the programme. Recipient countries which are in a position to reimburse some of the costs of the programme will be expected to do so under the new law, and such revenues will be recycled to ensure that the new programme continues to expand.

### Multiyear pledging

3. The only part of the Italian aid programme which can be said to be multiyear planned is the technical co-operation programme. Commitments to individual recipient countries can be undertaken within the limits set by the annual disbursement allocations fixed under the programme. Budgetary allocations for interest subsidies are voted in advance, but it is not clear what happens to these when (as is currently the case) finance from the capital market for development loans is not forthcoming. Multilateral commitments often suffer from delays in obtaining Parliamentary approval, and consequently are often paid in arrears.

Maintaining the real value of aid appropriations

4. Disbursements under the technical co-operation programme are fixed in lire at current prices, but allowances for increased costs in the future years of the programme are made when framing the law. The rest of the Italian aid programme seems to be undertaken on an ad hoc year-to-year basis, is heavily dependent on the state of the capital market and Italy's own balance-of-payments situation, and is consequently not protected against inflationary erosion. Moreover, Italy employs no mechanism to ensure that annual aid appropriations follow the trend in GNP.

Non-lapsing authority

5. From the limited information available, it appears that budgetary appropriations lapse if they are not disbursed in the financial year for which they are voted. The financial year runs from January to December.

Recycling of loan backflows

6. The Italian Government does not make bilateral development loans on its own account, offering only interest subsidies which are paid out of the grant aid budget, plus its guarantee. Repayments of interest and principal therefore revert to the credit institutions which provided the loan. Since 1975, however, Italy has been requesting the richer developing countries to reimburse some of the costs of the technical co-operation programme, previously provided as grants. Such contributions will form a revolving fund to be used solely for the technical co-operation programme.



## JAPAN

### Appropriation, commitment and disbursement procedures

1. In Japan, the principal sources of financing for the aid budget are the regular appropriations from the Parliament which finances mainly grants and multilateral contributions, and special cost-bearing funds which consist largely of pension and postal funds. While precise figures are not available, it appears that as much as 50 per cent of Overseas Economic Corporation Fund (OECF) funds originate from the trust funds, while the remaining 50 per cent is accounted for by Parliamentary appropriations.
2. With respect to loan projects, disbursements take place on the basis of annual Parliamentary authority which ensures that once project implementation commences a fairly precise profile of disbursements can be anticipated. When underspending takes place, it is not generally possible to switch resources to other projects or areas. Owing to the stringent conditions which exist as regards disbursement procedures, Japan tends to experience a ratio of annual disbursements to total commitments of about 18 per cent. An expansion in aid programmes will have to come either via significant changes in the policies and procedures regarding disbursements or a significant expansion in the commitments base.
3. Budgetary procedures in Japan require all expenditures to be authorized on an annual basis. Although it is not possible to undertake legally binding commitments for aid for a period exceeding one year, multiyear commitments may be undertaken since the Parliament in practice honours the commitments undertaken by the Government. In this regard, the budgetary policies and practices with respect to external aid are consistent with procedures adopted for domestic expenditures.

### Multiyear pledging

4. Although formal country programming, encompassing advance pledging of aid to recipients, is not undertaken in Japan, the aid institutions do undertake a broad economic analysis of each major recipient, together with an assessment of the recipient's capital requirements over a longer term period. This analysis does not, however, form a basis for multiyear pledging of assistance. However, as Japan's aid programme expands and the administration of aid is centralized, systematic country programming and multiyear pledging is expected to become a feature of the aid programme.

### Non-lapsing provisions

5. In Japan, undisbursed aid funds that are voted by Parliament may be carried forward from the current budget to the next year. Up to 50 per cent of the aid budget resources come from special trust funds such as the postal and pension funds, which are made available to the Japanese aid institutions for undertaking

/...

commitments. If such commitments with regard to the ceiling provided by the special funds are not entered into in a given year, the funds in effect lapse and revert back to the special trust funds. Since commitments to the full extent of the available budgetary authority are not entered into, in practice lapsing does not pose a serious problem.

#### Interest and amortization receipts

6. Reverse flows on account of amortization payments, together with government subscription and borrowings from the Trust Fund Bureau constitute the funds of the Exim Bank and OECF and becomes available for new lending. Interest receipts on past loans by the Exim Bank may be used to meet a part of the bank's operating costs.

#### Maintaining the real value of disbursements

7. The Japanese budget is voted and appropriated on the basis of current prices as is the rest of the domestic budget. In times of rapid inflation, therefore, there is frequently the danger that the real value of commitments in the pipeline may erode substantially. The aid budgeting procedures do not contain provisions to meet contingencies such as cost overruns in a systematic way. As regards individual projects, funds are made available on an ad hoc basis to counteract the effects of cost overruns. Occasionally, as a result of the revaluation of yen, it is also possible to allocate the extra resources available for purposes of mitigating problems of cost overruns but this remains a rather small and insignificant sum.

#### Development tax

8. This proposal is not viewed favourably by Japanese aid officials principally because it is not likely to find much political support in the Parliament.

