

# the OECD OBSERVER

**Development: New Emphasis on Basic Human Needs**

**Taxes: Preventing Fraud and Double Taxation**

**The Economic Situation: A Shift in Risks**

**Energy: Limiting Imports**



# the OECD OBSERVER

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## Contents

- A SHIFT IN THE BALANCE OF RISKS  
in the Current Economic Situation 3  
*by Emile van Lennep, Secretary General of OECD*

### ENERGY

- ENERGY MINISTERS AGREE ON A PROGRAMME  
TO RESTRICT OIL IMPORTS 5
- IEA GOVERNING BOARD MEETING AT  
MINISTERIAL LEVEL: COMMUNIQUE 9
- THE TWELVE PRINCIPLES 10
- NINE NEW R & D AGREEMENTS 13

### DEVELOPMENT

- OECD DEVELOPMENT ASSISTANCE COMMITTEE  
SIXTEENTH ANNUAL HIGH LEVEL MEETING:  
COMMUNIQUE 15
- The Development Challenge of Today  
MEETING THE BASIC NEEDS OF THE POOREST  
PEOPLES 17  
*by Maurice J. Williams, Chairman of OECD's  
Development Assistance Committee*
- AID FOR HEALTH 22
- SAHEL: THE YEAR 2000  
An Overall Development Strategy 27

### FISCAL AFFAIRS

- INTENSIFIED INTERNATIONAL EFFORTS TO  
PREVENT TAX EVASION 32
- HOW CAN TAXPAYERS BE PROTECTED FROM  
INTERNATIONAL DOUBLE TAXATION?  
A New OECD Model Convention 34  
*by Jean-Louis Liénard, Fiscal Affairs  
Division, Financial Affairs Department*
- FINANCIAL MARKET TRENDS 37
- NEW OECD PUBLICATIONS 38



# A SHIFT IN THE BALANCE OF RISKS

## in the Current Economic Situation

by *Emile van Lennep*,  
*Secretary General of OECD (1)*

Looking at the prospects for the world economy, the key question is where the balance of risk lies. During most of the recovery phase so far there has been a wide measure of agreement that the greater risk lay on the side of an excessively strong recovery.

But does this still hold? Or has the balance shifted to the danger that, without further action to sustain the recovery, it might peter out?

Already before the summer it was evident that the pace of recovery had slackened. It was for this reason that at the meeting of the OECD Council at Ministerial level in June it was agreed that the achievement of the objectives of the OECD strategy would be promoted by a somewhat faster rate of expansion in the area as a whole in 1978 than seems likely to be achieved in 1977.

Since then some important new measures to stimulate demand have been announced in Japan and Germany, and there has been some slight easing of restrictive policies in one or two other countries. Despite this, however, it seems likely that the OECD Secretariat's new forecasts for 1978 will be lower than those made in the summer.

If this outlook is confirmed, it suggests, not that the agreed strategy has failed and should be abandoned, but rather that we are in danger of going off course on the downward side, and that corrective action is needed.

We are all very conscious of the adverse cumulative consequences of a failure of demand to match up to the growth potential of our economies. In addition to the obvious economic, social and political costs of high unemployment, there is the adverse impact of inadequate investment on the flexibility of our economies—in particular, on their ability to adjust to higher energy prices and the changing structure of the world economy. There is also the adverse impact on the export earnings of the developing countries, on their creditworthiness, and on the willingness of the industrial countries to accept increasing competition from them as exporters of manufactured products.

### Some Guidelines for Policy

Following a decision taken at the Ministerial meeting in June, OECD Member countries are now communicating their preliminary objectives for the growth of output and domestic demand and their stabilization policies for 1978 to the Organisation so that their mutual consistency and global implications can be examined. Although it is too early to say what this exercise will yield, it is evident that, if there is a need for fairly

general action to offset the current slowdown, a number of important points will need to be borne in mind:

*First*, there are a few countries which have not yet adopted adequate stabilization policies, or where the results so far achieved are meagre. These would certainly not join in any shift to less restrictive policies.

*Second*, there is another group of countries, which should grow in numbers, where somewhat faster growth than now seems likely would not be inconsistent with making further progress against inflation, but where the balance-of-payments position remains fragile. If any one of these countries took action to bolster demand by itself, its current deficit would increase and downward pressure on its exchange rate could worsen the inflationary situation and undermine confidence. These countries cannot therefore ease up on their restrictive policies unless they have a reasonable assurance that others will be doing the same.

*Third*, as progress is made against inflation, another danger may be emerging, namely that, because of the inevitable current account deficit for the OECD area as a whole arising from the OPEC surplus, the industrial countries will, in general, feel constrained to follow unduly cautious demand management policies in order to protect their balance of payments. This danger was foreseen from the outset of the oil crisis. Up to now it has generally—and rightly—been concern about inflation which prompted governments to follow cautious policies, rather than self-defeating efforts to shift their oil deficit on to someone else. But the possibility of a generalised balance-of-payments constraint could now be becoming a reality.

*Fourth*, this danger is increased by the uneven distribution of current account surpluses and deficits within the OECD area. No scenario for a somewhat faster rate of growth in the OECD area next year is likely to be viable unless it involves a significant reduction in the current account surpluses being run by Japan, Germany and some smaller countries. While exchange rate changes can contribute to these adjustments, the essential requirement is that domestic demand in these countries should rise more strongly than in those still running unsustainably large current deficits.

The *final* point is that, while each country's actions are constrained by what other countries do, if they all took expansionary action simultaneously they could easily overdo it. This was the mistake made in 1971-72 which governments have been trying not to repeat.

(1) This article is based on three recent speeches, at the Council of Europe in Strasbourg, at the 9th Meeting of the Interim Committee of the IMF in Washington and at the International Industrial Conference in San Francisco.



As regards the type of action, it has been suggested that somewhat more weight should be given to providing a stimulus to private consumption. Clearly, the case for a stimulus to consumption increases as governments exhaust other possibilities. Fiscal incentives to private investment, which may be appropriate in a medium-term context, may not have much immediate impact when companies are operating with large margins of unused capacity. The extent to which public investment can be accelerated is constrained by administrative and other delays. The same is true for job creation in the public sector and other programmes to increase employment of particular classes of workers—however desirable these programmes may be in their own right.

A weakness of consumer demand at some early point during the recovery has, in many countries, reflected a necessary downward adjustment in real incomes required to make room for an improvement in the rate of return on capital, and to absorb an adverse swing in the terms of trade. It is encouraging that in many countries quite good progress has been made in effecting this inevitably painful adjustment. This must not be undermined. Where, therefore, a stronger rise in consumers' disposable income is desirable, it is better that this should result from fiscal action—despite the economic and political difficulties this may involve—rather than from an accelerated rise in money incomes.

It is clear that we have reached a rather critical juncture in the implementation of the strategy for a sustained expansion. If, as seems likely, some adjustment of policies is needed to prevent the recovery from petering out and to get us back onto course, it will need to be both carefully calculated and well co-ordinated at the international level. Otherwise the progress made in bringing down inflation and achieving a more sustainable payments pattern could be quickly undermined. There is thus an important task ahead for international economic co-operation.

Recent events have increased the cleavage between "macro-economists" and "structuralists"—between those who think that the present problem of stagflation can be overcome through better use of traditional monetary and fiscal policy and those who think there have been behavioural and structural changes which call for new policy instruments. But, surely, they also make it clear that both schools are right. After the sharp synchronised fluctuations in world demand—the boom of 1972-73 and the recession of 1974-75—there was an obvious need for better-judged and steadier demand management policies, as well as more effective international co-operation with regard to these policies. Equally obviously, better management of overall demand will not in itself solve the problems of a more structural nature.

At the same time, however, macro-economic and structural problems often interact. The hesitant nature of the present recovery, by depressing profits and holding back investment, is inhibiting the necessary structural changes needed, for example, to adapt to higher energy prices and increasing competition from the developing countries. Similarly, unemployment due to inadequate overall demand can, if it persists, become more chronic in nature because of its adverse impact on attitudes to work and the acquisition of skills. What this means is that governments should not be inhibited by the existence of genuine structural problems from using monetary and fiscal policies actively to generate as much domestic demand as is compatible with the inflation and balance-of-payments situation of the country concerned. Equally, however, governments should not sit back and assume that at higher levels of demand all the various problems of a structural nature will necessarily solve themselves.

## The Dangers of Protectionism

One of the most disquieting features of the present situation is the growing strength of protectionist sentiment in many countries. With the severity of the recent recession, the intentionally moderate pace of the recovery, and the impact of the sharp rise in energy prices on the growth prospects of certain particular industries, it was inevitable that serious sectoral problems should emerge with geographically concentrated pockets of high unemployment. The danger that this conjunction of circum-

stances could lead to a cumulative retreat into protectionism was foreseen from the outset. Up to now international efforts to prevent this happening have been surprisingly successful. But recent trends have been less encouraging.

The period of slow growth in the industrialised world has coincided with the emergence of efficient new competitors in world markets for manufactured goods. Some of these new competitors are to be found within the OECD area, but it is striking to see how new industrial powers—such as Brazil, Mexico, South Korea and Taiwan—are emerging in the developing world. From the point of view of the welfare of the world as a whole this is a highly encouraging development. But obviously this is of little consolation to a worker who has just lost his job in an old-established industry.

One point is obvious, but often overlooked. As imports of manufactures from the developing countries have begun to rise more rapidly, so have our exports to them. Indeed, earlier post-war trends have now been reversed, and since 1973 trade in manufactures has been rising faster between the industrialised and the developing countries, than between the industrialised countries themselves. It can never be emphasized enough that increased imports from the developing countries of products in which they are competitive will, given their immense development needs, generate an equivalent demand for the products in which the industrialised countries have a comparative advantage, with mutual benefits to both sides.

One thing which has been very evident from the postwar experience with an open trading system is what a powerful propellant export-led growth is for industrialisation and economic development. What has become apparent more recently, however, is that it is far from easy to achieve a smooth transition from export-led growth to more balanced growth in which domestic demand plays the central role. Germany and Japan both provide current examples of the difficulties involved. It had been expected that the necessary adjustments would come about more easily with more flexible exchange rates. And, indeed, exchange rate changes are likely to be a necessary part of the adjustment process. But experience has shown that such changes are generally not in themselves sufficient to bring about the structural changes needed to achieve more balanced growth. This is true for the strongly competitive countries themselves, which need to shift more of their productive potential to meeting domestic demands and to consume more of the benefits of their high productivity themselves. It is also true on the other side for the countries which have allowed their competitive positions to deteriorate too far, and where there may be a need for a downward adjustment in real wages. Since the necessary adjustments have proven slow—and in the latter case painful—it is to be hoped that in the future policies on both sides will be such as to prevent the emergence of such persistent differences in competitive strength.

These problems are not likely to arise for some time with the newly emerging industrial centres in the developing world. But they do underline the importance for these countries, as their industrialisation and development proceeds, to build up broadly based domestic markets, both in their own interests and in the interests of the harmonious development of the world economy as a whole. In this respect it is interesting that already as much as 30 per cent of the manufactured goods exported by developing countries go to other developing countries.

While recognising the immense mutual benefits that can be obtained from an open trading system, we must, of course, be realistic about the economic and social frictions created by rapid structural change. At the OECD Ministerial meeting last June it was agreed that full use should be made of existing machinery to find and implement multilaterally acceptable solutions to trade problems, and that every effort should be made to identify sectoral problems before they assume critical proportions. Special groups have been set up in the OECD to look into the problems of the shipbuilding and steel industries. What is essential is that these problems should be dealt with in a multilateral framework which pays due regard to the interests of all concerned taking into account both the cyclical and structural nature of the difficulties being encountered.



# ENERGY MINISTERS AGREE ON A PROGRAMME TO RESTRICT OIL IMPORTS

The Energy Ministers of the International Energy Agency (1) countries who met 5-6 October in Paris were gravely concerned about a problem that would manifest itself in acute form only in the Eighties, well after the next electoral cycle: despite the coming on-stream of North Sea, Alaskan and Mexican oil and current oversupplies of some other forms of energy, a new energy crisis is impending. By the early or mid-Nineteen Eighties—estimates range from 1982 to 1987—the demand for imported oil will exceed OPEC production.

"Each year our forecasts are more depressing than the previous

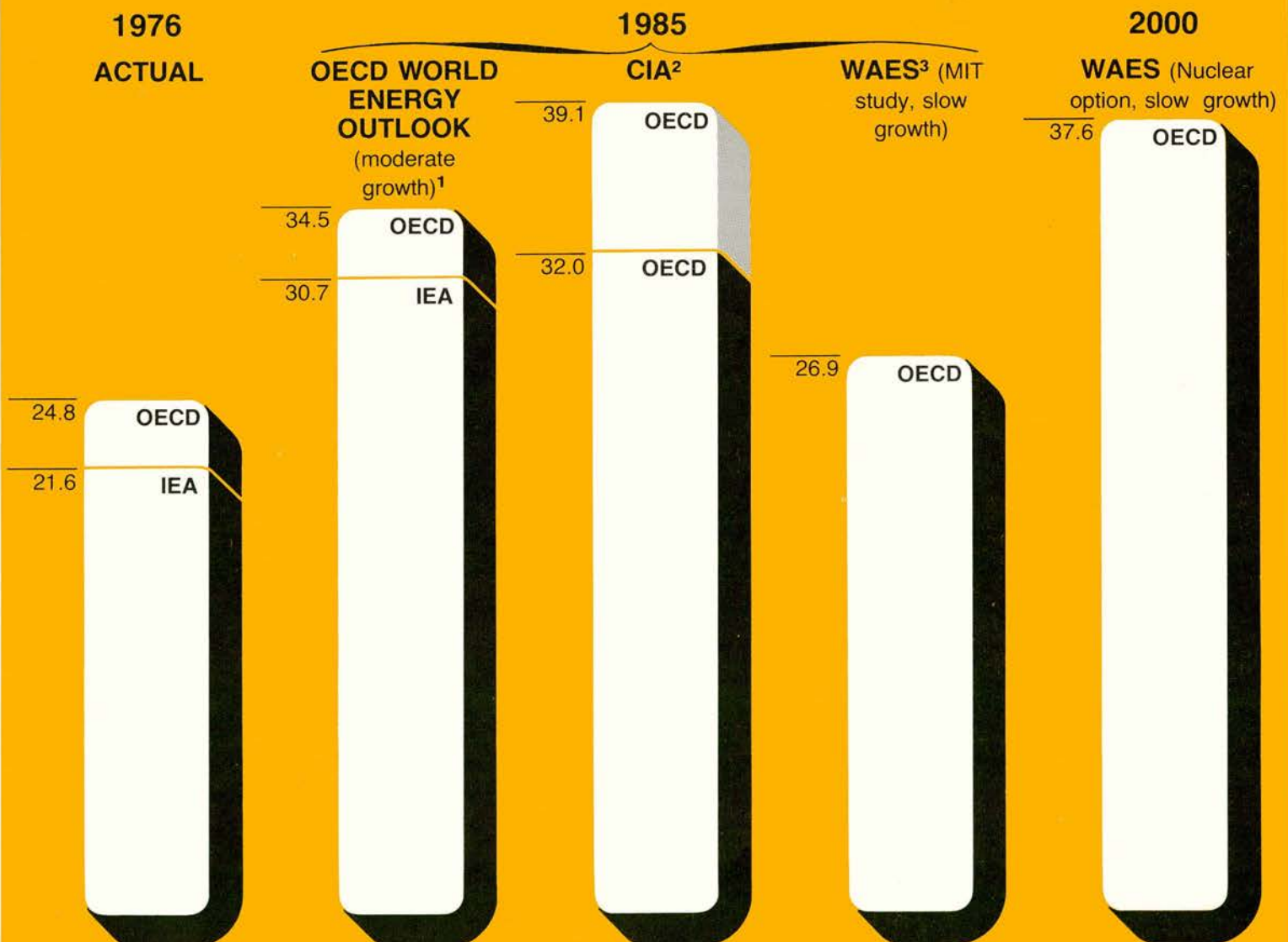
year's forecasts", James Schlesinger, United States Secretary of Energy told the Ministerial meeting, "and the point at which prospective demand for petroleum internationally exceeds that of prospective supply comes nearer and nearer".

Despite the fourfold increase in prices, demand for imported oil

(1) The International Energy Agency is an autonomous body, established within the framework of OECD. Nineteen countries participate—Austria, Belgium, Canada, Denmark, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

## A. A RANGE OF FORECASTS. OECD & IEA Imports of Oil (excluding bunkers)

million barrels a day



(1) Adjusted upward by 2 million barrels a day mainly as a result of slippage in nuclear schedules.

(2) The estimates for OECD range from 32.0 to 39.1 million barrels a day.

(3) Workshop on Alternative Energy Strategies.



has been rising sharply in some countries and the IEA now foresees a world import demand of 42 million barrels per day, up 2 million barrels per day from its earlier forecasts, largely as a result of nuclear slippage. More pessimistic projections, including those of the U.S. Central Intelligence Agency, range up to 54 million barrels a day (2) and even the most pessimistic forecasts assume no further delays in nuclear programmes. As for OPEC capacity, it is estimated at 44 million barrels per day in 1985 "but", warned Dr. Ulf Lantzke, Executive Director of the IEA, in a pre-conference briefing for the press, "no-one expects OPEC to produce at 100 per cent of capacity, especially the countries with low absorptive capacity. And no new oil bonanzas are in sight. If new resources like the North Sea or Alaskan oil or Mexican oil were going to be available by the mid 1980s, we would know about it today. We knew about these sources in the Sixties, and it took ten to twelve years to bring them on stream. After that the situation won't get better, it can only get worse". Alastair Gillespie, Canadian Minister of Energy, Mines and Resources, who was Chairman of the meeting, estimated an excess of demand over supply of at least 6 million barrels per day by 1990. "We are facing a dwindling asset which has been exhausted at a rapid pace", added U.S. Energy Secretary Schlesinger.

If these dramatic forecasts were to be proven out, the projected excess of demand over supply would be translated into higher prices and possibly supply disruptions. Each Minister drew the lessons for his own economy—turgid economic growth, rising unemployment, a new inflationary round, social and, quite possibly, political upheaval. And the repercussions would extend to the developing world for whom the economic health of the industrialised countries is a vital factor.

"If we do not implement strong energy policies now," OECD's Secretary General, Emile van Lennep cautioned, "we shall be faced with the prospect of inadequate supplies of energy at highly inflated prices which could lead to greatly reduced economic growth in each of our countries, a prospect that we all realise carries unacceptable social and political consequences." Dr. Lantzke emphasized that "if there is a slowdown in economic activity due to constraints on energy supply, this will be felt by the energy rich and the energy poor countries alike." IEA countries bear a responsibility for this situation which is disproportionate to their size since they account for 22 million of the 31 million barrels—or more than 70 per cent—of the oil being imported globally. If present policies were to continue, it is estimated that IEA countries alone would, on a conservative estimate, require some 31-32 million barrels per day by the mid Eighties.

## A 26 Million Barrel Target

Against this stark background, Ministers agreed to follow a course of action that would severely limit their oil imports—to 26 million barrels per day by 1985—5 million barrels less than would be imported without new policies. "The 26 million barrels is not a magic figure" Dr. Lantzke stressed, "it is an indicative direction and it will have to be updated and followed by objectives for 1990 and 1995."

The target is a collective one and is not allocated by country. However, certain governments have announced their own objectives, and this gives at least a rough idea of how savings could be expected to come about. The U.S. objective (which has been endorsed by Congress, although the programme for achieving it has not) is to reduce oil imports to 5.8 million barrels per day, as against 6.7 million barrels in 1976 and a U.S. projection of 16 million for 1985. The key role of the United States in righting the energy balance was stressed throughout the meeting, not only by other IEA Members but by the United States itself, because of its high per capita consumption of energy combined with its large size. Said



Left to right: Tony Benn, UK Secretary of State for Energy; Ruud F.M. Lubbers, General; and, Ulf Lantzke, Executive Director of



Toshio Kimura, former Japanese Minister for Foreign Affairs.

Left to of State,

Energy Secretary James Schlesinger, in a post-ministerial press conference. "To a large extent the failure of the U.S. so far to inaugurate an effective programme has provided an excuse for other countries, whose demands on world availability are much less, to hold back. The United States has a great advantage relative to other countries in terms of conservation measures: we have been far more wasteful than others have been. So we have much more substantial grounds for improvement." And the U.S. Minister stressed that the Administration is determined to achieve its target: "What we miss this year, we are going back for next year."

Canada, which also has high per capita energy consumption, has announced a target for 1985 of 0.8 million barrels per day (or a third of oil consumption, whichever is lower) as has the EEC (a maximum of 10 million barrels per day) (3).

To attain the target, Member countries committed themselves to twelve "commandments" (see inset) which add up to a stringent package of measures to encourage conservation, the development of alternative sources—especially renewable ones—and research and development. Countries' adherence to the guidelines will be monitored through annual reviews, possibly at Ministerial level, and, although no formal penalties are foreseen in the event of failure to comply, criticism is not expected to be gentle.





bers, Netherlands Minister for Economic Affairs; Emile van Lennep, OECD Secretary the International Energy Agency.

Left to right: Alberto Oliart, Spanish Minister of Industry and Energy; and, George F. Gair, New Zealand Minister of Energy Resources.



right: Alastair Gillespie, Canadian Minister of Energy, Mines & Resources, Chairman of the meeting; P. Le Cheminant, Deputy Under-Secretary UK Department of Energy; Detlev K. Rohwedder, Secretary of State, German Federal Ministry of Economics and Chairman of IEA Governing Board.

Among the twelve guidelines, only one—the commitment to nuclear power—was subject to reserves on the part of Member countries for the most part because they have not as yet completed their own decision-making processes on the matter (4). Although some IEA Members have reserves of coal, natural gas and hydro-electric power as well as oil, nuclear power is the only alternative for many of them, and a number of participants expressed their concern about the effect of public opposition to new nuclear installations. The United States was among the countries that firmly endorsed nuclear power. Dispelling suggestions often made that "somehow or other the U.S. Administration is anti-nuclear", Energy Secretary Schlesinger assured the conference that "nuclear power is regarded as indispensable" despite a certain wariness about moving into the next generation of technology.

Ministers agreed that the 26 million barrel a day import target is a tough one because it requires sacrifices now while benefits will accrue only later on. But whatever the political cost there is in effect no choice. "If the reduction in imports is not achieved as a matter of policy, it will in all likelihood be achieved as a matter of brute force" the U.S. Energy Secretary warned, because it does not appear that there is going to be much supply in excess of 26 million barrels a day available to the IEA countries in 1985.

Perhaps the main obstacle to achieving the objective is the inability of governments, at least so far, to make clear the gravity of the problem to those most directly involved—the citizens of their respective countries. "The biggest danger we face is that public awareness will be reduced" Dr. Lantzke noted to the press, "and complacency will be on the market again."

New Zealand's Minister, George F. Gair, addressed this problem directly. "There is no way in which we can conserve energy without calling for an element of sacrifice on the part of the people we

(2) The CIA estimates assume greatly increased demand on the part of Eastern European countries—to some 3 1/2 to 4 1/2 million barrels per day.

(3) France is not a member of the International Energy Agency hence the EEC figures are not comparable with the IEA ones. The French forecast for oil imports comprises roughly a quarter of the EEC total.

(4) Denmark, New Zealand and Norway are in such a situation. The Netherlands had a caretaker Cabinet and could not therefore take a stand on the issue at the Ministerial meeting. Spain had a reservation which focussed on the issue of non proliferation. Sweden has installed nuclear capacity but notes in its reservation that the continuation of the programme is uncertain: a recent law imposes on utilities new requirements for solving the problems involved in the back end of the nuclear fuel cycle and it is not yet clear whether they can be fulfilled.



## B. ECONOMIC GROWTH AND OIL IMPORTS, 1972-1976

Percentage change in:	GDP	TOTAL ENERGY REQUIREMENTS	OIL REQUIREMENTS	NET OIL IMPORTS
CANADA	↑ 16.7	↑ 8.4	↑ 5.2	↑ 51.1 <small>Canada's trade position in oil has changed from net exporter to net importer.</small>
UNITED STATES	↑ 8.3	↑ 3.4	↑ 3.1	↑ 51.1
JAPAN	↑ 18.2	↑ 7.1	↑ 5.3	↑ 5.9
GERMANY	↑ 8.0	↑ 4.9	↓ -1.8	↑ 1.8
ITALY	↑ 13.3	↑ 8.9	↑ 2.4	↑ 3.4
UNITED KINGDOM	↑ 6.3	↓ -3.1	↓ -16.2	↓ -25.2

serve", he observed. "How much easier it is to ask for this element of sacrifice if they feel they have been a party to the making of the policy." And he described how New Zealand was trying to do this: a Royal Commission now in the process of drafting goals and guidelines for the country's energy policy will address its first draft, due in 1978, to the public, and will invite public response. "This is an opportunity for people to think aloud, as it were, about proposed or suggested energy policies and the guidelines needed to reach them. We believe that the best of this response will be valuable; we believe that the act of inviting response is valuable because this involves the community in a way in which they will be seen to be parties to the longer term decisions made. In the fullness of time a second public draft will be produced and, if necessary, further drafts, each step taking Government and country closer to a firmer and longer term energy policy in which the people will identify themselves with the recommendations."

What is the record so far? Figures presented at the meeting show very mixed results. For the six largest members of the IEA they run the gamut from the United States, which had an increase in oil imports between 1972 and 1976 of slightly more than 50 per cent, to the United Kingdom which had a decrease of just over 25 per cent (see chart B). For the U.S. the huge increase represented not only a rise in total energy use from the already very high levels of consumption, but also a drop in indigenous production of oil and natural gas (of 13 per cent) which further increased dependence on imported oil. As to the United Kingdom, North Sea oil was coming on stream in 1976; and the considerable fall in oil imports is also due in part to a decrease in energy requirements—the only one registered among the larger IEA countries. It

is true that the U.K. economic growth rate rose somewhat more slowly than that of the other five countries, but there was a rise, and the Chairman of the meeting pointed to the United Kingdom as evidence that energy savings and economic growth need not be incompatible.

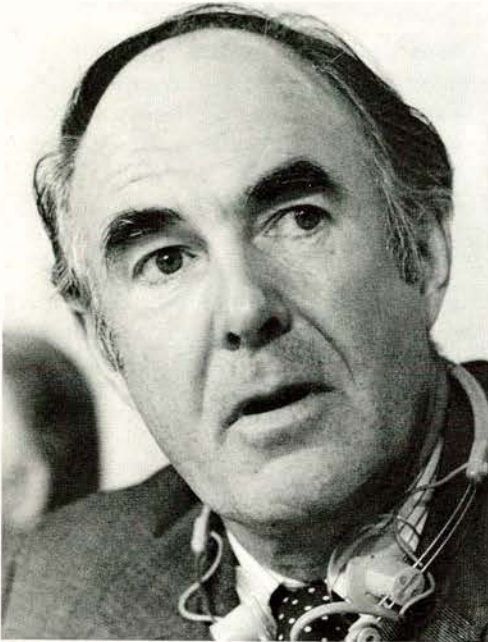
If such "decoupling" of energy growth from economic growth is to be achieved, strong conservation measures are required, Belgian Foreign Minister Henri Simonet pointed out. "Conservation" he noted, "is not just new construction techniques... It calls for a re-examination of our entire life style and even of our societal structures."

One message that emerged loudly and clearly from the meeting was the very real sense of responsibility felt by the governments concerned for evolving appropriate energy policies. It was perhaps best expressed by the New Zealand Minister, George F. Gair: "I believe we around this table have a very special responsibility" he said. "If we fail to answer the challenge to provide the political commitment and the momentum required to resolve these problems, then not only will we be failing in the trust which has been passed to us, but I believe posterity will be entitled to say this group failed to meet the challenge when it had perhaps the last opportunity."

And Energy Secretary Schlesinger echoed the message: "It is clear that, for large numbers of people, there is an intellectual appreciation of the problem. There is some question whether that understanding in the head is associated with an understanding in the viscera. We have had enough analysis of these problems; we already know what steps it is necessary for us to take. The real question is whether we will take action to see that these policies are effectively implemented, painful as it may be internally."



# IEA GOVERNING BOARD MEETING AT MINISTERIAL LEVEL: COMMUNIQUE



The Honourable **Alastair Gillespie**, Canadian Minister of Energy, Mines and Resources, Chairman of the IEA Ministerial meeting.

*"We must not allow any temporary easing of crude oil supplies to lull us into a false sense of security. These new reserves add only a few years to the world's supply at current levels of oil consumption."*

**T**he Governing Board of the International Energy Agency met at Ministerial level on 5th and 6th October 1977 under the Chairmanship of the Honourable Alastair Gillespie, Minister of Energy, Mines, and Resources of Canada.

Ministers reviewed developments within the IEA since the last meeting at Ministerial level on 27th May 1975, and noted with satisfaction that substantial progress has been achieved in a number of important areas including the adoption of the IEA's Long-Term Co-operation Programme and the setting in place of the emergency oil-sharing system.

## Strengthened Co-operation on Energy

Ministers reviewed world prospects of energy demand and supply. Stressing the importance of adequate energy supplies for future economic development, they

concluded that unless present energy policies are strengthened there is a serious risk that as early as the 1980's the world will not have sufficient oil and other forms of energy available and that such a situation would have severe economic, social and political consequences in all IEA countries and throughout the world. Ministers recognised that such a situation would have a greater impact on weaker economies, that no one country could provide a solution, and that all countries would have to make a contribution towards meeting the challenge. They emphasised the need for greater public awareness and discussion of the gravity of the energy situation, so that the necessary public support can be developed for stronger energy policy measures. In this connection, Ministers noted that the current surplus of oil in the world market is a temporary condition and could lead to ill-founded complacency.

Ministers expressed the determination of the IEA countries to reduce this risk by a strong, concerted and sustained policy response designed to make more effective



**Guido Brunner**, Member of the European Economic Communities Commission.

*"Whatever the European Community can do to promote public debate—to give people the feeling that the problem is urgent and to assure them that decisions will not be taken over their heads—will be done."*



Swedish Minister of Energy and Technology, **Olof Johansson**.

*"As members of IEA governments, we are responsible for starting on the road of transition to a world energy system which is in fundamental concurrence with global and long-term ecological conditions and requirements, which increasingly relies on renewable energy resources and which uses technologies that man can safely master and control. This basic orientation of a long-term energy policy is, I think, an important part of attempts to achieve a more sound management of the world's natural resources."*

use of energy resources, particularly through energy conservation, and to put more emphasis on development and use of less depletable energy sources. They reaffirmed the objectives of co-operation among IEA countries as set out in the Agreement on an International Energy Programme and the IEA's Long-Term Co-operation Programme and agreed on a coherent international policy framework in order to assist in the definition of national energy policies.

To this effect, Ministers adopted a decision on IEA Group Objectives and Principles for Energy Policy (see page 10). The decision establishes an objective for the group of IEA countries to hold their total oil imports to not more than 26 million barrels a day in 1985 and provides for group objec-



# THE TWELVE

*Further development by each Participating Country of national energy programmes and/or policies which include the objective, formulated as specifically as possible, of reducing in absolute terms or limiting future oil imports through conservation of energy, expansion of indigenous energy sources and oil substitution.*

★

*Constant and careful attention to important environmental, safety, regional and security concerns to which the production, transportation and use of energy give rise, and improvement of the speed and consistency of public procedures for resolving conflicts which may exist between these concerns and energy requirements.*

★

*Allowing domestic energy prices to reach a level which encourages energy conservation and development of alternative sources of energy.*

★

*Strong reinforcement of energy conservation, on a high priority basis with increased resources, for the purpose of limiting growth in energy demand relative to economic growth, eliminating inefficient energy use, especially of rapidly depleting fuels, and encouraging substitution for fuels in shortest supply, by implementing vigorous conservation measures in various sectors along lines which include the following elements:*

- pricing policies (including fiscal measures) which give incentives to conservation;
- minimum energy efficiency standards;
- encouragement and increase of investment in energy saving equipment and techniques.

★

*Progressive replacement of oil in electricity generation, district heating, industries and other sectors by:*

- discouraging the construction of new exclusively oil-fired power stations;
- encouraging the conversion of existing oil-fired capacity to more plentiful fuels in electricity, industrial and other sectors;
- encouraging the necessary structural adjustments in the refinery sector in order to avoid an excess of heavy fuel oil;
- directing efforts to the reduction of the use of heavy fuel oil as a primary energy source in those sectors where efficiency is low.

★

*Application of a strong steam coal utilisation strategy and active promotion of an expanded and reliable international trade in steam coal, composed of the following elements:*

- rapid phasing-in of steam coal as a major fuel for electrical power generation and in industrial sectors;
- further development of steam coal policies within producing, exporting and consuming IEA countries to support increased utilisation by enhancing market stability through reliable and increased export and import flows under reasonable commercial terms;
- development of policies to remedy anticipated infrastructure bottlenecks.

★

*Concentration of the use of natural gas on premium users' requirements, and development of the infrastructure necessary to expand the availability of natural gas.*

★

tives for successive periods to be established. Ministers considered that this level of oil import demand by the IEA nations would contribute to a better world energy balance and help to make it possible for requirements of all nations for adequate amounts of essential energy supplies to be met.

Ministers expressed their firm political determination to reinforce their national policies in order to achieve these group objectives. For this purpose, the decision establishes twelve principles of energy policy which will serve as guidelines for the implementation of national measures, taking into account domestic energy circumstances and social and economic requirements. The principles call for constant and careful attention to important environmental, safety and security concerns to which the production, transportation and use of energy give rise. They provide for stronger energy conservation, switching to use of more plentiful fuels, and rapid expansion of

indigenous energy supplies. They emphasize the need for a favourable investment climate, adequate energy prices and reduced uncertainty about energy policies. They call for co-operative efforts to increase coal consumption, production and trade and to maintain steady expansion of nuclear power, consistent with non-proliferation and environmental concerns, as a main and indispensable element in attaining IEA group objectives. Some Ministers, however, expressed different views as to the nuclear principle and reserved their position with regard to that principle.

Ministers generally recognised that nuclear power will be required in order to attain IEA group objectives. Ministers of many Member countries expressed the determination of their governments to expand their nuclear generating capacity. Ministers recognised that some of the constraints on development of nuclear energy can only be reduced by international co-operation. They agreed that, given the im-

portance of nuclear power as an alternative source of energy, the IEA should play an active role in the development of nuclear energy policies, taking full account of work being done elsewhere.

Ministers agreed that a systematic review of each country's contribution to the achievement of the group objectives would be conducted on a regular basis, and recognised the need for ensuring equivalence of effort among all IEA countries. They accepted the need to further strengthen their energy policies and measures, as may be necessary to meet the group objectives, in the light of the results of the country reviews, by national action supplemented where appropriate by concrete measures for international co-operation and solidarity with due regard for the financial and technological implications. They agreed on the need continually to improve forecasts of energy demand and supply on a global basis as a foundation for decision taking.