## NETHERLANDS

### Annual appropriations, commitments and disbursements

1. The annual budget for development co-operation is presented to Parliament by the Minister for Co-operation and voted by the Lower House in September. It is broken down into ODA items and non-ODA items, the latter including information activities within the Netherlands, subsidies for interest payments on the loan programme, structural adjustment within the Netherlands and the reception of immigrants. The Government declared on taking office in 1973 that, irrespective of any economies that might prove necessary in the government budget, the gross amount allocated to development co-operation (i.e. in both parts of the budget) would reach 1.5 per cent of net national income at factor cost in 1976. This share, representing commitments and corresponding to 1.22 per cent of GNP at market prices, was reached in 1976 and it is the intention of the Government's multiyear plan for expenditure to maintain this level until 1980. All political parties are committed to maintaining a high level of aid in future years; all are agreed that the 1.5 per cent of GNP figure should be regarded as a minimum for the beginning of the next decade, while the two progressive parties favour a new target of 2 per cent. This seems to reflect the substantial support for and awareness of development questions on the part of the general public in the Netherlands.
2. Within this target for gross commitments relating to all development co-operation activities, the level of net disbursements of ODA reached 0.75 per cent of GNP in 1975 (meeting the United Nations target for the first time) and 0.8 per cent in 1976. It is planned to increase the share of ODA disbursements by 0.05 per cent of GNP per year over the next four years, arriving at 1.02 per cent of GNP for net ODA disbursements in 1980. The Netherlands authorities plan to achieve this latter target by (a) a progressive reduction of the proportion of non-ODA items in the aid budget; (b) a shift from commitments budgeting to disbursement budgeting; and (c) drawing-down of the sizeable amount of aid in the pipeline.
3. In the past, the method of fixing a nominal figure for the amount of aid to be committed in advance in a multiyear programme for aid and deriving the aid:GNP ratio from this meant that the real value of this aid was subject to erosion by inflation. Since 1975, the budget figure for aid has been fixed as a ratio to net national income so that the real value of the aid ceiling is not affected by inflation. (It is however, adversely affected by unexpectedly slow rates of growth of national income.) Aid programming can still proceed with nominal indicative figures, but these now form a financial statement outside the budget accounts proper. Flexibility is allowed to the extent that overexpenditure on any budget items relating to development aid can be made as long as the over-all aid ceiling is not exceeded. In response to the United Nations Secretary-General's appeal for aid for the most seriously affected developing countries in 1974, a supplementary budget was approved, though this was an exceptional occurrence.

#### Multiyear pledging

4. Multiyear planning of aid is now done within a four-year rolling programme, in the light of the annual share of aid: net national income pledged by the Government. It is adjusted annually so that each year a further year is added to the planning period. It is also adjustable within the budget year to permit disbursements to be made according to changing priorities, in particular to channel funds into direct aid e/ and into disaster relief operations. New commitments of bilateral aid are now made for the first year only. In the past, technical assistance pledges were made to target countries for the whole period of the multiyear plan, while financial aid was pledged firmly for the first year, with the undertaking that the recipient could expect at least the same nominal amount in the following years. This strict planning procedure (which resulted in a rapidly increasing pipeline of undisbursed commitments) has now been sacrificed in favour of increased flexibility within the aid plan. Moreover the shift to disbursement budgeting is being made in anticipation of the new Accounting Law (Comptabiliteitswet) which is expected to come into force in July 1977. It will require all government departments to budget on the basis of expected annual cash disbursements. Under the old law, all commitments had to be voted in the annual budget presented by the Minister for Development Co-operation even though they were intended for disbursement over several years. With the non-lapsing authority which the Dutch Government accords to its aid appropriations (as it does also to military and sea reclamation expenditures) this meant that the pipeline (Stuwmeer) of undisbursed commitments became very large. Until 1973, funds in the pipeline consistently exceeded the annual budgetary appropriations for aid. By 1976, it had decreased in relative terms (though its size had increased in nominal terms) to 57 per cent of the annual aid ceiling.

5. Although still in a transition stage, the move towards budgeting on a cash disbursements basis is a means of providing a closer link between the annual aid budget and the multiyear rolling-aid programme. Dutch procedure is thus characterized by a firm undertaking to make available a given volume of aid in future years. This volume is derived as a share of national income and not vice versa. Individual categories of aid expenditure are drawn up within a rolling four-year plan, but the tendency is to increase the amount of flexibility within this plan. Thus, while the Netherlands Government is firmly committed to providing developing countries as a whole with firm indications of its aid flows in future years, it is now less inclined to provide individual recipients with multiyear plans for its aid expenditures, preferring to increase or decrease disbursements according to the performance of the recipient country and the need to divert budgeted funds to emergency situations.

#### Preventing the erosion of the real value of aid

6. The Netherlands authorities have successfully overcome the problem of inflationary erosion of the aid ceiling by fixing the value of the ceiling as a

e/ Broadly defined as aid to the poorest countries and population groups which are affected by permanent or semi-permanent emergency situations other than short-term natural disasters.

/...

proportion of national income for the years up to 1980 and deriving the nominal figure from the aid/net national income or aid/GNP ratio. The problem remains to mesh the financial planning figures (for development co-operation as a whole and for the ODA disbursements component) with the annual planned ratio, and this is being achieved through increased flexibility with regard to adjustments between faster and slower disbursing budget items and through the introduction of aid budgeting within the multiyear programme on the basis of expected cash disbursements. The Dutch Government is however conscious that repayments of interest and principal on loans fixed in Dutch guilders - a currency which has appreciated in recent years against most major currencies including the United States dollar - might impose an excessive burden on developing countries whose export trade is conducted principally in weaker currencies. It has therefore proposed to one major recipient of its development loans that, while the loans would continue to be expressed in guilders, their value in terms of special drawing rights (SDRs) would be established, and any appreciation of the guilder in relation to the SDR which has occurred by the time interest and amortization payments are due would be used as an index to deflate the repayments. This would mean that the Netherlands would receive a smaller amount in guilders than the debt owed by the developing country, and a further provision would be made that, in the event of the guilder depreciating against the SDR, no adjustment need be made. Though no formal agreement on this procedure has yet been reached, it seems to be an interesting initiative which some other donors benefiting from strong currencies might wish to consider.