# PRINCIPLES

Steady expansion of nuclear generating capacity as a main and indispensable element in attaining the group objectives, consistent with safety, environmental and security standards satisfactory to the countries concerned and with the need to prevent the proliferation of nuclear weapons. In order to provide for this expansion, it will be necessary through cooperation to assure reliable availability of:

- adequate supplies of nuclear fuel (uranium and enrichment capacity) at equitable prices;
- adequate facilities and techniques for development of nuclear electricity generation, for dealing with spent fuel, for waste management, and for overall handling of the back end of the nuclear fuel cycle (1).



Stronger emphasis on energy research, development and demonstration, including collaborative programmes, more intensive national efforts and greater co-ordination of national efforts, in order to make energy use more efficient and to meet future energy requirements. Each Participating Country should contribute to energy technology development, with emphasis on (a) technologies which can have relatively near-term impact (b) policies which facilitate the transition of new energy technologies from the research and development phase to the point of utilisation, (c) technologies for broadly applicable renewable energy sources, and (d) investigation of whether there are technological possibilities for significant contributions from other renewable resources, through:

- providing the fullest possible financial support for energy research, development and demonstration;
- increasing participation in international collaborative projects to extend the effectiveness of funds available;
- encouraging investment in energy technology development by appropriate incentives;

- ensuring that R & D policies remain consistent with and supportive of the objective of ongoing energy policy.



Establishment of a favourable investment climate which encourages the flow of public and private capital to develop energy resources by appropriate pricing policies, by minimising uncertainties about the general directions of energy and other policies such as mentioned in the Second Principle and by providing government incentives where necessary, in order to:

- give priority to exploration activities including those in off-shore and frontier areas;
- encourage rates of exploration and development of available capacities which are consistent with the optimum economic development of resources.



Providing in energy policy planning for alternative means, other than increased oil consumption, for meeting any development of supply shortfall or failure to attain conservation objectives, taking into account the appropriate requirements of economic development and social progress.



Appropriate co-operation in the field of energy, including evaluation of the world energy situation, energy research and development and technical and financial requirements, with developed or developing countries or international organisations.

(1) The following Delegations expressed individual positions regarding this Principle, as set forth in the Conclusions of the Meeting of the Governing Board which adopted this Decision: Denmark, The Netherlands, New Zealand, Norway, Spain and Sweden.

## Energy Research, Development and Technology Applications

Ministers reviewed the progress of the IEA's research and development programme and welcomed the signing of seven new implementing agreements in the following areas:

- 500 KW Solar Electric Power System Demonstration
  - Techniques for Extracting Energy from "Man-made" Geothermal Resources
  - Testing of Superconducting Magnets for Fusion Power Systems
  - Experiments on Effects of Plasma on Wall Materials in Fusion Machines
  - Hydrogen Production from Water
  - Large-scale Wind Power Demonstrations
  - Studies of Wind Power Applications and Environmental Effects
- as well as a statement of intent covering

collaborative projects on:

- Low-BTU Coal Gasification
- Refining of Liquid Fuels Derived from Coal

They also noted with satisfaction the results obtained from the first phase of the IEA energy research and development strategy project and emphasized the importance of continuing to develop a strategy that focusses efforts on the most promising conservation and supply technologies.

Ministers concluded that more and intensive efforts are required in order to develop new energy technologies and make possible rapid application of alternative energy sources so as to respond to energy needs in the long-term. They undertook to examine their countries' national energy research and development efforts in order to assure that they would be able to make an adequate contribution to energy technology development, taking into account the results of the IEA's forthcoming review

of national energy R & D programmes. They endorsed the efforts being made to establish for the group of IEA countries as a whole estimates and objectives for the contribution of new technologies to both energy conservation and supply programmes over the remainder of this century.

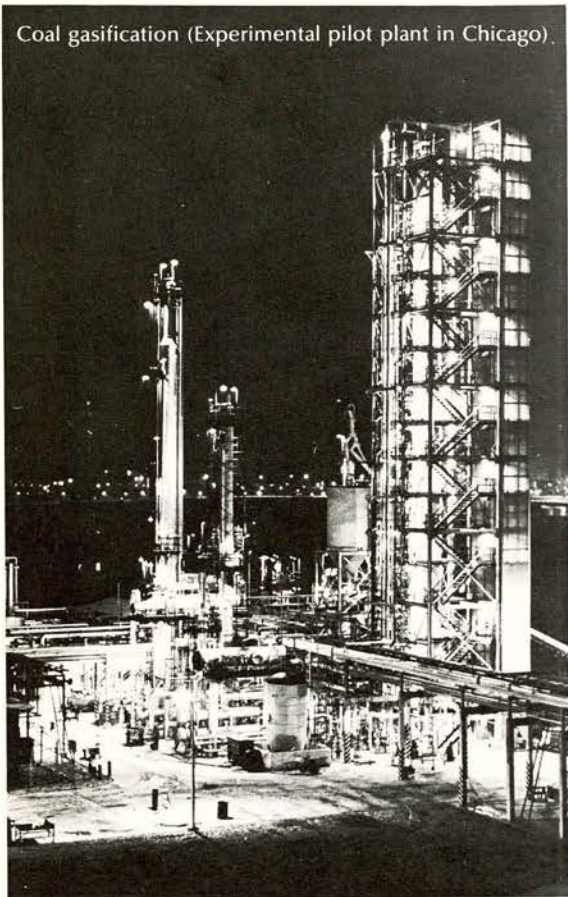
Ministers agreed to intensify efforts for more complete co-ordination in the planning of national R & D programmes in each of the important areas of new energy technology so that national programmes would more effectively complement and reinforce each other. They noted the Memorandum of Understanding between two IEA countries for co-ordination of their programmes for the development of coal derived liquid fuels.

Ministers agreed that broader participation in collaborative major hardware developments would enable significant economies to be achieved. In this connection, Ministers agreed that individual IEA Member countries should support a policy

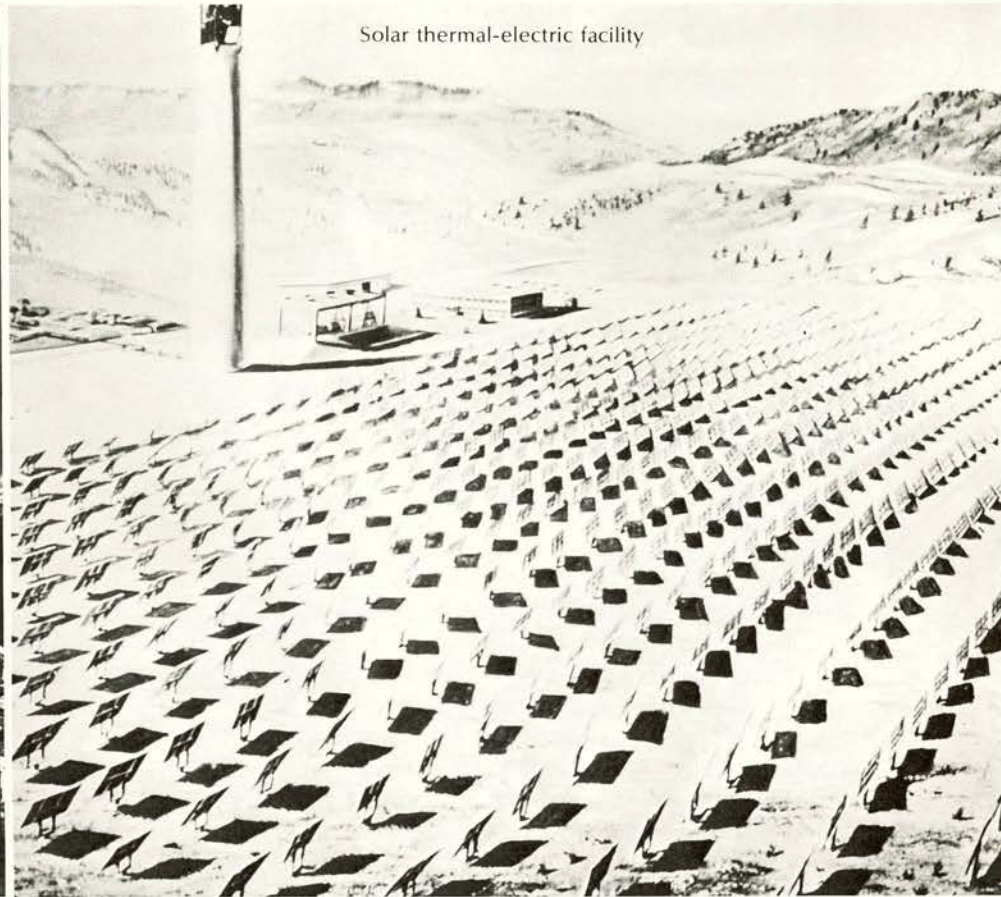


# IEA RESEARCH AND DEVELOPMENT PROJECTS

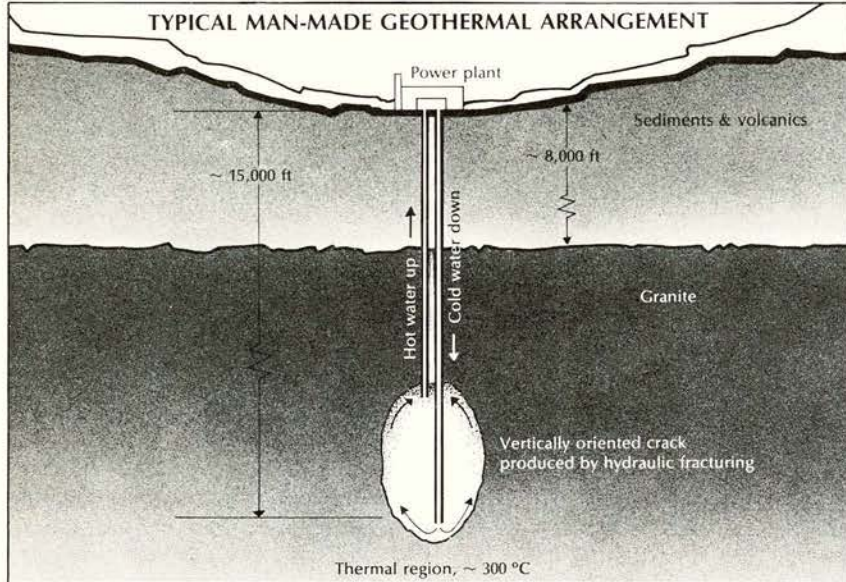
Coal gasification (Experimental pilot plant in Chicago)



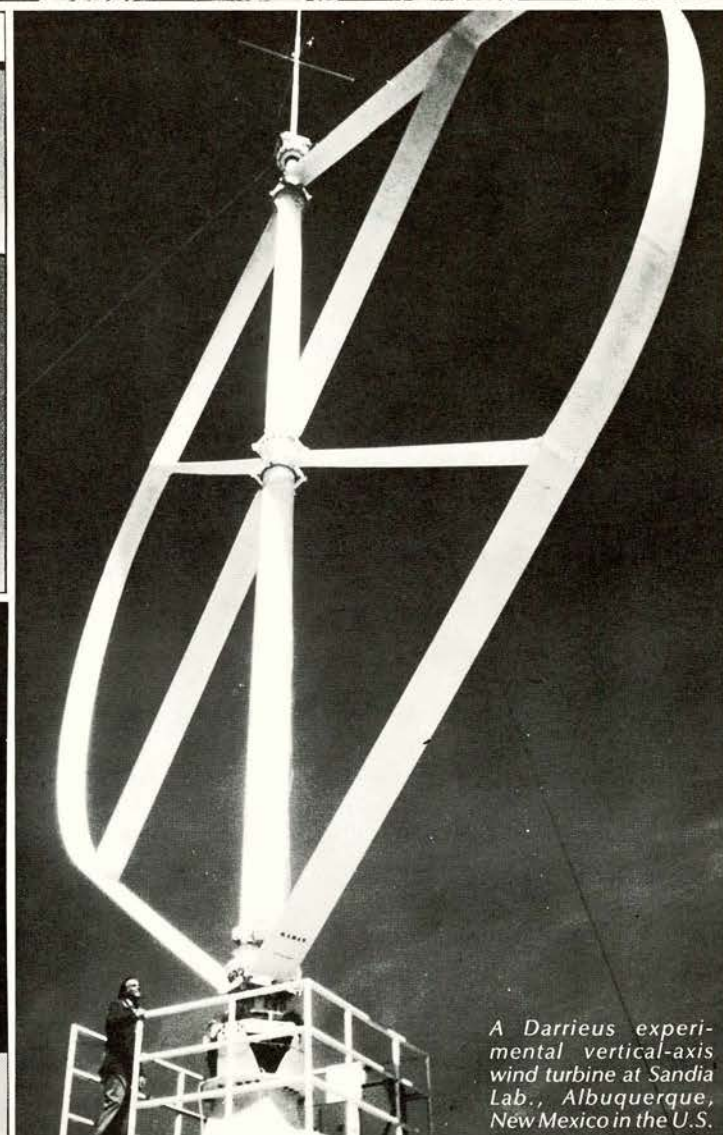
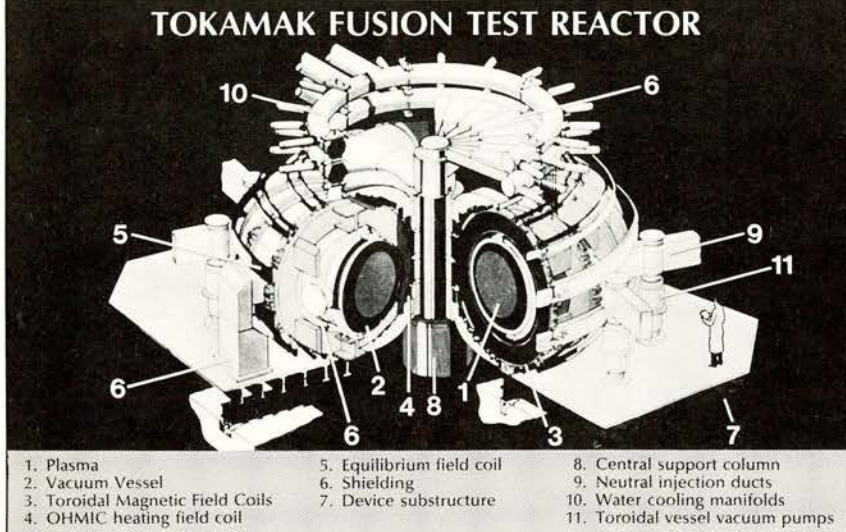
Solar thermal-electric facility



TYPICAL MAN-MADE GEOTHERMAL ARRANGEMENT



TOKAMAK FUSION TEST REACTOR



A Darrieus experimental vertical-axis wind turbine at Sandia Lab., Albuquerque, New Mexico in the U.S.



of co-operation in major IEA hardware projects, subject to decisions on participation in specific projects being contingent upon national interest in the project concerned.

## Energy Co-operation with Developing Countries

Ministers reviewed the results of the Conference on International Economic Co-operation (CIEC) with respect to international energy co-operation, and considered the question of future energy co-operation with developing countries. They expressed their view that the Conference had helped oil producing and consuming countries to improve their understanding of the world energy supply and demand situation and of their respective responsibilities for managing the transition from oil to more plentiful and renewable energy resources.

Ministers expressed their conviction that problems of energy supply and demand are among the important issues which will have to be resolved in order to assure an improving world economy, and that international co-operation has a considerable role to play in this.



James Schlesinger, United States Energy Secretary.

*"If reality is going to force the reduction of imports upon us, let us accept it and consciously take measures to deal with it rather than allow reality to creep up on us with drastic implications for employment, inflation and virtually unsolvable balance of payments difficulties."*

Ministers reaffirmed the objective of IEA Member countries to make a positive and constructive contribution to such international energy co-operation. They stressed their preparedness to intensify effective co-operation with developing countries in ways which are suitable to all countries concerned.

Ministers considered various areas of common interest in which possibilities could be found for substantive elements of energy co-operation between industrialised and developing countries, and noted that the following areas might prove suitable for further examination: a better system for regular exchange of information on world energy demand and supply; co-operation in development of various energy sources in developing countries; and international co-operation in energy R & D activities.

Ministers agreed that IEA Member countries would keep under review developments in the field of energy with a view to identifying opportunities for co-operation with developing countries, both bilaterally and within the framework of the United Nations and other international organisations.

## NINE NEW R&D AGREEMENTS

Nine new agreements for co-operative energy research and development that will ultimately cost more than \$130 million were signed at the Ministerial meeting. This brings to a total of 28 the number of R&D projects launched by the International Energy Agency since it was set up in November 1974 (1). Seventeen of the 19 IEA countries, plus the European Communities, will be involved in one or more of the new projects.

### Coal

One of the two coal agreements is a German-United States statement of intent to fund multi-million dollar demonstration programmes, including a \$50 million pilot plant in the U.S. to refine coal-based liquid fuel; the site is to be chosen shortly; a second plant having an initial cost of \$12 million and designed to improve coal gasification using the so-called "Saarberg-Otto" process is about to be commissioned at Völklingen in the Saar. This is the first time that the process will be used to generate a low BTU gas for direct application in gas-tur-

bine-powered electric generating stations.

The other agreement, on coal liquefaction, will permit close coordination of important German and American government programmes in this field so as to develop advanced technologies for the conversion of domestic coal into liquid fuels (e.g. marketable quality gasoline and oil for home heating) and into chemical feed stocks. This is the first IEA agreement to provide for across-the-board co-operative planning in a major area of energy technology. During the next few weeks, several Member countries will be signing three other agreements in the field of coal—two relating to the development of coal gasification and one on coal pyrolysis research.