#### Non-lapsing authority

7. Traditionally, aid appropriations like those for domestic expenditure on defence and sea reclamation are automatically endowed with non-lapsing authority once voted by Parliament. Under the new Government Accounts Law, however, the Minister for Development Co-operation has to indicate which parts of his budget are non-lapsing. Unspent appropriations which do not fall into this category will require special approval by Parliament if they are to be carried forward. Aid officials did not, however, expect that there would be any losses under the new accounting system, particularly as the aid budget would be drawn up increasingly on a disbursement basis. Moreover, although it is the intention of Parliament to reduce the size of the pipeline of undisbursed aid commitments (standing at an estimated D.Fl. 1,654 million in 1976), there is no insistence that this sum should be all spent within one year, nor that the unspent portion should lapse. An example of a project commitment in the pipeline is a D.Fl. 25 million migration project for Indonesia which was committed three years ago and is expected to start disbursing only in 1978.

#### Recycling of loan backflows

8. Since 1975, the Netherlands has adopted a system of making loans on terms corresponding to the economic situation and development prospects of the recipient country, as assessed by the Netherlands authorities, there being five categories of

/...

terms in addition to grants. Although the Government has considered the possibility of setting up a revolving fund for return flows on past development loans, no action has been taken because it feels that the funds voted by Parliament for development co-operation are adequate and the requests of the Minister are rarely disputed. Parliament would look with a more critical eye on a system which automatically rechannelled funds to a particular activity. Thus the situation will remain as it is at present, return flows on government loans reverting to the Treasury and being used as general revenue.

#### Development tax

9. The high level of aid and the ease with which budgetary appropriations for aid are made is also a reason why a special development tax is considered unnecessary in the Netherlands. It is also undesirable in view of the unfortunate experience the Government has had recently in collecting revenue from a special tax it imposed to cover payments to the Kalkom fast breeder nuclear reactor project. So many tax payers objected to this special tax on conscientious grounds that a further special tax had to be devised for the objectors. Although aid issues receive very favourable treatment by the general public in the Netherlands, a similar reaction to a development tax could not be ruled out, and the Government therefore prefers to continue to finance its aid budget out of general taxation.

## NEW ZEALAND

### Annual appropriations, disbursements and commitments

1. The aid programme is financed entirely from central government funds appropriated annually by Parliament. Appropriations are for gross disbursements. Return flows of interest and amortization are channelled directly into consolidated revenue and are not taken into account in the determination of annual appropriations (but given the terms of New Zealand's aid, these flows are negligible in relation to total aid). Appropriations lapse if not spent during the relevant fiscal year, and there is no provision for supplementary appropriations.
2. Disbursements have been maintained in line with appropriations so that lapsing has not resulted in a loss of funds to the budget. Indeed in the last two years, there has been some overexpenditure of the aid allocation due to "unexpected overruns". This disbursement performance has been assisted by an over-commitment policy in relation to bilateral aid whereby the Ministry of Foreign Affairs has been allowed to enter into commitments of (now) 130 per cent of expected cash disbursements in the context of the Forward Aid Programme (see below).
3. Formal aid commitments by the Government are constrained by the fact that appropriations for expenditure are made annually by Parliament. However, the Government is able to enter into formal commitments in covering future financial years for individual bilateral projects and multilateral contributions provided that they can be covered by resources expected - on a conservative estimate - to be available in future years. No automatic provision exists for offsetting the effect of inflation on past commitments but the latter are regularly reviewed and - depending on the priorities of developing partners - adjustments can be made within their respective country allocations.

### Future aid

4. Aggregate aid appropriations are determined annually in the context of circumstances at the time and - as with other central government appropriations - no planning figures are advanced for total aid appropriations in future years: progress towards the 0.7 per cent target is thus an ad hoc affair.
5. Multilateral aid is not subject to any forward planning except in so far as certain commitments are made on a multiyear basis. Bilateral aid, however, is planned in the context of three-year rolling programme: the Forward Aid Programme (FAP). Planning figures for the period are adopted for bilateral capital and technical assistance to each of New Zealand's aid partners. These figures form the basis for three-year country aid programmes drawn up in consultation with individual recipients and, in principle, endorsed by government ministers prior to

implementation. The figures for the second and third years are set in current prices and are indicative only. None the less, it is believed that the existence of FAP may help to protect the bilateral component of the programme when public spending cuts are made.

#### Multiyear pledging

6. The FAP system, although not involving a formal commitment, is designed to assist New Zealand's aid partners to plan the use of aid resources over a three-year period. Clearly, the partial nature of the system, in the absence of plan figures for total aid, could result in multilateral aid flows bearing the brunt of any curtailment in total aid appropriations.

#### Maintaining the real value of aid appropriations

7. Government officials' comment on this point is that "New Zealand remains firmly committed to the 0.7 per cent target but the rate at which it moves towards the target will inevitably be determined by its own economic situation". There is thus no provision to protect total aid appropriations from the effects of domestic inflation.

#### Non-lapsing provisions

8. It is held that such provisions are not required as allocations have been fully disbursed.

#### Recycling return flows to the aid budget

9. This is not envisaged. In the light of New Zealand's predominantly grant aid programme, it is also arguable that it is an issue of very minor importance.



## NORWAY

### Annual appropriations, disbursements and commitments

1. Disbursements under Norway's aid programme are financed entirely from central government funds appropriated annually by Parliament. The aggregate appropriation figure for a given fiscal year (January to December) is worked out early in the preceding year on the basis of the ODA:GNP target ratio for that year contained in the rolling four year aid programme. The target ODA figure is for gross aid (but return flows of interest and amortization are currently negligible) and includes expenditure on aid administration, public information and support for development research. The latter is currently less than 3 per cent of total aid appropriations. The GNP estimate for the coming fiscal year is made at estimated current prices for that year, as is the appropriations figure derived from the estimate. Estimates for actual appropriations in the three succeeding years are also made in terms of the prices for the coming fiscal year. No adjustments are made to the total appropriations for a given year once they have been voted (just before the start of the fiscal year), but it is held that any discrepancy arising between the target and the actual ODA:GNP ratio tends to be negligible.

2. The annual budget is voted in some detail. Appropriations are made for individual programme countries (see below), multi-bi projects f/ and individual multilateral organizations and for individual projects in non-programme countries. Budgetary flexibility is provided by the existence of a budgetary reserve item in the aid vote; by the possibility of amendments to the budget when it is voted (to take account of changes occurring during the interval between its preparation and its presentation); and by the possibility of supplementary appropriations (usually two) during the fiscal year. The latter provide an opportunity for expenditure on new projects to be approved and for funds to be reallocated between budget items. The Ministry of Foreign Affairs has authority to reallocate funds within a given country programme.

3. Appropriations for multilateral aid lapse if not disbursed during the fiscal year, but appropriations for bilateral aid and for multi-bi projects can be carried forward for two years. Given the relative ease of multilateral aid disbursement and the existence of the budgetary reserve item, aid funds are effectively non-lapsing. Norway has had some problems in disbursing its aid but these are attributable more to the rapid growth of the programme combined with only a limited growth in the numbers of aid personnel than to the relative lack of spending pressure resulting from the provisions on lapsing. The pipeline of undisbursed funds which represented about one third of the 1973 budget at the end of that year has now been reduced to around 10 to 15 per cent of the budget in any fiscal year. This achievement is due partly to changes in the budgetary system involving some

---

f/ Projects undertaken by multilateral organizations with direct financial support from Norway.

delegation of Parliamentary authority but mainly to changes in aid composition and aid management. In particular, the streamlining of the country-programming approach and increased flexibility as to the use of aid - for instance, for budgetary and programme support, for local and recurrent costs - has helped to reduce the pipeline problem.

4. There has been some concern, voiced by DAC, inter alia, that Norway's current disbursement rate, achieved with only modest increases in administrative staff, may be at the expense of aid effectiveness. The Norwegians, whose aid programme in respect of its volume, composition and geographical allocation provides a model for most DAC countries, are not so concerned. Officials note that the disbursement problems met by other donors are not unrelated to the restrictions they place on aid use. And the point made by the Government in relation to budgetary support in its recent report to Parliament deserves consideration by other donors:

"It is the Government's view that, having assessed a country's general economic position and its policies, it cannot permit the desirability for detailed supervision and control to act as a hindrance to development ... extensive control activities will require a relatively substantial effort by the donor country and not least by the recipient country both as regards personnel and money, quite apart from the fact that such control measures may have a delaying effect. It is therefore always necessary to consider whether such control measures are in reasonable proportion to the desired results." g/

5. Parliamentary approval is theoretically required for any commitment involving expenditure from central government funds in future years. This approval is not always sought nor is it always required since considerable authority has been delegated to government and to the Ministry of Foreign Affairs specifically for individual project agreements. Where approval is required it is customary to go ahead with the agreements but to insert a clause "subject to Parliamentary approval".

#### Future aid planning

6. The aid programme is planned in the context of a four year rolling programme, which provides indicative figures at constant prices for total aid appropriations in the three years following the current fiscal year and target ODA/GNP ratios for those years. There is a firm political commitment to the targets, and especially to the 1 per cent target. Consequently, provided Norway's economy remains healthy, the growth in real terms of future aid appropriations is assured.

7. Multiyear pledging to individual recipients (as opposed to specific projects) effectively takes place in relation to the seven programme country recipients and

---

g/ Norway's economic relations with developing countries, Report to the Storting no. 94 (1974-75), NORAD, p. 43.

to one of two other countries afforded special treatment - h/ although not as a legally-binding commitment. Programme and "special case" countries are provided each year with indicative figures for the rolling plan period. On the basis of these, a detailed programme is put forward, appraised by the Norwegian Agency for International Development (NORAD) and approved by the Ministry of Finance. An agreement is then negotiated between Norway and the recipient covering aid disbursements for the period. Plan figures for the last three years are indicative only and expressed in current prices, but the recipients can treat these figures as a minimum for their future aid receipts and can expect actual aid to increase in real terms. There are specific provisions for underspending within the country whereby - usually - the residual unspent allocation for any year goes to the local Development Bank (either for specific approved projects or - as in the United Republic of Tanzania now - under a general agreement relating to the use of such funds). Funds for planned expenditure on agreed projects or programmes which are diverted in this way are not permanently lost since they can be made up in subsequent years.

#### Multiyear pledging

8. As indicated above, Norway effectively "pledges" most of its bilateral aid. The extension of this country programming system is limited by Norway's policy of geographical concentration on countries whose policies are developmentally oriented and consistent with social justice. This policy reflects Norway's own administrative constraint and its desire to use its aid to the greatest effect. There are currently plans to extend the country programming approach to two other countries. Further extensions are unlikely and, quite apart from Norwegian policy, would be inappropriate in some cases given the deficiencies in certain recipients' planning.

#### Maintaining the real value of aid appropriations

9. The growth in the real value of aid is ensured by the political commitment to and public support for the ODA:GNP targets in the context of the rolling programme. No need is seen for adjustments to appropriations during the fiscal year since good estimates result in appropriations very nearly on target in any case. With a rapidly growing programme, moreover, there is little case for fine adjustments of this sort. Individual programmes and projects are similarly protected from the impact of rising costs and no need is seen for any automatic indexation.

---

h/ For example, the Socialist Republic of Viet Nam which has received reconstruction aid from Norway.

Non-lapsing provisions

10. Bilateral and multi-bi aid is effectively non-lapsing as a result of current budgetary procedures. Multilateral aid is lapsing but this creates no problems for those disbursing such aid.

Recycling of interest and amortization

11. Interest and amortization on past development loans are paid into Treasury funds but such flows are negligible (equal to 0.3 per cent gross disbursements in 1975) and no advantage is currently seen in adopting measures to recycle them into the aid programme. As Norway develops its loan aid programme, however, the treatment of such flows will require consideration.