### Solar energy

The first step has been taken in a major ten-country project for the construction in Southern Spain of two 500 kWe demonstration plants designed to produce electricity from solar energy. The project will permit comparison of two different techniques under identical conditions.

The first, a "distributed collector system", requires an 8-hectare site containing a large number of small mirrors which concentrate the power of the sun's rays onto pipework containing a liquid or gas which then drives a heat engine coupled to an electric generator. The other concept, the "central receiver system" will consist of a single boiler (the "receiver") mounted on a central tower around which an array of mirrors would also be spread over an area of about 8 hectares. These larger mirrors or "heliostats" would reflect the power of the sun's rays onto the central receiver to heat a fluid which would drive a turbine generator.

Work on technical design and final cost estimates will go on for 12 months, at the end of which the countries con-

(1) The 19 previously agreed R&D projects include seven in energy conservation, five in coal technology, one in nuclear fission safety, one in fusion power and five in solar heating and cooling. Japan and the European Communities have just added their signatures to the solar agreement and New Zealand has applied to join two of the five earlier coal projects.



# PRIORITIES FOR R, D & D\*

## **Near and medium-term technologies:**

### **Conservation**

- improved industrial processes
- more efficient transport engines and vehicles
- improved means of utilising waste heat
- building insulation.

### **Supply**

- enhanced oil recovery
- more effective and environmentally acceptable means of coal combustion
- solar heating.

### **Transition technologies**

- oil shale, tar sands
- process heat from coal (directly or through conversion to gas)

- improved performance of nuclear convertor reactors
- nuclear fuel cycle issues, including safety and waste disposal
- coal-derived liquid and gaseous fuels.

### **Broadly applicable renewable resources**

- large scale direct and indirect solar energy uses
- geothermal energy
- biomass
- breeder reactors and alternative fuel cycles which are economically, politically and environmentally acceptable
- fusion

### **Investigation of other renewable sources**

- wind
- wave
- ocean gradients.

\* R, D & D: Research, Development and Demonstration.

cerned will decide on the construction phase. The design, construction and operation of the complex will be supervised by an international team of engineers and scientists drawn from participating countries and seconded to "Project Operating Agent", a division of the German Air and Space Agency (DFVLR). Participants will be: Austria, Belgium, Germany, Greece, Italy, Spain, Sweden, Switzerland, the United Kingdom and the United States.

## **Fusion power**

The control of the fusion reaction by magnetic confinement for the purpose of generating usable energy is receiving high priority because it offers the prospect of an energy source based on a cheap, virtually inexhaustible fuel that occurs in sea water. However, even when all the scientific problems are solved, there will still be a number of engineering difficulties and it is here that the agreements are intended to improve knowledge and develop experience. A major part of the research work centres on devices called "tokamaks" which use poloidal and toroidal magnetic fields to confine and heat the plasma in which the fusion reaction takes place. The basic challenge is to achieve simultaneously all the conditions necessary for a net production of fusion energy. Among many other requirements, scientists will need very powerful superconducting magnets and materials capable of withstanding very high temperatures and other extreme stresses.

The first of the two fusion power agreements provides for co-operation on

a six-year project to build a facility in the United States which will test the very large superconducting magnets needed for developing tokamak fusion reactors. Euratom, Sweden (2) and Switzerland (3) will collaborate by fabricating superconducting magnetic coils and shipping them to the U.S. facility. The project will cost a minimum of \$39 million.

In the other project, which will last for nine years and cost nearly \$18 million, Canada, Switzerland (3), Turkey and the U.S. will be contributing specialised manpower towards the final design and construction of a tokamak plasma test bed, called TEXTOR, to be built at Jülich in Germany. Euratom and Germany are funding the construction of the plasma test device, which will help in the development of materials capable of withstanding the great stresses and high temperatures involved.

## **Geothermal energy**

As regards geothermal energy, Germany, Sweden, Switzerland, the U.K. and the U.S. will share the cost of a 15-month \$600,000 study of new techniques and systems for extracting heat from subterranean hot dry rocks, the largest potential source of geothermal energy. The study will focus on: achieving access to thermal reservoirs through boreholes, shafts and cavities; heat extraction (heat exchange fluids, heat exchange surfaces); energy transport to the surface and underground energy conversion; environmental problems (mechanical and seismic effects, thermal waste). Analysis of the various processes will lead to technical solutions and recom-

mendations for further national or international hardware-development and field testing.

## **Wind power**

Two agreements on wind power have been signed. The first, involving Denmark, Germany, Sweden, and the U.S., commits each participant to deploy one or more large-scale wind power generators in the one to five MW range. The second agreement includes the above four countries plus Austria, Canada, Ireland, Netherlands and New Zealand and covers four studies of the basic problems involved in converting wind energy to electric power including environmental and meteorological aspects, siting, integration into electricity grids and rotor systems.

## **Hydrogen production**

The possibility of producing hydrogen from water on a commercially viable basis will be studied under an agreement signed by Belgium, Canada, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the U.S. and the European Communities. The first task is to evaluate thermo-chemical processes for producing hydrogen and the second is to study the interface between a high temperature nuclear reactor, used as a heat source, and the thermo-chemical plant producing the hydrogen. A third task, assessing the potential market for hydrogen, will be added in the near future.

(2) Via Euratom.

(3) Expected to join at a later date.



# OECD Development Assistance Committee Sixteenth Annual High-Level Meeting: COMMUNIQUE

The annual High-Level Meeting of the Development Assistance Committee (DAC) of the OECD took place on 26th and 27th October, 1977, at the headquarters of the OECD in Paris. The meeting, which was chaired by Mr. Maurice Williams, Chairman of the Committee, was attended by Ministers and senior officials of the eighteen Members, together with the representatives of the World Bank and the International Monetary Fund (1).

The Committee reviewed the principal issues affecting development co-operation in the light of the results of CIEC and the Declaration on Relations with Developing Countries adopted by the OECD Ministerial Council in June 1977 and against the background of the changing international economic environment. It was recognised that, following CIEC, concrete progress in all areas in which Members had undertaken commitments should now be achieved.

DAC Members noted that the economic and financial prospects in the OECD area continued to give rise to serious concern. Against this background, DAC Members reaffirmed their intention, as expressed by them in different fora, to increase effectively and substantially their official development assistance and to achieve an improved balance of their efforts in this regard. The DAC has reviewed its Members' current aid plans and intentions. These indicate that individual Members are already making specific plans to increase their official development assistance over the next few years in line with the OECD Declaration. Some countries reaffirmed their intention of aiming at ODA volumes reaching one per cent of GNP or more; others hoped to reach the 0.7 per cent target by the end of the Decade; most other DAC countries also envisage significant aid increases during the coming years. Several DAC Members expressed the hope that in addition to their efforts and the contributions of oil-producing countries, other industrialised countries would also play their part in the global aid effort.

The meeting came at a moment when preparations are beginning, in the United Nations and elsewhere, for major reviews of the future orientation of international development policies

and approaches. These reviews call for the evolution of a longer-term and broader concept of development strategy, commanding public and parliamentary support. The DAC should play an important role as a forum for the discussion and review of Members' approaches concerning constructive contributions to such a strategy.

In the Third World there is growing economic resilience and continuing vulnerability and mass poverty, often within the same countries. DAC Members underlined the need for a better understanding of the future trading, financial, technological and industrial relations with developing countries that are likely to evolve over the coming years. The new trends and the appropriate policy responses will need study and this will be one of the tasks of the Organisation in the period ahead.

DAC Members devoted particular attention at this meeting to the implications for aid policies of a more determined basic human needs-oriented approach to development. They reaffirmed their determination to direct, in co-operation with developing countries, progressively larger efforts to programmes meeting basic human needs. They offer their views on basic approaches and principles for donor support as set out in the attached "Statement by DAC Members on Development Co-operation for Economic Growth and Meeting Basic Human Needs" for discussion with developing countries.

Since programmes in support of basic human needs objectives are likely to have a high local cost content, DAC Members will consider sympathetically requests to help support local costs in accordance with the DAC Guidelines for Local Cost Financing which they adopted at this meeting. Many Members stressed the importance of reciprocal untying which is under consideration and the DAC agreed to pursue discussion on this subject.

(1) *The Members of the Committee are: Australia, Austria, Belgium, Canada, the Commission of the European Communities, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.*

## STATEMENT BY DAC MEMBERS ON DEVELOPMENT CO-OPERATION FOR ECONOMIC GROWTH AND MEETING BASIC HUMAN NEEDS Adopted by the DAC High-Level Meeting on 27th October, 1977

In the Declaration on Relations with Developing Countries adopted by OECD Member governments in June 1977, they acknowledged the necessity to continue working with developing countries towards improved and more

effective development co-operation policies directed to the dual purposes of growth of incomes and meeting basic human needs of individuals in all developing countries.

Member governments wish to work

with developing countries in further defining the implications of a more determined basic human needs-oriented approach for development efforts and policies, building upon the decisions in the United Nations and the



relevant United Nations World Conferences. In particular, they are determined to assist developing countries which seek to expand their capabilities for meeting more effectively the basic needs of their people within the context of achieving self-sustaining growth. A more determined basic human needs-oriented approach to development should permit better understanding and support for enhanced development co-operation efforts.

### **Basic Principles of Concept and Approach**

Many developing countries have, over the past few decades, made impressive progress in their economic development. And yet, notwithstanding this progress and the positive action taken by the international community, severe problems of mass poverty remain. A cause of particular concern is the plight of the one billion people in the world who, largely for want of productive employment, remain unable even to meet the most urgent needs for food, decent drinking water, shelter, health care and education. In the face of this situation, DAC Members underline the necessity, as expressed in the Declaration of Principles and Programme of Action of the Tripartite World Conference of the ILO, to add a new dimension to development strategies addressing the problems of meeting basic human needs more directly.

The concept of basic human needs must be country specific and dynamic, for it is up to individual developing country to choose and define its own objectives and policies in the light of its circumstances.

Concern with meeting basic human needs is not a substitute for, but an essential component of, more economic growth which involves modernisation, provision of infrastructure and industrialisation. In particular, policies which contribute to increased utilisation of available resources, especially labour, and improvement in their productivity should contribute to both growth and equity. A basic needs approach is not primarily welfare or charity but productivity-oriented, aiming at increasing the productive income of the poor and strengthening the basis for long-term self-generating development. Programmes which involve widest possible participation of the people whose needs are addressed, are most likely to be effective.

Constructive structural change in international economic relations, leading to a more equitable and stable international economic system, one which would create a better life for all people, must remain an essential ele-

ment of any policy in favour of developing countries.

### **Basic Principles of Donor Support**

The adoption by developing countries of enlarged development programmes aiming at basic human needs objectives and the application of the attendant policy reforms increase the need for financial transfers and increased efforts by donor countries. While most developing countries have serious problems of economic and social imbalance, the bulk of the problem is in the poorest countries where the majority of the poor live.

No sector should a priori be excluded as a target for appropriately designed assistance. The importance of the different sectors will vary depending upon developing country circumstances and priorities. Significant progress towards raising the productive income and welfare of the poor requires that greater emphasis within aid programmes be placed on contributing to expanding opportunities for productive employment, rural development, food production and well-designed, broadly accessible health, family planning and education services.

Aid programmes should be designed to promote the active participation of women in the development process.

Natural disasters affect the poorest societies and their poorest members most harshly. External support for increased efforts to defend against such disasters is a significant element in meeting basic human needs.

DAC Members recognise the need to strengthen their own capability to contribute flexibly and effectively to basic human needs-oriented development programmes. They will review their procedures for assistance to facilitate implementation with a view to relying increasingly for its administration on the national and local authorities of developing countries, keeping in mind their accountability to governments and parliaments for the effective use of aid resources. DAC Members recognise the valuable contribution which non-governmental organisations can increasingly make in the basic needs area.

Since effective policy planning and administrative capacity is critical for implementation of development, DAC Member countries will seek to respond positively to requests from developing countries for assistance for these purposes, including training and the strengthening of domestic institutions in such areas as agricultural and industrial extension for low-income producers and delivery systems for basic services.

### **Improved Donor Recipient Co-operation**

DAC Members are ready to determine with interested developing countries the scope for strengthening their financial and technical support to basic needs-oriented development programmes and to make it more effective. International aid programmes, supporting policies whose development objectives and efforts are oriented towards meeting the basic needs of individuals and of communities, can only be identified at the individual country level, through active donor-recipient dialogue building upon the existing arrangements for international aid co-ordination, such as the Consortia and Consultative Groups, strengthening these arrangements and exploring arrangements of a new kind where appropriate.

DAC Members welcome initiatives that might be taken by developing countries to improve co-ordination of international aid from various sources and its effective integration into national development efforts and programmes.

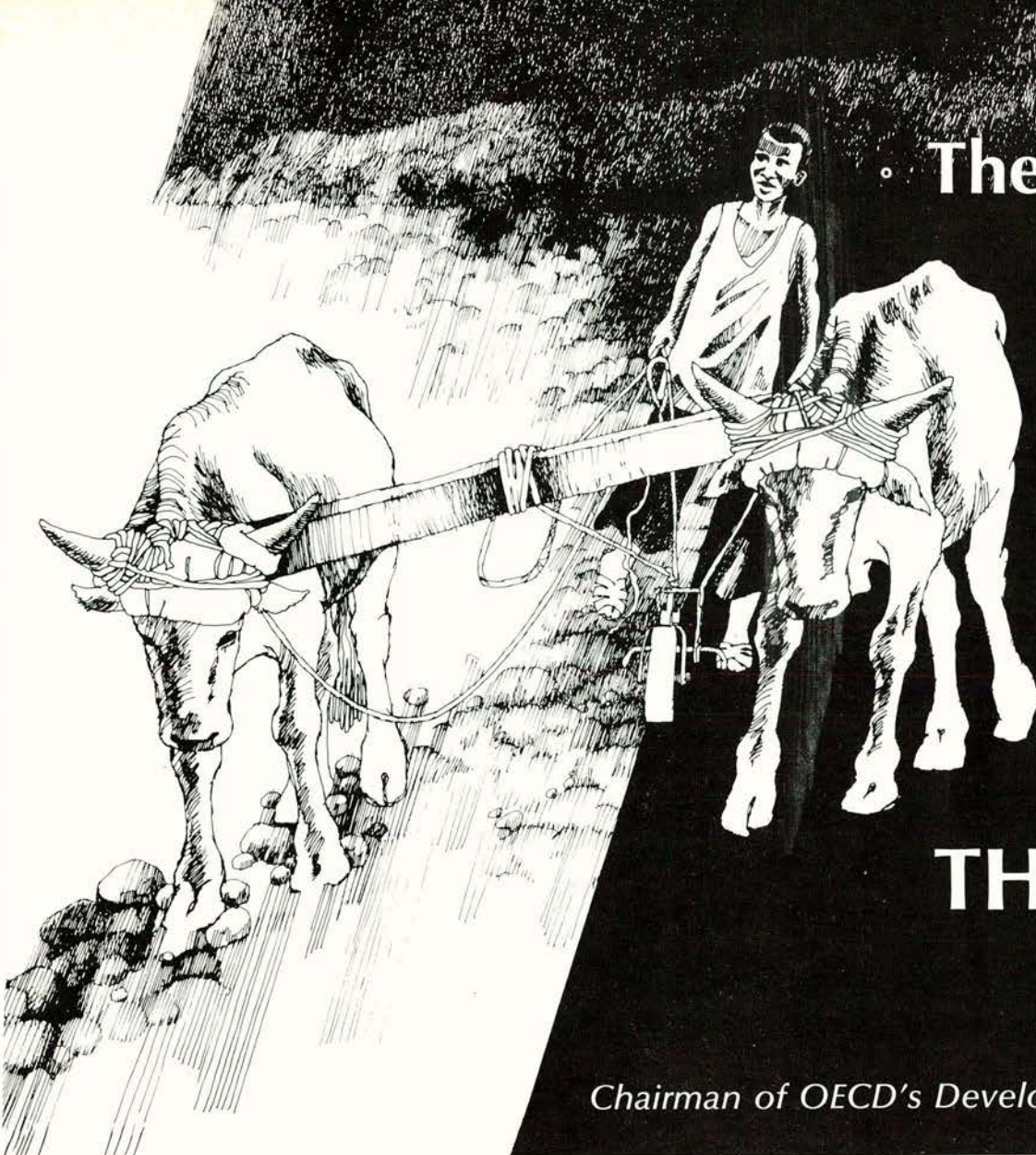
They will work towards increasing emphasis being given to a more basic human needs-oriented approach to development in the competent international development institutions of which they are Members.

DAC Members look forward to working with developing countries on the incorporation of basic human needs objectives in the new international development strategy that is being envisaged under United Nations auspices to provide a broad framework for improved international economic co-operation during the next decade.

### **Further DAC Action**

Increased effectiveness of aid programmes in assisting developing countries in a more determined basic human needs-oriented approach to development will continue to be a major concern of the DAC in the period ahead. The DAC, taking fully into account the results of discussions in other international fora, will work towards a clarification on the basic programme and policy issues as well as on the implications for practical aid management and procedures, seeking the advice of experts from developing countries as appropriate. The DAC will keep under review Members' aid programmes with respect to their contributions to the developing countries' progress in meeting basic human needs objectives and with a view to expanding the levels and improving the effectiveness of aid programmes in support of developing countries' efforts.