Development tax

12. Norway is against the levying of a separate tax to finance its aid programme, chiefly on the grounds that it would be counter-productive to do so, having an adverse impact on public support for the programme. Indeed, Norway has only recently abolished its own development tax - a separately specified tax levied directly - which financed most of its programme between 1964 and 1974.

SWEDEN

Annual aid appropriations, disbursements and commitments

1. Apart from IBRD capital subscriptions made sporadically by the Central Bank, i/ all Sweden's development assistance is financed by annual Parliamentary appropriations from central government funds. The gross appropriations figure for a given fiscal year is now determined in accordance with the 1 per cent ODA:GNP budget. The ODA target figure is defined as aid appropriations for expected disbursements net of amortization and interest on past aid. (Actual return flows of amortization and interest are paid directly into central government funds.) The target figure includes charges for the administration of the programme and associated domestic expenditures (e.g. on public information) which accounted for 2.7 per cent of the 1976-1977 appropriation. The GNP base for the target is the estimated GNP for the calendar year in which the appropriation is to be made j/ (i.e. 1977 for the fiscal year July-June 1977/78). Appropriations are made before the start of the fiscal year (and budget proposals are put to Parliament some six months before 1 July). No provision exists, however, for any adjustment to the annual appropriations towards the end of the fiscal year so as to ensure that the ODA target is actually reached.
2. The aid programme budget is divided into three heads: multilateral aid; bilateral aid; and administration, information, recruitment, etc. Each head is subdivided, providing allocations of aid to the main multilateral organizations and the more important bilateral recipients and aid for specific purposes, e.g. emergency aid, humanitarian aid, international food aid. These allocations are proposed by the Government, the budget having been prepared by the Swedish International Development Agency (SIDA) and the Office for International Development Co-operation in consultation with other ministries. They are scrutinized by a Parliamentary Standing Committee before being debated and voted upon in Parliament, and generally the Standing Committee introduces some changes - usually small - to the Government's proposals.
3. Once voted, the aid appropriations are non-lapsing. It is of interest to note that this authority is not peculiar to aid appropriations but shared by a significant proportion of other budgetary appropriations. While appropriations are for expected disbursements in the fiscal year, actual disbursements have failed to match appropriations in the recent past with the result that a pipeline of undisbursed funds has accumulated. At the end of 1974-1975, it was equivalent to six months' appropriations but has since diminished - at least in relative terms - as the disbursement rate has improved and total appropriations have increased. The pipeline is of undisbursed bilateral aid: multilateral aid disbursements pose

---

i/ Not included in aid planning.

j/ Fiscal year GNP estimates are not available from the Ministry of Finance.

no problems to Swedish aid administrators. The emergence of the pipeline was not seen as an indicator of low "absorptive capacity" among recipients (leading to reduced aid appropriations for the offenders). Nor has it been taken as grounds for an increase in aid personnel, despite the fact that the growth of SIDA's establishment has markedly failed to match the growth in the programme it administers. Rather, the problem is being solved - and has been substantially reduced - by measures increasing the budgetary flexibility of SIDA and by alterations to the composition of the programme in favour of aid which can be disbursed more easily. Among the former measures are those permitting SIDA to reallocate funds within a given country programme (see para. 8 below) during the fiscal year according to financial requirements and allowing SIDA to agree on aid allocations for new projects in programme countries without having to obtain separate government approval. The main change in aid composition has been a shift in favour of funds to finance general imports and "sector" programmes and away from "traditional" aid projects. SIDA's current methods of aid administration are to form one of the main subjects of the next stage in the Royal Commission's review of Sweden's development co-operation and it may be that the Commission's report may lead to further changes in aid management.

4. Parliamentary authorization is not required for specific forward commitments to individual countries or projects. In any fiscal year, the Swedish Government is authorized to make aid commitments up to three times the value of aid appropriations for that year. This commitments authority is effectively based in Parliamentary approval of the so-called "minimum" planning levels for aid appropriations for two years ahead. Approval is given when the aid budget is passed and the prospective aid appropriations are set only slightly above the current year's appropriation. Actual aid appropriations in the relevant years are likely to be considerably higher than the minimum, given the 1 per cent budget. In respect of bilateral aid, forward commitments are approved by the Government in the context of an agreed country aid programme.

#### Future planning

5. Aid planning takes place in the context of the three year "rolling programme". The volume of aid indicated for future years is, however, a minimum set in current prices and thus the procedure is not equivalent to that adopted in such countries as Norway and Denmark. It represents none the less an advance in normal budgetary procedures in Sweden where most appropriations are made year by year and with the notable exception of defence expenditure there is no forward planning. The actual level of total aid appropriations in any given fiscal year is to be determined in accordance with the ODA:GNP target of 1 per cent. Although proposed appropriations for 1977-78 are marginally above the 1 per cent target level, neither the Government nor Parliament have as yet announced any commitment to go beyond the 1 per cent target. k/

---

k/ It may be, however, that the spirit of Nordic competition will lead Sweden to emulate Norway's example despite the differences between their respective economic conditions and prospects.

But even though Sweden's aid appropriations may have reached a plateau in GEP terms, some increase in their real value is to be expected given continued real growth in the Swedish economy and continued political and public support for the target.

6. The most important element in aid planning so far as recipient countries are concerned is the country programme. Some 70 per cent of bilateral aid is transferred under country programmes. These programmes cover a three year period, rolled forward annually, and are drawn up in consultation with recipient countries who are given the indicative (or minimum) planning figures for the period. The programme is embodied in an annual agreement covering actual appropriations (and rolled forward, non-lapsing aid from previous years) for the coming fiscal year and agreed minutes regarding project policies and priorities for the whole of the three years. There is also an inter-governmental agreement on the terms and procedures for different resource transfers. Responsibility for the details of the programmes and their implementation rests with SIDA. The indicative planning figures are set in current prices and are regarded as firm commitment as to minimum aid appropriations for the various countries. That they are not legally binding was, however, recently brought home to those concerned when Parliament took the unprecedented step of reducing the appropriations previously planned for Cuba. On the whole, however, it is still considered that an individual programme country recipient can expect to receive at least what is planned and will generally share in any increase in the real value of total aid appropriations. Some other recipients also receive indicative figures for future aid but generally future commitments outside the programme countries are confined to individual agreed projects. So long as the aid programme expands, there is no problem in meeting increased project costs.

#### Multiyear pledging

7. The most significant form of multiyear pledging already takes place in the context of the country programmes. The number of recipients that can be covered by this approach is limited by the Swedish policy of geographical concentration of its bilateral aid, and any extension of the system is subject to Parliamentary approval. At present, an extension is planned in respect of one recipient: Sri Lanka. From the viewpoint of the programme country's planners, the current system might be said to be deficient in two ways: first the period covered is relatively short at three years, and second, the indicative aid figures are minimum only. Further, the Cuba experience might be regarded as a threat to the firmness of these minima. On the other hand, the general experience is that, once accorded the status of a programme country, the recipient can look forward to a long-term aid relationship with Sweden and to an increasing flow of aid in real terms. As yet, there are no plans to alter the system of forward "pledging" although the possibility of agreeing country programmes every other year instead of annually is being canvassed. Such an approach poses a problem because of the annual budgetary system but would have the important advantage of reducing the administrative burden on both Sweden and the recipient.

### Maintaining the real value of aid appropriations

8. In aggregate terms, the target method of planning annual aid appropriations ensures both the maintenance and an increase in the real value of the aid programme. By the same token, provided that Sweden is prepared to maintain its aid programmes to individual countries (and here political and developmental factors may intervene), those programmes are also protected from an erosion in the real value of aid. The Government is not prepared to adopt more formal methods of protecting the real value of aid. To do so would be to make a special case of aid, which would be politically unacceptable: given that it is viewed as a social welfare obligation it should be treated similarly to domestic obligations of this sort. Moreover, it was observed that there is no obvious index that could be adopted for aid and, if one were adopted, the procedures required for adjustment would be a complex and roundabout way of achieving what is already effectively achieved by the adoption of the 1 per cent target. Indexation in relation to individual recipients would moreover effectively constrain Parliament's authority to decide annual appropriations and so would probably be opposed by Parliament.

### Non-lapsing aid appropriations

9. Aid funds are already non-lapsing.

### Recycling of interest and amortization

10. The method of deciding annual aid appropriations ensures that interest and amortization receipts are effectively recycled to the aid budget. This system is thought to be more efficient than one of crediting actual return flows to the aid programme instead of to the Treasury, which would involve a divergence from established procedures.

11. Sweden is in favour of an international moratorium on aid debts in any case - which would reduce the importance of such return flows. And a large proportion of interest and amortization payments from Sweden's aid recipients are in fact waived as they become due. This constitutes an additional source of aid - without any strings - to the recipients concerned (most seriously affected developing and least developed countries).

### Development tax

12. The levying of a specific development tax to finance aid is regarded as undesirable. It would reduce public support for the programme. In general, it was thought that international bodies should leave it to the individual donor to decide how to tackle the problem of financing aid - especially if that donor was already meeting international targets as to aid resource transfers. In so far as the tax were to be levied internationally, rather than domestically (i.e., if Sweden were required to contribute x per cent of its resources to some international institution for automatic transfer to the least developed countries), it was thought that Sweden would support such a tax (provided that other donors joined in and the tax left some resources for Sweden's own aid programme).



## SWITZERLAND

### Annual aid appropriations and forward planning

1. Apart from small contributions (representing less than 2 per cent of Swiss ODA) from the budgets of the cantons and communes, all Swiss aid is financed from the federal budget. All federal government expenditures are planned over a four-year period for internal purposes, and the foreign assistance programme forms part of this four-year rolling plan. Parliament sets a ceiling for over-all aid authorizations, and programme credits covering several years and broken down into four categories - capital assistance, technical co-operation, humanitarian aid and food aid - are voted by Parliament at irregular intervals. Credits to specific recipients can be authorized to cover periods of any duration so long as the over-all ceilings for authorizations approved by Parliament are not exceeded. Cash authorizations are voted annually by the two Federal Chambers to cover the financial year (January to December) and lapse if unspent at the end of the year.

### Multiyear pledging

2. Switzerland makes no pledges relating to the over-all volume of its aid in future years. The Government's expenditure plans are made over a rolling four-year period for internal purposes, but individual aid items within them may be subject both to Parliamentary approval and popular vote. Multiyear commitments of bilateral aid can be made by the Government provided that they do not exceed the commitments ceilings authorized in advance by Parliament. Until the 1977 constitutional amendment, however, any loan agreement covering a period exceeding 15 years could be made the subject of a popular referendum. The amendment seems to give the Government more latitude with respect to the conclusion of bilateral loan agreements, but, except for contributions to multilateral organizations of which Switzerland is already a member (e.g., the Asian Development Bank and the Inter-American Development Bank), multilateral loans may be subject to ratification by public referendum.

3. Although Switzerland aims in principle to concentrate its aid on a limited group of countries, country programming exists only for the technical co-operation programmes, and in the case of this aid instrument, programme credits are voted to cover periods varying from two to five years. Such credits enable the Government to make legally binding commitments beyond the coming fiscal year.

### Maintaining the real value of aid

4. The aim of the Swiss Government is to increase the transfer of resources to developing countries in real terms. Financial planning of aid therefore takes into account the effect of expected price increases, but individual commitments cannot be adjusted to compensate for inflation during the disbursement period.

Non-lapsing authority

5. Frame commitments (programme credits) remain available until disbursed, but the annual aid appropriations voted by Parliament have to be spent by the end of the year. The aid administration, however, aims to manage its programme so as to reduce lapsing to a minimum, and it is estimated that 27 per cent of the 1976 appropriations were lost due to lapsing.