# The Development Challenge of Today

## MEETING THE BASIC NEEDS OF THE POOREST PEOPLES

by Maurice Williams,  
Chairman of OECD's Development Assistance Committee

*The economic achievements of the last two decades have been large, but development is a moving target with changing needs and priorities. The development challenge today is the great and growing disparities of life which are leaving ever larger numbers of people entrapped in extreme poverty and situations of incipient disaster. The case is clear for concerted action in on-going development programmes to help the poorest countries and peoples meet their basic needs (1).*

In spite of the tremendous economic progress of the last twenty years, the promise of effective development is dimmed by the fact that very little progress has been made by the poorest people and nations. Also, almost everywhere impressive rates of economic growth have not been matched by growth in employment or by improvement in the relative distribution of income—as the speeches of Robert McNamara and others have pointed out. Instead, the tendency has been for increased unemployment and polarization of incomes, as development has failed to provide enough opportunities for productive employment.

Large numbers of people have shockingly low levels of productivity and incomes. Rates of job creation have lagged well behind the expansion of the labour force throughout most of the developing world. More waste, hardship, malnutrition and illness stem from unemployment and inadequate income than

from other causes. People who lack reliable means of livelihood in poor countries, where social security services are rudimentary or non-existent, live in absolute poverty. They are without the means for assuring the basic needs of adequate food, clothing and shelter and often access to safe water, decent sanitation and simple health and education facilities for their children are not available. It has been estimated that over 700 million people exist in conditions of absolute poverty. But absolute poverty is only part of the poverty problem since, throughout the developing world, there are additional millions who live just above marginal subsistence (2).

For the developing world, the problem of extreme poverty is multi-dimensional. It is a technological problem in that capital-intensive technologies may be productive but of high social cost in reduced employment prospects. It is an entrepreneurial and managerial problem since the shortage of these skills in most developing countries limits possibilities for adopting more labour-intensive production methods. It is a food problem with the need to expand both production and effective demand for food in order to reduce hunger and widespread nutritional

(1) This article, and the two following ones are based on the Chairman's Annual Report which has just been published.

(2) A 1976 World Bank study on Malnutrition and Poverty; Magnitude and Policy Options by Shlome Reutlinger and Manrelo Selowsky, estimates almost 1.4 billion people have some caloric deficits in their daily diet—of whom about 930 million suffer daily deficits of 250 calories or more.



deficiencies. It is an investment problem involving structural changes and the expansion of effective markets. Finally, it is a population problem—not only because of the increasingly large numbers who are entering the labour market but because it is the very conditions of poverty that maintain high fertility and delay the social changes which are an essential prerequisite to reducing fertility. In all aspects, wide-scale extreme poverty calls into question the social and political order—both nationally and internationally—when institutional arrangements render increasingly large numbers of people superfluous to the production system.

The sheer scale of extreme poverty, its brutish character, the fact that large populations are left with little prospect for amelioration of their condition—and this in spite of overall rapid economic development—have led to assessments of development policy alternatives that will place the means for meeting basic human needs at the centre of development concerns and priorities.

## Evolution of the Basic Needs Concept

The basic human needs concept, as a new employment-oriented approach to development, had its origin in employment conferences and research sponsored by the International Labor Organization beginning in 1969. At the World Employment Conference in June 1976, a Declaration of Principles and Programme of Action for a Basic Needs Strategy of Development was adopted by broad agreement of all participants.

That meeting basic human needs should be a central purpose of development cooperation was endorsed in a declaration adopted by governments of OECD Member countries in June 1977. This declaration affirmed that "while development cooperation concerned relations between governments, its objective was the well-being of individuals; development cooperation should therefore fulfil the dual purposes of growth of incomes and meeting basic needs of individuals in all developing countries". Looking ahead OECD Members agreed that further efforts were needed to build a more equitable and stable international system, one which would create a better life for all people (3).

While economic growth may occur without benefitting the mass of poor people, their poverty cannot be relieved without growth. The solution to the problem of poverty is to increase the productivity of a growing work force, so that it can produce essential goods and services to meet its needs and earn the incomes to buy them. Hence development policies should focus on both growth and the alleviation of poverty. Such policies are best achieved through social and political transformation which is based on a broad participation in the process of change and in a better distribution of its benefits and costs.

An approach to economic growth and meeting basic needs dictates certain policies and priorities in investment which should include almost everywhere expanding opportunities for productive employment, a more central role for rural development, adequate food, additional investment in human capital through improved health and educational services, and directly redistributive policies and programmes when they are necessary to ensure that at least minimum human needs are met.

## Elements of a Basic Needs Development Programme

Almost all development efforts can be said to be directed, at least broadly, to meeting human needs. However, we believe that a basic needs programme should address development in a

manner which specifically seeks to establish minimum food and health security, to expand the capacity for sound employment-related investment and, thereby, to build a balanced national foundation for self-sustaining economic and social advance.

### ● *Productivity, employment and income*

Such a programme is firmly rooted in productive investment. Consequently, the central objective for a basic needs programme must be to expand the income of the poorest people through increases in productivity and generation of new employment opportunities.

Technology is the engine for accelerated gains in productivity. In particular, high yielding agricultural technology is becoming more widely available, in the form of improved cultivation practices, new seeds and fertilizers, and this is favourable to the small family farm, a major productive resource of most developing countries. The technology of high yielding varieties not only increases productivity and income, but tends to broaden employment opportunities. It is generally associated with an increase in the hired labour force, particularly when multiple cropping expands. Also, higher grain yields permit diversification into other crops, which are often more labour-intensive than foodgrains. This can mean new demands for agricultural services, producer and consumer goods, transport, electrification and other elements of rural infrastructure, as well as providing a favourable environment for investment in rural industry.

With redirected investment priorities, it is possible to sharply increase the production of food, and with it transform the income and employment prospects of underdeveloped rural areas.

With vigorous rural development, surplus labour becomes a productive asset and labour-intensive rural public works can contribute to essential investment. Public works can facilitate the introduction of new agricultural technology through preparing land, improving irrigation and drainage channels, building roads, storage and market facilities and other ancillary investments along with programmes for introduction of improved seeds, fertilizer and new cultivation practices.

### ● *Food security*

By stressing employment related to increases in food production, the proposed approach to meeting basic needs, recognises that increasing the income of the poor has its most substantial impact on their demand for food. They are also better able to purchase other privately marketed goods such as clothing and shelter. Once such a policy is initiated, food security must be sustained, which means not only the production of food within or very near poor communities, but development of storage and marketing facilities as well as appropriate pricing policies. Food aid programmes would still be essential to reduce the risks inherent in bad harvests and assure the needs of vulnerable groups unable to benefit from employment opportunities.

### ● *Health services*

The state of health of a population is a direct determinant of development. It affects productivity, mental potential of children, infant and general mortality, and the allocation of resources within a family, community and nation.

(3) "Declaration on Relations with Developing Countries", OECD Communique, Paris, 24th June 1977.



After a period of overemphasis on curative medicine, it is now recognised that improved diet and environmental conditions are the most important contributors to good health (see page 22). Food is an important factor in the health of a community, but so also are potable water, sanitary waste disposal, parasite control, breast-feeding of infants, inoculations, and practice of child spacing.

Considering the paucity of health facilities in rural areas and the high cost of traditional, curative medicine, this two-pronged approach of involving communities themselves and the various governmental services in a full range of preventive health actions and of training primary level health care workers could be a giant step toward improving the health of the poorest people. It is recognised by DAC Members that aid for basic health services and primary health care is of crucial importance for development as is the inclusion of health components in projects in sectors other than health, such as agriculture, water supply and sanitation.

### ● Lowering the rate of population growth

Because of the negative impact of rapid population growth on social and economic development in rural areas and among the urban poor, it is essential in considering basic human needs to focus on the population growth issue. Most governments of developing countries agree. Three-quarters of the population of the developing world live in countries where the reduction of population growth rates is an official policy, and a further 15 per cent are in countries where family planning activities are supported for health reasons.

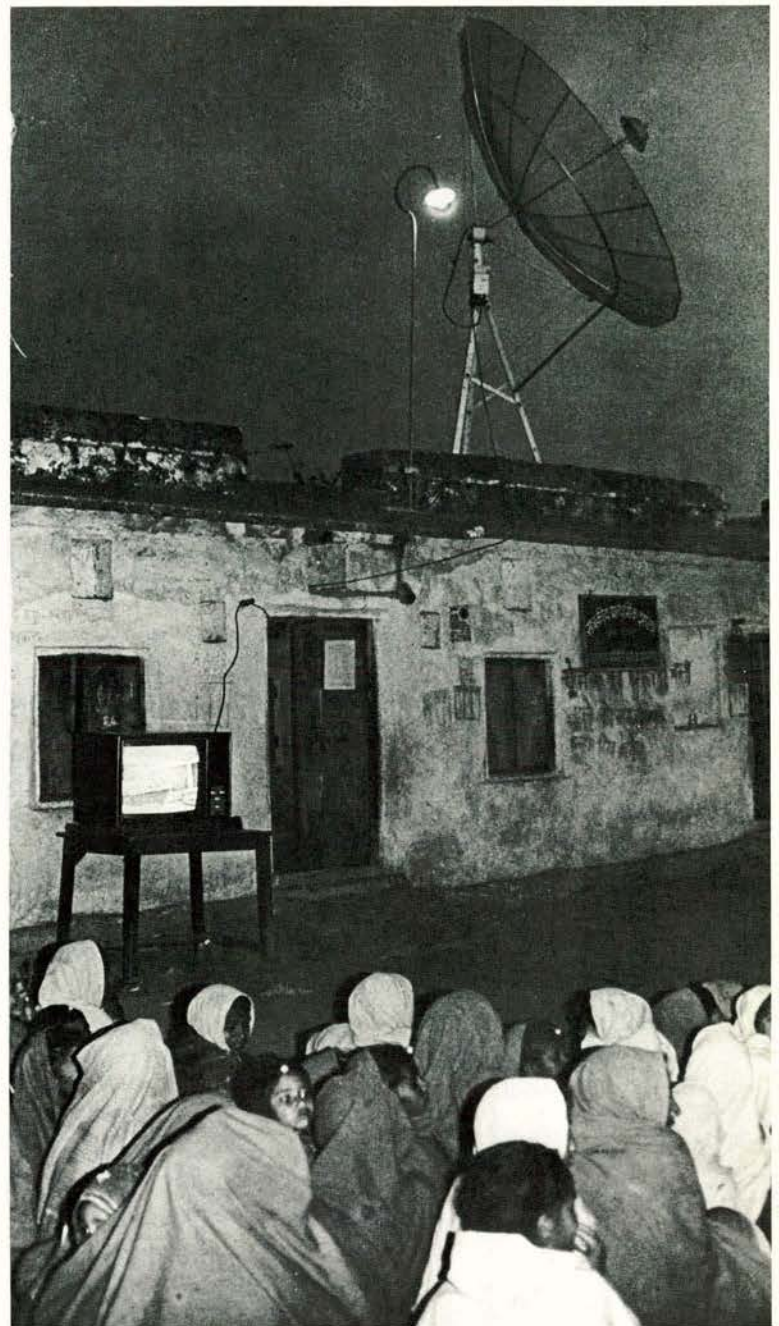
There are strong arguments for governments to increase greatly their efforts in health, education, food security and income redistribution, because they meet human needs and specifically because they have the strongest impact on fertility.

But even more is called for. The decision to limit family size and space children is a very private one and the motivations relating to family size are often complex.

There are, in addition, specific social, cultural or religious obstacles to achieving lowered fertility which must be dealt with by responsible governments and within the framework of individual rights. There should be a population education or family planning component in every possible learning situation—formal and non-formal—so that people can make informed decisions about family size. In particular, greater emphasis should be placed on educating young people to consider the consequences of their fertility behaviour for society and themselves.

Finally, a full range of safe and effective family planning services at low cost should be readily available, making it possible for parents to enjoy their human right to plan family size and spacing. Well directed basic health services that reach all areas provide a means for implementation. Providing people with acceptable and effective means of family planning, moreover, need not wait upon the establishment of qualified medical and nursing services. Experiments have shown not only that contraceptives can be satisfactorily distributed by shopkeepers or selected local leaders, even in remote rural areas, but that local midwives or village women with only a low level of education, can be trained to perform a variety of family planning services.

Reduction of the birth rate by half, from an average of 37 per thousand, in 20 years should be a priority target for the developing world. But changing attitudes and voluntary practices in regard to fertility behaviour *within one generation* would be an extraordinary social achievement that requires determined action in all programmes affecting this change.



*Community educational television in the state of Rajasthan in India.*

### ● Investment in people

Investment in people means providing learning valued by people because it helps them to master new technologies for meeting basic needs of food production, for ensuring the health of children, for producing income and employment.

Because of the magnitude of the task of education within rural areas, and education's essentiality to rural development, there must be a reordering of the disproportionately large share of educational resources of all kinds that go to urban areas, and there must be a redeployment of specialists to the field.

Alternate approaches to costly formal education must be supported in order to provide basic knowledge and skills essential to the transformation of traditional rural life. This may involve self-instructional booklets and "learning kiosks" built by the community, where older students and literate adults tutor children under the supervision of a professional teacher, such as in Project Impact being tested in Indonesia and the Philippines at the initiative of the South East Asian Minister of Education Organisation.



There should be a special effort to include women and girls on an equal basis in educational and service programmes in rural societies; their contribution—as agriculturalists, traders, food processors and preservers, nurturers of children and often heads of households—is as essential to development as that of men.

Non-formal education plays a major role in involving rural adults in learning and self-help situations. The extension cadres of agriculture, education and health ministries need strengthening in numbers and in more multi-disciplinary training. The transistor radio, which in many countries is strapped on the back of the farmer as he or she works in the field, holds enormous potential for informal education, reinforcing learning received through other channels.

Until now, donor agencies have not generally been responsive to the need for the more informal types of basic education. Food security, income, basic education, improved public health, decreased infant mortality, lower fertility rates—all have a symbiotic relationship with each other. Development programmes built on an understanding of the interdependence of these elements will benefit from economic coherence and reinforcement.

### ● *Identifying minimum needs*

Recent literature on basic needs seeks to establish a minimum acceptable standard level of goods and services which would satisfy basic human needs—to place a floor on a "survival" standard of consumption.

Advocates of basic human needs strategies aim at reducing the gap for the roughly one billion people in the developing world thought to be living below the assumed minimum standard, and often the goal is set for reducing the gap by the target year 2000. However, the issues involved in attempting to reach an internationally agreed minimum standard, or poverty line as it is sometimes called, are both sensitive and complex.

Experience with the African Club du Sahel indicates that no nation in this century would be likely to accept a minimal standard of life as an objective of policy for more than a temporary emergency period. More serious is that attempts to reach agreement on minimal poverty lines are certain to be deeply resented by developing country leaders and people as overly technocratic and paternalistic on the part of the affluent North.

## How and Where Should We Proceed?

If the development challenge of the last quarter of this century—meeting basic needs in the poor regions and arresting the upsurge of population—is to be met, concerted action by developing countries, international agencies and bilateral donors will be necessary. Study after study details the inadequacies of the present development system. However, too many proposals for corrective action reach for utopian solutions through major changes in power structures and redistribution of wealth as a prerequisite for development. Revolutionary upheavals may eventually come to pass, but broad international support is more likely to be mobilised for evolutionary changes which remove unjust constraints in the international economic order, facilitate an on-going process of structural change, and encourage a concerted effort to help weak and vulnerable people. What is needed at this time is an organisational system which helps the hard core poverty regions mobilise people, material, technology and finance in an integrated effort for rural transformation.

Present development organisations and various specialised agencies are not proving adequate to the task, in part because the concept of assistance—as discrete project pieces of action—are largely obsolete when the development action required is to relate assistance more directly to broad policy and structural changes. It is not possible effectively to "projectise" the vast rural areas and peoples of the developing world.

In order to stimulate thought on this important challenge of formulating programmes and redirecting policies to meet more effectively basic human needs, the following seven principles are proposed to strengthen the means for international development cooperation.

*First*, developing countries prepared to engage in policy reforms essential for a basic needs programme of development and to sharply increase their own efforts, should be assured that sustained technical and financial support will be forthcoming from external donors and international agencies. While a basic needs programme of development has a better long-run potential for economic and social advance, and of self-sustaining growth, than most present capital-intensive investment programmes, in the short run it calls for increased dependence on external technology and capital assistance.

*Second*, interested donors should be prepared collectively to indicate an intention to increase overall financial assistance for basic needs development programmes of \$5 billion a year for an initial period of at least five years—with the possibility of an extension for a further five years. No new agency or new "fund" would be involved. The indicated \$5 billion intention-to-commit increased aid would be converted into agreements for support of policies and programmes in developing countries which gave promise of yielding results in terms of a basic needs approach to development.

Increased funds already in sight for development programmes in low-income countries include \$1 billion for the International Fund for Agricultural Development, a second \$1 billion for Special Action agreed at the Conference on International Economic Cooperation, and agreement on the Fifth Replenishment of the World Bank International Development Association at \$7.6 billion for the period 1978-1980. Further increases in financial resources over the next five years have been pledged by certain DAC Members. OPEC donors also would want to participate, and it is hoped that the USSR and other centrally directed socialist countries would find it possible to join in such a globally concerted effort to alleviate absolute poverty.

*Third*, based on this firm indication of donors' intentions developing countries wishing to respond and to engage in a major effort should prepare policy and programme proposals for discussion at a regional review meeting, in which the sponsoring organisation, the site and chairman for the meeting, and the participants would be of their own choosing. Attending the review meeting would be interested international organisations, national donors prepared to participate and, where appropriate, other developing countries. In preparation for the meeting, the staffs of the regional organisation selected for the review and the World Bank would jointly formulate general policy criteria for an effective basic needs programme of development which would guide both the developing country concerned in the presentation of its proposed policies and programmes, and the aid donors in their appraisal of the prospects for successful use of increased aid.

*Fourth*, on the basis of generally indicated support for the objectives of a basic needs programme of development and related policies proposed by a developing country, specific sector and project guidelines for investment would be agreed





*Desilting the Mohadevpur River in Bangladesh—a World Food Programme project—to increase food production: workers are paid in kind.*

with principal international and national donor representatives prepared to play an active part.

*Fifth*, given agreement on specific sector and project guidelines, managerial and technical staff needs would be identified, and arrangements would be made by the recipient developing country, with United Nations Development Programme and other United Nations Specialised Agencies for the recruitment of additional operational and advisory personnel necessary to ensure the success of the proposed programme. The shortage of trained personnel in key specialities generally is one of the most difficult constraints in implementing rural operations and basic needs programmes. This constraint could be overcome, in part, by mobilisation of skilled manpower directly from the Specialised Agencies of the United Nations which might second up to 20 per cent of their technical staff to stepped-up development programmes in low-income countries.

*Sixth*, following agreement on policy objectives, on guidelines for investment, and on management and technical staffing, the government of the developing country and interested international and national development agencies would agree on specific financial assistance in support of the basic needs programmes, which would be entirely administered by the government of the recipient developing country.

*Seventh*, the progress of the programmes would be verified periodically according to a process agreed with the developing country government.

These principles would provide a policy framework which would respect the responsibility of the developing country for relating its objectives for meeting basic needs to its institutional and political circumstances, while ensuring that resources are available to implement agreed programmes.

Speaking at a different time and in a different context, Robert McNamara said "And what is fundamental is that the developing nations must make a strong commitment to internal policy reforms; and the developed nations must, in their turn, make a comparable commitment to provide a more adequate amount of development assistance" (4).

It is for the developing countries to take the lead in adopting strategies of investment which give greater priority to employment-generating policies of development, which better meet basic human needs. To be effective they will need to mobilise popular support and understanding of the fact that the relative backwardness and neglect of backward areas has restrained the wider development of their national economies.

If the leaders of the developing countries accept this challenge, they will need to make a maximum effort to mobilise domestic resources in the form of increased savings and allocation of trained manpower. Each developing country, of course, should elaborate its own basic needs programme of development. It is not a question of simply stating goals or the arithmetic of planned targets. What is called for are bold measures for accelerating policy and institutional reforms.

While the basis for policies directed at employment creation, more balanced national development and meeting the basic needs of low-income groups must be sought in national commitments, a complete answer for basic needs programmes of development naturally transcends national frontiers. By its human and moral appeal a basic needs strategy concerns, as well, international economic policies—indeed it concerns a New International Economic Order and the progress of the North-South dialogue.

(4) From Robert S. McNamara's address to the World Bank Board of Governors, Manila 1976.



# AID FOR HEALTH

*One of the most evident basic human needs is health, but its role in the total pattern of development is complex: it is crucial for improving productivity; it provides the best general measure of improvement in living standards and an indirect measure of progress in other sectors which in turn contribute to health — education, infrastructure and nutrition, for example; health is also coming to be regarded as the main hope for reducing the rate of population growth.*

*As they become increasingly aware of the crucial importance of this sector, donor countries are beginning to give a radically different emphasis to their aid programmes.*

The gap separating health conditions in the developed countries from those in the developing countries is most striking as it applies to the infant mortality rate: for the countries with average incomes of less than \$520 per head (which account for more than 70 per cent of the population of the developing countries) that rate is over six times higher than in the developed countries.

## Health in the Developing Countries

Although, to some extent, the health problems of developing countries are related to their geographic situation, underdevelopment itself is far more important: the problems — insufficient or deficient food intake, inadequate clean drinking water, lack of sanitary infrastructure, poor hygiene and ignorance — are similar to those of North America and Western Europe a century ago. Some are a direct cause of disease, but their main effect is to create conditions in which tropical diseases flourish; many of them which are regarded as uncommon or trivial in developed countries become mass killers.

Another factor contributing to the gap is the high proportion of very young children and rural inhabitants in the population since these two groups as a rule suffer disproportionately from health problems.

The high incidence of disease among the very young has important implications for the population growth of these countries. Paradoxically, high levels of infant and child mortality in developing

countries may tend to increase rather than decrease the rate of population growth, for the simple reason that economic pressures — and in some cases social customs — require that a certain number of children in each family, especially boys, pass the age of puberty. To be as sure as possible of achieving that aim — to insure itself against the "loss" as it were — a couple must bring an even greater number of children into the world.

Although little is as yet known about the motivations — conscious or unconscious — governing fertility, experience has shown that whenever infant mortality rates have declined sharply, there has

been a subsequent fall in the population growth rate. Consequently, improvement in the health of new-born babies, of infants and of mothers, and the resulting decrease in the high mortality and morbidity rates, is an absolute prerequisite for slowing down population growth. The developing countries are gradually realising this and are accordingly switching the emphasis of their population programmes away from a strictly medical and family planning approach to a broader concern for "family welfare".

## How Can Health Conditions Be Improved?

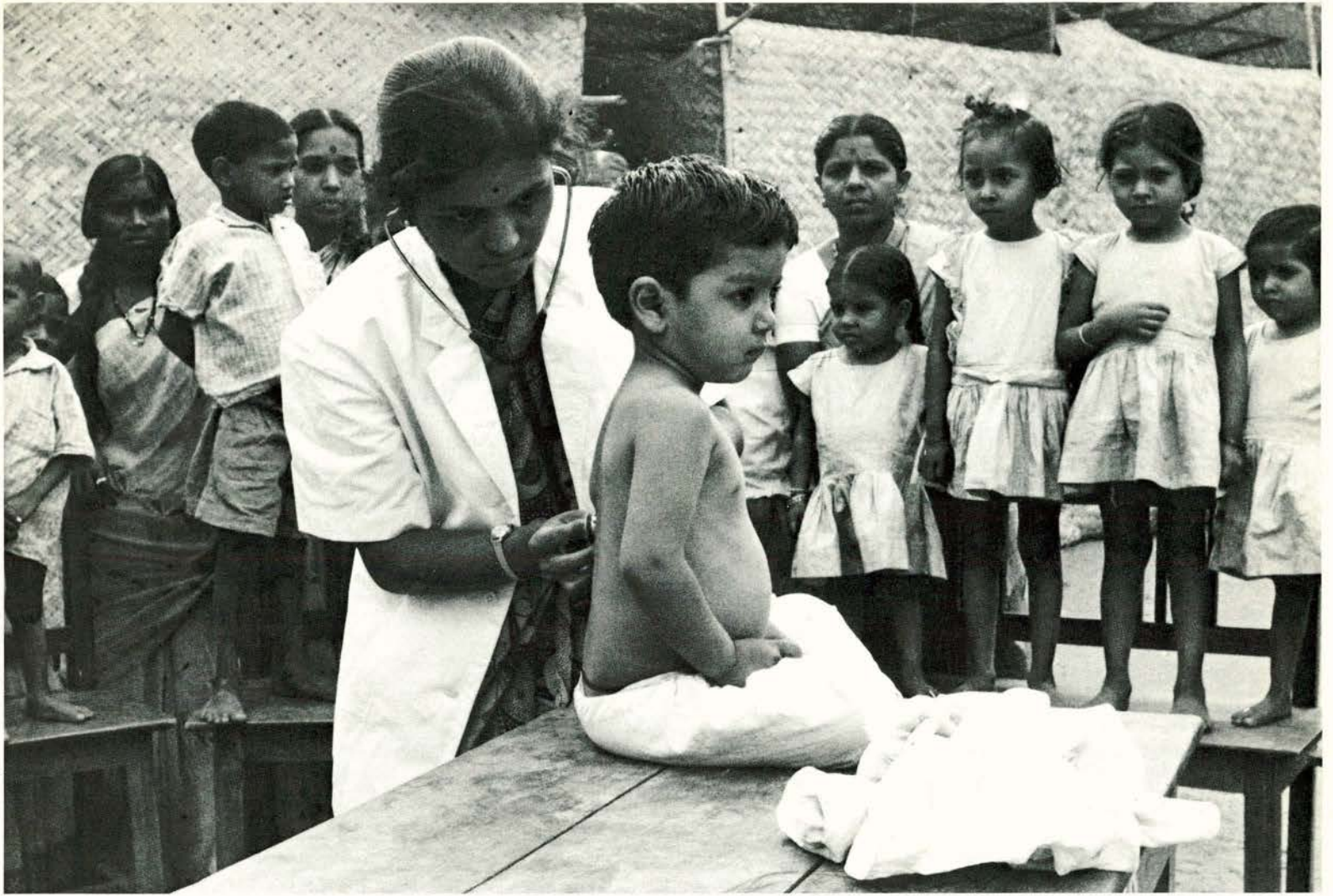
There is clearly a relationship between poor health conditions, poverty and underdevelopment. Yet it would be wrong to conclude that health problems can be solved only when incomes are far higher than at present or — equally important — that an increase in incomes will automatically solve them. There are countries — Sri Lanka and the State of Kerala in India — which have achieved major improvements in health despite

## 1. MAJOR HEALTH INDICATORS, BY GROUPS OF COUNTRY

	Life expectancy at birth (years)			Infant mortality rate (per 1,000)		
	1960	1970	Most recent estimate	1960	1970	Most recent estimate
Non-oil-exporting developing countries						
• Lower income (\$265/head or less in 1975)	38.6	43.1	43.4	118.7	106.4	95.7
• Middle income (\$266-\$500)	43.2	48.8	51.0	109.0	110.2	97.6
• Upper middle income (\$521-\$1,075)	52.3	58.2	60.3	68.7	66.4	52.2
• Higher income (over \$1,075)	68.2	67.5	68.4	70.1	47.8	34.0
Oil-exporting developing countries	38.3	44.6	47.4	136.7	101.4	58.8
Developed countries	69.5	71.4	72.4	28.8	17.0	15.0

Source: World Bank.





*A child being examined in a pilot course on population and family welfare at the Maulana Azad College, Aurangabad (India).*

relatively low incomes. There are others with relatively high average incomes where the health standards of the rural poor are appalling. Much can be done in very specific areas, recent studies show, sometimes at very little net cost.

### ● *Food and nutrition*

Some 500-600 million people in the developing countries (about two-thirds of them in South Asia) are undernourished. As many as 800 million people suffer protein deficiency. Because of their higher energy requirements, the groups most at risk are small children, pregnant women and nursing mothers. Undernourishment is thought to be responsible for more than half the deaths of children under five in the developing countries.

The effects of malnutrition are of three main kinds:

- problems of physical or mental development;
- diseases due to specific deficiencies: anaemia, kwashiorkor (protein deficiency) and marasmus (energy and protein deficiency) estimated to affect 10 to

20 million young children, and rickets;

- lowered resistance to infections, especially diarrhoea (the main cause of infant deaths) and pneumonia.

The effects of malnutrition are dramatic and the solution apparently simple: more and better food. But malnutrition is a good example of the difficulties encountered in dealing with health problems in that it is conventionally — and above all administratively — regarded as a distinct sector; yet its elimination requires improved distribution of available food supplies as much as it does increased availability.

### ● *Clean drinking water and disposal of wastes*

The pathogenic agents for many of the tropical diseases, as well as for diarrhoea, dysentery, typhoid and cholera, are transmitted by human faeces, through inadequate hygiene or contaminated water. The transmission of these diseases is arrested or substantially reduced if drinking water is decontaminated, if there is enough of it for washing, and if

disposal of human excrement is safe. This is also true for many infections of the intestinal tract and the skin.

### ● *Education*

Problems of nutrition and water supply also indirectly underline the importance of education since the people concerned have to be made aware of how to use improved supplies of food and water. It makes little sense to develop supplies of high-protein foods if, through ignorance, people continue to eat filling but low-protein products. The problem of health education, which exists in the industrial countries as well, is even more intractable in developing countries for two main reasons: first, the task of ensuring adequate hygienic conditions is borne by the family rather than by the public authorities or the food processing industry as it is in the industrial countries; second, the education system, which is the natural vehicle for hygiene instruction does not by any means cover the entire population, and it discriminates against women who should be the main targets of this kind of teaching. It is



significant that the countries with higher health standards than might be expected from their income level also have relatively high educational standards.

Basic health care, according to the Director-General of the World Health Organisation (WHO), also includes protection of housing against insects and rodents, care of mothers before, during and after childbirth, family planning, infant and early childhood care, immunisation against major infectious diseases, prevention and control of local endemic diseases, basic care of all age groups in case of disease and injury, and unsophisticated health propaganda aimed at promoting increased interest in health care, knowledge of whom to approach in order to benefit from it, and active involvement by the people concerned in the improvement of that care.

### Basic Health Services

Although no more important than these other factors, the extension of health services is clearly one priority in any programme designed to improve health standards. The magnitude of the challenge can be gauged from two facts: first, some 80 per cent of the population of developing countries has no access to these services; second, public sector expenditures on health are often no more than \$2 per person a year as against \$140 to \$350 in the OECD countries. The problems are aggravated by the dispersion of the population in the developing countries, more than 70 per cent living in small rural communities, and by the very limited number of qualified personnel. In Africa, it is not unusual for the capital cost of a teaching hospital financed by outside aid to be greater than the country's entire health budget. In a country like Zambia, it is estimated that some 250 health centres, enough for the whole population, could have been built for the amount spent on the teaching hospital in the capital. In theory, a medical care system should be a pyramid capped by the large hospitals taking only patients which the lower levels are unable to care for. In practice, where the majority of the population is not covered by health services, hospitals preempt the resources needed for extending coverage, and the expensive equipment to be found in them is often irrelevant to local health problems.

Similar considerations apply to the use of training funds. In contrast to hospitals, health centres can be operated by teams of men and women with middle-level skills who, with appropriate training and

## 2. BILATERAL ODA COMMITMENTS FROM INDIVIDUAL DAC MEMBERS: HEALTH AND WATER AND SEWAGE, 1975

\$ million

	Health A	Water Supply & Sewage B	Total A + B
AUSTRALIA	20.6	3.9	24.5
AUSTRIA	1.0	—	1.0
BELGIUM	(27.0)	0.6	(27.6)
CANADA	11.5	65.2	76.7
DENMARK	5.3	—	5.3
FINLAND	2.0	1.5	3.5
FRANCE (1)	(205.1)	—	(205.1)
GERMANY	29.8	43.5	73.3
ITALY	2.0	—	2.0
JAPAN	9.7	—	9.7
NETHERLANDS	25.6	14.8	40.4
NEW ZEALAND	1.9	—	1.9
NORWAY	21.9	0.2	22.1
SWEDEN	(34.7)	22.4	(57.1)
SWITZERLAND	0.1	5.1	5.2
UNITED KINGDOM	7.6 (2)	13.0	20.6
UNITED STATES	(179.4)	56.4	(235.8)
<b>TOTAL DAC</b>	<b>585.1</b>	<b>226.5</b>	<b>811.6</b>
EEC	9.2	18.9	28.1

(1) Includes French Overseas Departments (\$86.3 million in 1974).

(2) Capital assistance only. Identified health expenditures, including technical assistance, in fiscal year 1974/75 have been reported by the United Kingdom as \$13.3 million.

support, are quite capable of providing basic health care.

The greatest potential for improving health in these countries lies with the people themselves: they can widen the base of the health service pyramid in their own communities and can improve water supplies, sanitation and nutritional standards. Health services function best when they act as a referral network, supporting and integrating local initiatives. A number of experiments particularly in Guatemala and Niger, provide very convincing evidence of the results that can be achieved through community organisation.

#### • Training

The new approach to health entails the training of large numbers of paramedical personnel; first because of the high cost of medical education (in Tanzania, for example, it costs \$40,000 to train a medical doctor but less than \$2,500 to train a medical assistant); second, because of the routine nature of diagnosis and treatment required for the most common health problems (dehydration from diarrhoea, for example, which is a common cause of infant mortality). Experience in a number of countries confirms the fact that people can be trained with far less than a full university education.

Furthermore, training doctors from developing countries to the point where their qualifications are equivalent to those in the industrialised countries is almost tantamount to encouraging the best-known form of "brain-drain" (1). Medical doctors also tend to congregate in urban areas (for instance, 50 per cent of the graduates from the Nairobi medical school practise in the capital).

Training of intermediate-level health personnel is not a new thing. Between 1948 and 1951, the African School of Medicine in Senegal produced more than 800 local doctors having four years' training in simple obstetrical and surgical procedures, preventive medicine, public health and sanitation. Most of them have devoted their lives to working in rural areas. Similar systems exist in Fiji, Madagascar, Nigeria and Zanzibar.

As a rule, health workers have to substitute for doctors, both in treating patients and in deciding whether to refer them to a higher level on the pyramid. Training in diagnostic work must therefore be supported by technical aids. A

(1) Some countries, such as Tanzania and Thailand, now require a minimum number of years of government service from newly graduated physicians so as to reduce, or at least delay, the brain drain.



new approach is currently being tried out in Tanzania: most of the diagnoses are carried out by staff with three years of training, who examine 150 to 200 patients every morning. To increase the accuracy and rapidity of diagnosis, they use a set of charts covering 150 of the most common health problems in the country. These charts are one of the factors accounting for the successful performance of basic health services in Tanzania, since in the vast majority of cases, a correct diagnosis can be made by experienced medical auxiliaries in less than three minutes. This method will probably be used in other countries as well.