Recycling of loan backflows

6. All return flows of interest and amortization revert to the central government budget. Though they are taken into account when voting annual aid appropriations, they cannot be automatically recycled into the aid budget.

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

Annual appropriations, disbursements and commitments

1. All the Overseas Development Ministry (ODM) expenditure is financed via annual appropriations by Parliament from central government funds. Total appropriations in any one fiscal year are subject to an expenditure ceiling determined in the context of the Government's rolling plan for public expenditure. The latter sets out the planned public expenditure for a four-year period in terms of constant prices starting with the forthcoming fiscal year and rolled forward annually. In the case of aid, these figures are net of amortization payments but not interest on previous aid loans. Planned aid expenditure (revised or otherwise) for a given fiscal year (April to March) is translated into current price cash figures for gross disbursement (i.e., with amortization added on) in the preceding December. This figure then constitutes the aid expenditure ceiling. Total annual appropriations for disbursements are equivalent to this ceiling, since ODM aims to spend up to the limit.
2. The aid appropriations are voted as a lump sum by Parliament but the estimates include details, divided up under different subheads (e.g., multilateral aid, bilateral aid) of how the aid is to be spent during the year, and individual bilateral grant and loan agreements are appended. There are generally supplementary appropriations each year designed to bring the total annual appropriations up to the expenditure limit and to include new items to which aid is to be allocated during the fiscal year: the first main estimate leaves a substantial portion of aid unallocated. ODM is permitted to reallocate funds between individual items within subheads, although it is required to inform the Treasury. It can only reallocate funds between subheads with Treasury approval and the addition of any new item to the budget, e.g., finance for a previously unaided multilateral organization, also required Treasury approval. The estimate for grants-in-aid cannot, however, be changed.
3. As is generally the case, annual aid appropriations lapse if not spent during the fiscal year. There are, however, some provisions for over or underspending whereby up to £10 million can automatically be brought forward from the next year's aid budget and up to £5 million can be automatically carried forward, with a further £5 million carry-forward being permitted subject to Treasury approval. These provisions were briefly superseded when the Government introduced a system of strict cash limits on the annual expenditure of many departments, including ODM in an attempt to increase its control over public spending. But they are now to be restored to ODM.
4. The general tendency is for underspending on the aid budget. The carry-forward provisions, static since 1974, are of increasingly limited value given the effect of inflation in the nominal value of the aid programme. Consequently ODM has to rely largely on its own internal management of the programme to ensure that disbursements are in line with appropriations. It has, as detailed earlier, a considerable degree of budgetary flexibility as between items in the aid budget.

adjustments are made as required in the context of its internal system of financial control and budgeting. The internal budgets of individual spending departments within ODM reflect a policy of over-commitment designed to offset the underspending tendency. Their spending performance and plans are monitored periodically during the financial year and in the event of an expected shortfall, reserve items in the spending plans can be brought into play. More frequent monthly monitoring of public expenditure is now being operated by the Treasury and this additional source of information is expected to improve ODM's aid management potential. On the whole, the current system of financial control is effective in maintaining disbursement levels. But the constraint of fiscal year planning clearly does lead to the inclusion of some fast-disbursing items towards the end of the annual programme and these may well constitute a developmentally suboptimal use of aid resources.

5. There is no Parliamentary mechanism for the control of aid commitments to individual recipients or organizations and no authorization for expenditure commitments outside the fiscal year. ODM's general practice is to enter in multiyear agreements with recipients with the proviso that the availability of aid is subject to Parliamentary approval of appropriations year by year.

#### Forward planning

6. ODM carries out medium-term planning for the aid programme on the basis of the Government's public expenditure rolling plan. Since the planned aid expenditure figures are provisional only and, as recently occurred, subject to revision in the light of general economic circumstances, they do not constitute a firm basis of planning - even in minimum terms (cf. other donors whose ODA:GDP target system of aid planning provides reasonable assurance that aid volumes at least be maintained in real terms). Given that allocations for the last years of the plan period tend to be of a more tentative nature and do not exhaust the total aid "available", this is not seen as a problem by ODM planners. The government expenditure figures for aid in future years are converted in current prices for the purpose of ODM planning using a composite price index reflecting forecast inflation rates and the expected allocation of aid.

7. ODM's medium-term plan, or Aid Framework, covers the expected aid allocations by country and multilaterally over a four-year period and is rolled forward annually. It is drawn up internally, then submitted to other interested government departments and finally approved as a planning document by the Minister. It is not published partly because it is subject to revision in the light of aid and other policy changes and partly it is feared that, if published, the document might limit government and ODM flexibility. A further inhibition to publication comes from the fact that the cash-figures can be used to imply (secret) Treasury forecasts of domestic inflation.

8. While this plan could be used to provide recipients with some sort of indicative aid figures for the plan period, there is in fact no formal mechanism for informing recipients of the future disbursement plans except in the framework of individual aid agreements. Individual aid agreements, each covering different

types of aid, e.g., loan, grant, technical assistance, constitute a firm government commitment to the recipient as to the total amount of a given type of aid to be provided but the planned yearly disbursements are subject to Parliamentary approval of appropriations. Agreements vary as to the period covered and as to whether the actual use of aid is agreed before or after the commitment. Many recipients, however, do get informal indications of what aid may be expected in the future. There is no formal provision for adjusting aid commitments so as to take account of inflation but fresh aid agreements can be negotiated sooner rather than later so as to offset the erosive effect of inflation.

#### Multiyear pledging

9. Although the Government has accepted the 0.7 per cent GNP target, there is no firm political commitment either on the part of Government or Parliament to the achievement of the target within a given period. Aggregate aid expenditure is planned along with other government spending over a four-year period but these planning figures are subject to revision and aid has not been protected from spending cuts by the Government's acceptance of the target.