### • Research

In some instances, the *design* of simple tools for mass use in the villages may require applied research by people and institutions in the most advanced countries (although *production* should preferably be carried out locally). Such was the case for example with the bifurcated needle and dried vaccine which have saved time and overcome transportation constraints in the worldwide fight against smallpox. And such collaboration will be necessary in the manufacture of salts for

oral rehydration of children in a form that can be cheaply produced, given by parents and distributed through existing networks. The problem is being tackled under a recent programme of the World Health Organisation which will also design instruments for immunisation and village obstetrics, and techniques for screening nutritional deficiencies.

### • Planning

If, with the limited resources available, the objective of basic health care for all is to be attained as soon as possible, new and different approaches will have to be taken to the planning and organisation of health services; and the need for a close relationship with education, sanitation and other sectors, must be recognised. Now, in virtually all the developing countries, health is hived off and functions profession by profession rather than as a system. In the health ministries, for instance, each department has its own speciality — hospitals, or tuberculosis — which functions independently of the others. When an agency organised in this way presents an overall programme, it is simply the sum of the parts.

The alternative approach entails a new way of thinking. The health sector must be regarded as a system which can be controlled and about which decisions can be made: goals must be explicitly set out and programmes designed to meet them; programmes must be examined from the point of view of cost and impact; and a constant openness to alternative approaches must be maintained. Finally the effectiveness of each individual programme and of the system as a whole must be constantly assessed.

This approach is reflected in "country health programming" recently introduced by the World Health Organisation in Burma, Nepal, Sudan and Thailand. For aid donors, as experience in Turkey and Sudan have shown, a goal-oriented national plan provides a coherent framework for cooperation and coordination and permits a more effective use of the resources devoted to health.

## Aid

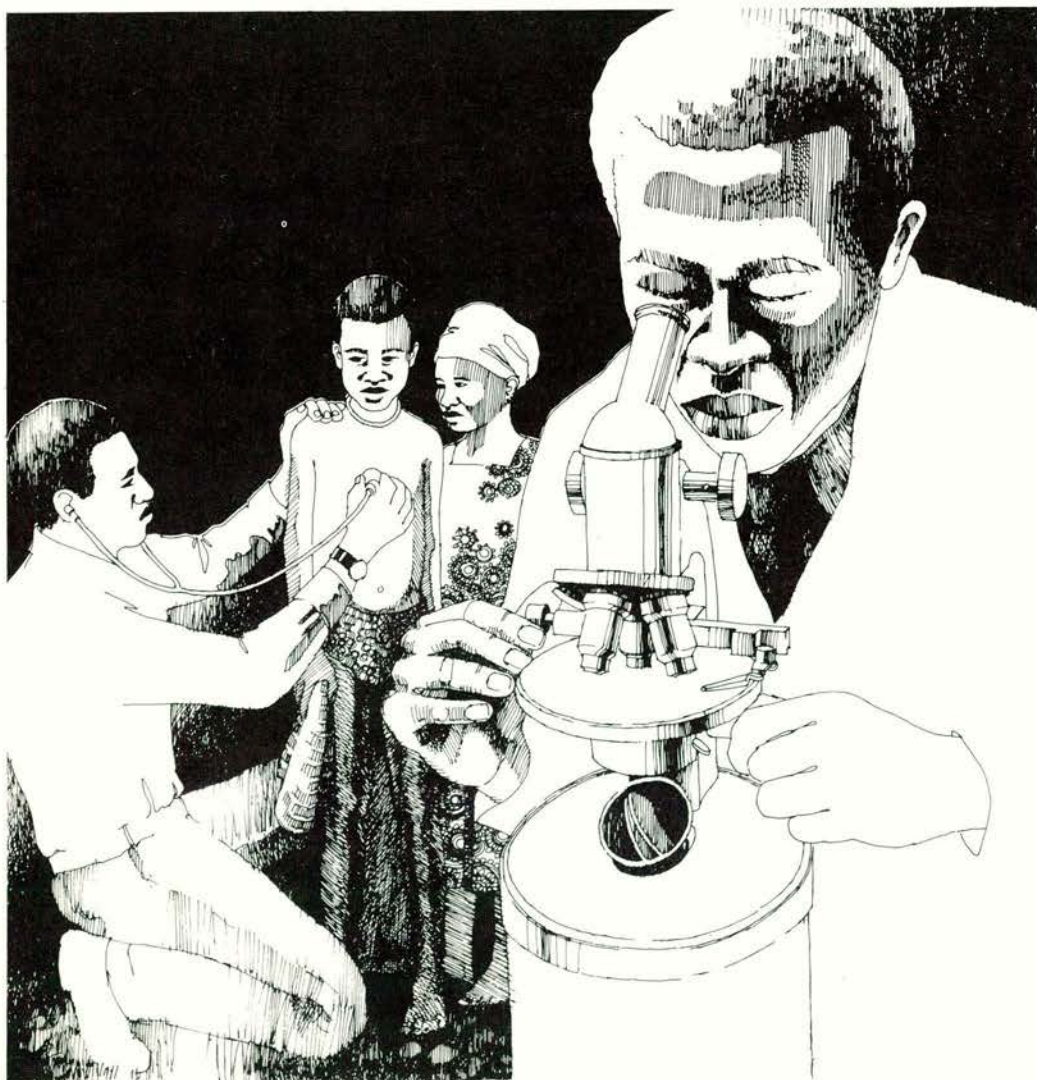
Health is the sector which has the largest number of donors except for agriculture. Yet it is the one where the approach is being questioned the most. Criticism is being levelled both at donors' traditional conceptions of the role of doctors, hospitals etc. and at actual methods of granting aid which are considered too inflexible.

### • The present contribution

The total volume of official aid committed to the health sector (DAC bilateral and multilateral aid including population programmes, water supply and sanitation) is estimated to have been of the order of \$1.5 billion (2) in 1975.

Of this total, bilateral commitments were about \$810 million (table 2) and multilateral commitments about \$700 million. Population programmes accounted for about \$200 million and water supplies and sanitation for about \$580 million, leaving \$700 million in the form of commitments to the health sector in the narrower sense. →

(2) This figure excludes official aid from the centrally-planned economies, the OPEC countries, other non-DAC countries and voluntary bodies, such as church-related organisations. China however supplies a considerable number of health teams, especially to Africa. OPEC countries have financed the construction of some hospitals, mainly in Arab countries, and have assisted the Sudan in implementing its basic health care programme. Israel, in the projects it finances, places special emphasis on ophthalmology.







A social welfare worker in Cali (Colombia) giving a nutrition lesson to young mothers.

Detailed figures on use of the \$450 million in bilateral aid to the health sector proper are unreliable, but it is clear that the most important recipients are hospitals and clinics (including health centres and dispensaries), programmes for control of communicable diseases, improvement and development of medical training and mother and child care.

#### • *The evolution of aid policies*

Until the early 1970s, health aid was concentrated on the establishment and development of facilities at what is now described as the top of the health pyramid: hospitals, most of them in cities, and other medical facilities. Some donors also supplied qualified personnel to staff these facilities. More recently, as the figures for 1975 show, there has been a change in emphasis, but its extent varies with the individual donor countries. Some, including Canada, the Scandinavian countries and the Netherlands, now concentrate mainly on rural health centres and hospitals, dispensaries and training centres for rural health personnel. The United States devotes the bulk of its aid (apart from population programmes) to the development of "low-cost health delivery systems", malaria control and nutrition. While almost all bilateral programmes now include some

basic health care component, recipient countries often opt for traditional, hospital-centred forms of aid.

#### • *Reappraisal of the role of aid*

There is however general recognition of the need to reconsider the aims and methods of aid to health. This fact highlights the conclusions of an experts' meeting on aid for health in the poorer countries, which was held a year ago by the DAC in collaboration with OECD's Development Centre. Experts from developed and developing countries, multilateral agencies and voluntary organisations reached a remarkable degree of consensus particularly on the following points:

- to improve health in the developing countries, there must be improvement in food intake, water safety and sanitation, since malnutrition and contaminated water are to a great extent responsible for chronic morbidity, short life expectation and high infant and child mortality.
- Health care should be extended to the whole population. (It is currently reckoned to cover only 15 to 25 per cent.) In the poorer countries, this is impossible if development of medical care takes place according to the conventional or western model because of manpower and financial constraints.

- Hospitals now represent a built-in distortion in the allocation of national and aid resources between the needs of the masses and those of a small minority.
- The most urgent task is to favour the basic health needs of the largest possible number of people: immunisation, mother and child care, diagnosis and treatment of the most common diseases, health education, sanitation and disease vector control. Hospitals should treat those whose illnesses cannot be diagnosed or treated at the local level. Medical doctors — a scarce resource — should also have a role to play in supervising and retraining other health workers. At present neither medical education nor professional careers prepare them for this role.
- Health conditions of the poorest people cannot be improved without socio-economic progress or the participation of those concerned.
- Translation of these ideas into concrete aid policies requires a radical change in attitudes at decision-making levels well above those directly responsible for health services. This is the context in which health must be integrated both into the basic needs strategy first developed by the ILO (see page 18) and into the first draft of the United Nation's Strategy for the Third Development Decade.

It was accordingly felt that the action of aid donors should be directed to the following areas and purposes:

- Support for *basic health services* and *primary health care* (particularly training of paramedical personnel).
- Assistance in the *planning, analysis* and *evaluation* of measures designed to have an impact on the health situation.
- The financing of certain *current expenditures* for such items as drugs, vaccines and simple diagnostic instruments.
- Financial aid and technical cooperation to help provide the *infrastructure, equipment and knowhow* needed for the operation of dispensaries and training centres; national and regional capacity for *producing, storing and distributing essential drugs* for basic health care.
- Support for the activities of non-governmental organisations where they are effective.
- Support for health and nutrition *communication* and *education*, both formal and informal.
- Increased emphasis on the *nutritional implications* of agricultural and food aid projects.
- Assistance with operational and applied research (elaboration of innovative approaches to the delivery of health services).





# THE SAHEL: PLANNING FOR THE YEAR 2000

## An Overall Development Strategy

As the international community searches for new ways to help the poorest countries meet their basic needs, the Club du Sahel (1), offers an example of a cooperative venture. An overall development strategy for the Sahel region has been drawn up by a joint Working Group representing both Sahel and donor countries.

### THE DEVELOPMENT PLAN

#### Coherence...

The *Sahel Development Plan* (1978-2000) was drawn up by a Working Group formed at the first meeting of the Club in Dakar in March of 1976. The new approach has been to set up sector teams in which Sahelian, European and American experts work in close co-operation. Each team is headed by a Sahelian, assisted by

a rapporteur from a bilateral or multilateral aid agency. Initially, four of these teams drew up action programmes for food production: rainfed crops, irrigated crops, livestock and fisheries. Five other teams considered the problems common to the production sectors: human resources, ecology, marketing, pricing and storage policy, technology, transport. A synthesis group, composed of the team leaders and rapporteurs sees to the coherence of the work as a whole.

Results of the nine teams' work was approved by the Ministerial Council of the CILSS at its meeting in Ouagadougou last April. With this official stamp of approval, the strategy has taken on the status of a policy framework within which the efforts of the Sahel States and of the international community can be developed and concerted.

The *first action programme for the development of the Sahel* (1978-82) was also drawn up by the various teams in consultation with the Sahelian authorities.

Its cost will be \$3 billion over the next five years excluding the development of the major river basins.

#### ... and Continuity of Effort

Another original feature of the development plan is that it covers a period of more than 20 years. The reasons for drawing up a long-term plan were many:

- The countries concerned (with the exception of Senegal) are among the poorest in the world, their basic human needs still unmet. Thus, the first requirement for expanding their absorptive capacity, a prerequisite of sound

(1) A flexible association between the Member countries of the CILSS (Interstate Permanent Committee for Drought Control in the Sahel, composed of eight countries: Cape Verde Islands, Chad, Gambia, Mali, Mauritania, Niger, Senegal, Upper Volta) and all the governments or official development agencies interested in the Sahel. The Club du Sahel was created with the help of OECD and its Secretariat is at OECD headquarters.



development, has not been fulfilled.

- Training of manpower in the very poor countries is inadequate at all levels, and the Sahel is no exception. However, training takes time. Material and social progress require changes in habits and ways of thinking. The process is a long one, and development plans which do not take this fact into account are certain to fail.

- Although some small projects (rainfed crops, livestock, fisheries, etc.) can produce results fairly quickly, this is not true of other sectors—the development of the river basins, for example—where the return on investment projects will be thinly spread or deferred.

### The Satisfaction of Basic Needs

"The strategy should enable the Sahel States to achieve food self-sufficiency, whatever the climatic hazards, and should lead to self-sustaining development of those States." (2) In other words, development is impossible unless the Sahelians can meet their needs for food.

Self-sufficiency is not autarchy; for the Sahelians it is a political, economic and social choice. It is political in that, after the traumatic experience of the recent drought, the Sahelians do not want to rely too much on food imports, nor do they wish to remain permanently depen-

dent on international charity. It is an economic choice because of the Sahel's physical and human potential to produce appreciable quantities of cereals. Finally it is a social choice in that there are serious obstacles to creating jobs outside of agriculture, and malnutrition is causing untold damage.

The development plan contains figures intended as a guide—but relatively precise nonetheless—as to the magnitude of the efforts necessary to achieve food self-sufficiency by the year 2000 (see table 1). Assuming a slight increase in nutritional standards and taking as a point of departure the situation in the Sahel prior to the drought, it will be necessary by the end of the century to more than double the production of traditional cereals (maize, millet, sorghum) and meat, increase the output of rice fivefold and that of wheat (almost non-existent at present) to more than 500,000 tons annually. The experts have sought to determine how these targets might be achieved.

### Production Sectors

#### • Dryland crops

While rice, wheat and sugar cane can be obtained only through irrigated farming, traditional cereals can be produced either by irrigated or dry land farming methods. The Working Group proposed for the year 2000 a target of 400,000 tons of traditional cereals produced under irrigation and 8 million tons

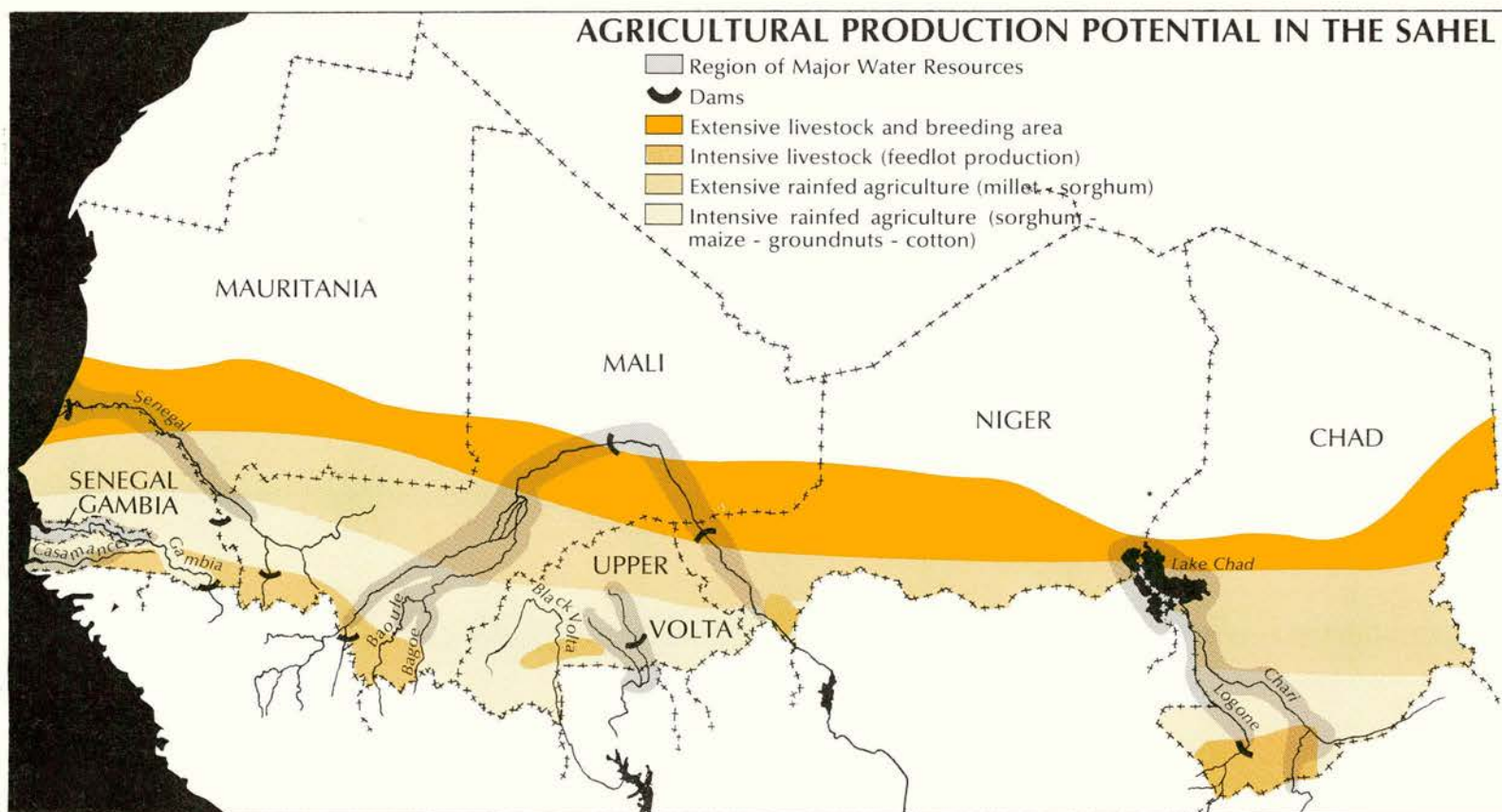
for dry land crops which will therefore continue to play an all-important role during the last quarter of the century.