10. Multiyear pledging of bilateral aid takes place only in the context of individual aid agreements (see above). There is no formal system, indicative or otherwise, for providing recipients with figures for their total aid recipient from Britain in future years. However, the widely used system of agreeing a total sum of financial aid for projects to be agreed later provides a useful, if partial, multiyear framework for recipient planners. Multiyear pledging of multilateral aid also takes place only in the sense that some agreements constitute aid commitments for a multiyear period.

#### Protecting aid appropriations from the effects of inflation

11. There is no provision for raising the ceiling on annual disbursements to take account of inflation during the fiscal year. To the extent that future aid expenditure is planned in constant prices, planned aid appropriations are protected from inflation. However, because the government plans for aid expenditure may be revised downwards (as recently occurred), this system does not ensure that the real value of aid appropriations will be maintained from year to year.

12. Aid allocations to individual recipients are set in current prices and are not automatically revised upwards to allow for inflation, although the real value of aid may effectively be protected by fresh aid agreements.

#### Non-lapsing provisions

13. Although the general budgetary rule is that funds lapse if unspent, ODA has been allowed a limited carry-over provision to mitigate underspending problems of the aid programme. The pace of inflation since 1974, when the carry-over maxima

were last adjusted, has eroded the value of this provision. None the less, it is unlikely, given its present stringent régime, that the Treasury would be prepared to make a more generous provision.

#### Recycling of interest and amortization

14. Generally, interest and amortization payments are paid into the general revenue fund and such payments on aid loans are no exception. However, aid expenditure is planned net of amortization, so that amortization payments are effectively recycled to the aid budget when gross appropriations are voted. There is no provision to recycle interest in this way, although total interest payments are quite large, equivalent to roughly 10 per cent of IDA disbursements in 1975.

#### Development tax

15. It is unlikely that an internal development tax would be acceptable as a means of financing the aid programme. Quite apart from its probable adverse effect on public support for the aid programme, such a tax would run counter to the budgetary tradition of treating individual taxes as a source of general revenue.

## UNITED STATES OF AMERICA

### Annual appropriation commitment and disbursement procedures

1. The United States aid programme is financed from the federal government budget by a rather lengthy and complex process. The practice in the United States is first to authorize expenditures and then to appropriate funds. This duality reflects the distinction between policy decisions represented in an authorization bill and financing decisions represented by an appropriating authority. Before appropriations can be voted for each separate programme, an authorization bill indicating the broad scope of the programme and setting the over-all limits to the expenditure has to be approved by both Houses of Congress. The constitutional position in the United States ensures that legislative control over the authorization and appropriation process is nearly complete. As a result, the submissions by the executive branch are frequently revised and may depart significantly from the intentions of the government departments.

2. The budget authority usually takes the form of appropriations which permit obligations to be incurred. The Agency for International Development (AID) therefore is permitted to enter into obligations requiring either immediate or future payments of money only when it has been granted authority to do so by law. However, since most authority to obligate funds is granted on an annual basis, binding multiyear commitments cannot be undertaken by AID. When long-term commitments are undertaken, the recipients are made aware that they are subject to Congressional approval which may not be forthcoming or may result in revisions of the informal commitments by the time the funds are appropriated. Only after the Appropriations Bill is signed by the President can AID begin to commit and spend the funds it provides. Once funds have been obligated under the budget authority, they can be carried forward from one year to the next until they have been spent. However, problems have arisen as regards accumulated funds in the pipeline that remain to be disbursed. The legislature has in the past expressed the view that budget authority for foreign aid should be guided by the ability of recipients to use resources previously voted. There is therefore continuous pressure on AID to ensure that excessive accumulation in the pipeline does not take place.

### Multiyear pledging

3. As regards multiyear pledging and programming of aid, it has been already noted that formal commitments cannot be undertaken until the funds have been appropriated. Since the appropriation process is an annual one, in practice legally binding, multiyear commitments cannot be undertaken.

4. AID prepares internal projections of aid over the next five years in its submission to the Office of Management and Budget. These projections, however, provide only a very tentative basis for aid planning. For the totality of the United States assistance, authorization now takes place for at most two years in advance.

5. At the country level, the United States has evolved an elaborate system of country programming, which encompasses an analysis and review of the recipient's over-all policies as well as its performance and aid needs. The country submissions, which have been somewhat simplified in recent years, indicate for each major recipient of assistance the magnitude of aid that would be forthcoming over a period of from three to five years and form a basis for the over-all aid programme submitted to the Congress. The multiyear country programming is prepared in consultation with the recipients and, as has been noted, is informal in character and not binding on the Government.

#### Non-lapsing provisions

6. Appropriated funds may lapse unless they are obligated during the year in which they were appropriated. In practice, however, the danger of lapsing is minimized since authority from Congress to carry over unobligated funds for obligation in the following year is frequently granted.

#### Maintaining the real value of aid appropriations

7. In the United States, commitments are undertaken in current prices and consequently, the problem of erosion in the value of unspent commitments is of some significance. At the project level, however, the question of cost-overrun as a result of unforeseen price changes poses fewer problems, since procedures exist to finance contingencies or to request supplementary funding. As regards the latter point, AID submits a request to Congress in the form of a notice to undertake additional expenditures. If the Congress does not object, AID acquires the authority to proceed to incur additional expenditures for the project.

#### Interest and amortization payments

8. As regards treatment of reverse flows on past lendings, until June 1975, repayments on past AID development loans and on Alliance for Progress loans were added to other funds available for obligation. However, since that year, the funds revert back to the United States Treasury. The quasi-automaticity implied in the allocation of reflows to appropriations was viewed by the Congress as circumventing its function.

#### Development tax

9. This proposal is not viewed favourably by AID officials principally because it is unlikely to find political support in Congress.

-----