The Working Group drew two conclusions. First, it will be necessary to increase dry land production by bringing new land under cultivation (100,000 hectares by the end of the century) and intensifying production in areas already under cultivation (a transition to improved manual cultivation and to the use of draught animals or even motorised cultivation, fertilizers and pesticides). Secondly, yields will have to be increased (20 to 80 per cent) and vulnerability to drought reduced through priority cultivation of the best watered areas and more widespread planting of shorter-cycle cereals.

#### • Irrigated Crops

Between now and the year 2000, an additional area of more than 500,000 hectares will have to be irrigated with total water control, and 100,000 hectares will be required for rice growing under controlled flooding. This represents only one quarter of the Sahel's irrigable potential (2.3 million hectares) but, because of the phasing of operations, the production targets set for irrigated crops could only be reached towards the end of the century. To achieve those targets, an average of 24,000 hectares of new land would have

(2) Terms of reference of the Working Group.





## 1. Agricultural production targets

thousand tons

	Average 1969-70	1990	2000
Maize, millet and sorghum	4,000	6,525	8,450
Wheat	8	410	560
Paddy	380	1,300	1,800
Sugar Cane	270	3,500	4,700
Beef	265	460	590
Sheep and goat's meat	115	220	300
Fish	370		700

to be brought under irrigated cultivation each year, a much higher figure than in the past. Development on this scale would necessitate each year the services of 40 to 50 additional agricultural technicians, 200 field assistants and 500 to 1,000 foremen, which gives an indication of the magnitude of the training problems involved.

The cost of the programme would be about \$10 billion, to be invested in irrigation projects between now and the end of the century. In order to be able to plan the major irrigation schemes as accurately as possible, it will first be necessary to undertake numerous lower-cost pilot projects to examine this experience and to press ahead with the rehabilitation of existing projects. These operations can be used to train specialists.

### Livestock

The targets set for the end of the century are to provide the population with slightly more meat than they consumed in 1970 (17.5 kg. per person annually), and export at least to the pre-drought level. These objectives may appear modest, but they presuppose a 6 per cent increase in meat production each year until 1990. This means that the sedentary and nomadic populations will have to accept very substantial changes in their methods to ensure that extensive livestock raising in grassland areas is compatible with ecological equilibrium; they will also have to develop crop farming and more intensive livestock raising in the southerly and better watered areas.

### Fisheries

With an output of 600,000 tons of fish per year, fisheries activity is already providing a protein aggregate roughly equi-

valent to that produced by livestock. In addition, it sustains a very considerable flow of exports. The plan proposes an ambitious target—to increase total fisheries output to an annual figure of some 700,000 tons by the year 2000, i.e. an increase of 7 per cent per year.

## Supporting Sectors

Increasing agricultural production will require radical changes in the human environment and a different relationship between the urban and rural populations. The urban elements will have to give the rural masses their due place in the production system and in the distribution of incomes. The rural population will have to attach greater importance to productivity, profitability and organisation. Since these developments are not necessarily "in the natural order of things", they will have to be encouraged by the public authorities and by investment policy.

### • Ecology

Deforestation in the Sahel—and ecological disequilibrium more generally—is already a problem, and the situation will continue to deteriorate for a good many years because of larger firewood requirements. The plan has set ambitious reforestation targets designed to meet requirements for both firewood and construction timber and to encourage better management and protection of grazing land, conservation of soil and protection of wildlife. The outcome of the 1978-82 sub-programme for production of firewood should be 110,000 hectares of new forest and better management of 900,000 hectares of existing forest which, however, will not suffice in some countries to make up the shortfall caused by increased use of wood for energy.

### • Technology

Research into and dissemination of new technologies suited to local conditions are part of the development strategy for the Sahel: pumping of ground water, use of remote sensing devices, discovery of new energy sources, use of vegetable waste, preservation and storage, handling and processing of food products, and suitable systems of mechanisation.

### • Transport

The transport team built its programmes around three ideas: improving the existing system; creating the infrastruc-

ture necessary to complement the production programme (roads into newly cultivated lands, access tracks, etc.); and completion of an East-West main artery linking the Sahel countries with each other, giving them greater regional food security and, for certain countries, their first access to the sea.

### • Pricing - Marketing - Storage

The income gap between urban and rural sectors has widened during the 1970s. This trend has to be reversed if the rural environment is to be revitalised, the drift from the land halted and the use of modern inputs made profitable. For this the small farmer will have to be given greater economic incentives and assured a better return in exchange for enhanced productivity.

Thus a new price policy should go hand in hand with the establishment of marketing structures so as to enable Sahelian producers to compete on urban markets now increasingly supplied by imported products.

## SAHELANS AND AID DONORS A JOINT ENTERPRISE

For success of the development strategy, changes on the part of both the aid donors and the Sahelians themselves are a requisite.

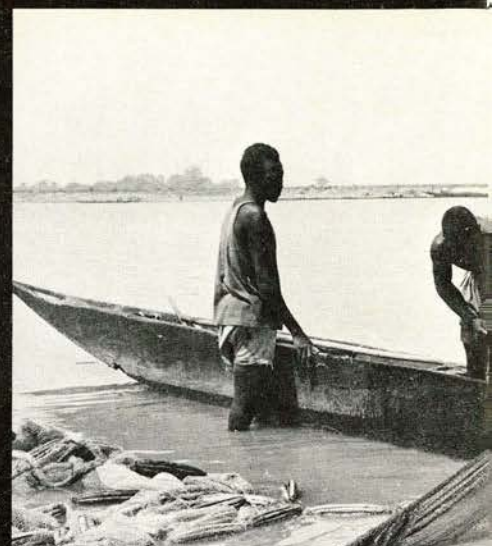
At the second meeting of the Club du Sahel (Ottawa, May 1977) the Minister Co-ordinator of the CILSS emphasized that the Sahelians would be able to profit from some of the criticisms of their economic policy, particularly in agriculture (pricing of food crops, farmer participation), road maintenance and project management.

A more equitable economic and social policy must attach greater significance to the farmers who hold the key to food self-sufficiency and thus improve cereal marketing and pricing. It must be based to a greater degree on regional solidarity, which for the time being is hampered by national and ethnic rivalries and by the fact that the different categories of production are not really complementary. Consequently, Sahelian co-operation has to be envisaged within a broader framework,—Western Africa for meat for example, Northern Africa for cereals. Operational plans must be introduced which aim at integration of projects, a flexible administrative machinery, and the continuous evaluation and reformulation of projects.





◀ A technician from the Agricultural Training Centre in Matourkou, financed by the Government of Upper Volta and UNDP explains how to use a plow. The farmers who participate in this programme receive credit from the Government to buy both plow and a pair of oxen.



▶ Fishermen on the Niger, Mali.



◀ A group of nomads in Niger using a well installed as part of a UNDP/FAO programme to mobilise water resources and increase cattle production.



Donor countries have recognised that the present situation demands that aid be granted on the most favourable terms possible. They have agreed to participate in a joint commission which will study this problem and try to work out new project appraisal and selection criteria. Aid donors will have to take action at several levels.

### Modifying the Concept of Absorptive Capacity

The obstacles to absorptive capacity are many: the lack of personnel able to direct projects; thinly spread, uncertain or deferred return on most projects; lack of public funds to keep projects going and make them operational; inadequacy of road and rail links, are among them.

There are two ways of tackling this problem. The traditional method is to scale down financial aid to correspond with the region's immediate absorption potential.

This means rationing assistance to the detriment of the poor countries and to the benefit of the less poor. The more original way is to identify the inhibiting factors (illiteracy, health status, isolation,

inadequate budgets) and try to remove them. In the case of long-term measures of this kind, the rich countries are often handicapped by the impatience of their parliaments and of public opinion for results that are practical, visible and immediate.

### Financing the Local Costs...

of projects rather than only the foreign exchange costs, as is the rule at present. This would simplify project management, reduce the financial burden on the recipient and could encourage local entrepreneurs to produce the goods and services required.

### ... and Certain Operating Expenditures

A Club du Sahel Commission will endeavour to define specific targets and limits for such financing so that recipients will not be in the position of needing permanent assistance nor donors encouraged to intervene in the management of the assisted countries' economic, monetary and financial policies, which would be politically unacceptable.

## Increasing the Volume of Aid

Too often aid is no more than a shot in the arm which gets the recipient through the year, and this runs counter to all the principles of effectiveness. Since they cannot attain a "critical mass", efforts become diluted.

Although financial aid did increase immediately after the drought—\$450 million in 1973, \$800 million in 1975—it has remained stationary since at an inadequate level; moreover, aid needs to be sustained at least over the period of the approved plan. Yet in aid policy nothing is less certain than that the effort will be sustained, essential though that may be.

### Modifying Aid Procedures

The diversity of practice in regard to project formulation and appraisal, contract procedures, human and financial counterparts, tendering, calculation of costs and benefits, and so on, is such that it places considerable burdens on governments. Simplification and standardisation of procedures are in fact essential to the success of the Sahel plan.





▶ *Planting eucalyptus trees also in Niger.*



▶ *Drawing water from a well in Niger.*



▶ *Tending a vegetable garden in the Upper Volta with water from a dam.*

Paradoxically, the need for prior studies sometimes curbs timely action since experience shows that it is sometimes easier to obtain aid to carry out studies (the funds being disbursed in the donor country) than for projects.

## Rethinking Project Selection

Restrictive or short-sighted criteria for project appraisal would keep the Sahel in its present state of under-development. Lax criteria would lead to a waste of resources. The Working Group has proposed a multi-criteria method which constitutes a departure from current practice and will be tested during the next few months.

## COMMITMENTS BY DONORS

The international donor community fully accepted the strategy approved at the meeting of CILSS Ministers in Ouagadougou last April. It also considered that the programme of action for 1978-1982 marked a decisive step forward in the strategy's implementation and that

it should guide donors in their choice of projects during the next five years.

A great many countries and donor organisations indicated that they would be increasing their financial contributions and would therefore be able to participate in projects in all sectors covered by the Sahel strategy. The United States Congress has authorised a budget appropriation of \$200 million for fiscal 1978 and 1979, over and above its "normal" contributions for the Sahel. France intends to allocate about \$1.2 billion to the development of the Sahel between 1978 and 1982, and Canada \$560 million between now and 1985. Assistance from the European Development Fund (EDF) under the Lomé Convention amounts to some \$150 million a year. In 1977 Germany's commitments will be of the order of \$115 million while the World Bank intends to increase its annual commitments to \$200 million. Switzerland's programme is to be scaled up from \$3 to \$10 million, the Netherlands programme is expanding very rapidly, and that of the UNDP is to be stepped up shortly. The Arab Bank for Economic Development in Africa and the Islamic Development Bank made positive statements in Ottawa.

Since each Sahel country poses its own problem of programming and integration, the development strategy must now be translated into national terms, priorities established and the projects submitted to the donors. The CILSS National Committees, which have already been set up, could provide the right framework for this integration.

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\*

The programme for the development of the Sahel proposes objectives, the means of achieving them and the timetable for doing so. It aims at integration of all resources, local and international, to implement a priority goal—food self-sufficiency. It covers an area which is capable of agricultural and general economic progress, and much better endowed with water, land and human resources than is generally thought. The spirit of dialogue in the Club and its working methods should make it possible progressively to overcome the obstacles that are bound to arise during the long period over which the plan will be implemented.



# INTENSIFIED INTERNATIONAL EFFORTS TO PREVENT TAX EVASION

OECD's Council has recommended that Member governments:

- strengthen, where necessary, their internal systems for detecting, preventing and otherwise dealing with tax avoidance and evasion, and
- cooperate more closely with each other in a common effort to prevent tax avoidance and evasion.

*This Recommendation (see box) has been adopted at a time when an intensified work programme is underway in OECD to combat tax avoidance and evasion and may be seen as an endorsement of this programme as well as a means of informing the public that OECD Member governments are determined to cooperate more closely in this sphere.*

Since January 1977, a new Working Party on Tax Avoidance and Evasion created by OECD's Committee on Fiscal Affairs has set in train a broadly-based work programme designed to improve international co-operation on combatting tax avoidance and evasion.

Special emphasis is placed on making relevant exchanges of information between OECD Member governments more effective and extensive. Other approaches to improved co-operation in combatting tax avoidance and evasion encompass certain aspects of tax haven activity, special sectors where tax compliance raises difficulties and relations between tax authorities and the public. Tax inspectors' meetings on the technical aspects of tax evasion are now a regular feature of the work of the Committee on Fiscal Affairs.

## Exchanges of Information

Most OECD national tax administrations have arrangements for exchanging information, usually by virtue of bilateral double taxation treaties which include a provision based on Article 26 of OECD's Model Convention (see page 34). Certain legal and practical constraints limit the scope of such exchanges, and there is now general support for the view that their effectiveness can, and should, be improved. This work is a priority task for OECD's Working Party. *Inter alia*, a tech-

nical manual is to be drawn up for use by tax administrations once governments have agreed on best practices in this area.

Exchange of information of a general nature also takes place within the Working Party itself which periodically discusses changes in Member countries' legislation and administrative practices, important court cases, new audit techniques, new kinds of tax fraud and new methods for detecting and combatting them.

The hope is that the international legal instruments under which exchanges take place can be extended. A Convention for reciprocal assistance between national tax administrations in the collection of taxes will shortly be submitted for consideration to OECD's Committee on Fiscal Affairs and, at a later stage, the Committee will consider whether assessment of taxes can be covered as well as collection and whether it is possible to extend the present bilateral basis of information exchange to a multilateral one. Finally, it may prove possible to extend these Conventions, which presently apply only to direct taxes, to cover value-added and other indirect taxes.

## Tax Havens

The experience of tax administrations in Belgium, Canada, France, Germany and the United States in counteracting the diversion of taxable income to low-

## RECOMMENDATION OF OECD'S COUNCIL ON TAX AVOIDANCE AND EVASION

*Considering that tax avoidance and evasion are contrary to fiscal equity, have serious budgetary effects and distort international competition;*

*Noting that tax avoidance and evasion schemes involving international transactions have become increasingly complex and more difficult to detect;*

*Considering that effective action against such schemes requires strengthened co-operation between OECD Member countries;*

*RECOMMENDS Governments of Members countries:*

- to strengthen, where necessary, their legal, regulatory or administrative provisions and their powers of investigation for the detection and prevention of tax avoidance and evasion, with regard to both their domestic and international aspects, and to exchange experiences with respect to such action;
- to facilitate, improve and extend exchanges of information between their national tax administrations, with a view to combatting tax avoidance and evasion, notably by making more intensive use of international conventions or instruments in force and by seeking new arrangements of a bilateral or multilateral character, with due regard to the provision of adequate safeguards for taxpayers;
- to exchange experiences on a continuing basis on tax avoidance and evasion practices, on techniques for detecting and preventing them and on ways and means of improving tax compliance in general.

*INSTRUCTS the Committee on Fiscal Affairs to pursue its work with a view to facilitating the achievement of the above aims and to submit to the Council, as appropriate, specific proposals for increased co-operation between Member countries in this field.*



tax or no-tax countries has already been discussed and a report on the subject has been circulated for information to the members of the Committee on Fiscal Affairs. At present work on this subject emphasises specific problems involving tax haven techniques such as income from shipping profits and the case of wealthy entertainers and athletes who pay their earnings into companies in tax haven countries. Several questions are being asked. How are national tax administrations trying to prevent revenue losses of this kind? How successful have they been? How can co-operation between OECD countries further reduce the opportunities for tax avoidance?

Meanwhile, information about changes in tax haven practices is being disseminated to, and discussed by, members of the Working Party.

## Relations between Taxpayers and Tax Administrations

It is widely believed that tax evasion and avoidance are on the increase in many countries and that attempts to tighten up on compliance do not get all the support from public opinion that would be desirable. If there is also greater willingness on the part of taxpayers to resort to avoidance or evasion techniques which would once have been frowned upon by public opinion, this represents a serious problem. Tax simplification can help; so can more explicitly defined guarantees for taxpayers against excessive demands for justification. But tax rates are high in all modern economies and may go higher given the still unabated demands for public services and social transfers. So there is a need to see that the distribution of taxes is fair, not only in terms of tax law but also in practice, and that tax fiddlers do not succeed in pushing their burden off onto other taxpayers.

## Tax Inspectors Meet

Two meetings of tax inspectors and auditors have been held so far, the first occasions on which officials from almost every OECD country have been able to exchange views and experiences on the technical problems involved in detecting irregularities.

At the first meeting—in the autumn of 1976—three subjects were discussed: how to detect and combat false invoicing; how to assess the taxable profits on

payments by one firm to another for patents and knowhow; how to counteract avoidance and evasion through use of tax havens. A single theme was chosen for the second meeting held in September 1977—the detection of tax evasion during tax audit. Over twenty case studies were presented showing how evasion

was detected and how substantive evidence of its nature and extent was built up. These cases were based upon actual audit experience, but the identity of the traders remained confidential or even camouflaged. It is planned to hold further meetings of tax inspectors and auditors.

## A Case History: Detection through Examination of Tax Evader's Expenditures

### The Facts

X had a substantial business, but enquiries into the affairs of another enterprise, Y, brought to light sales by X to Y which were in excess of the total sales shown in the accounts of X. The tax authorities, without disclosing what their information was, told X that they believed the declared accounts may have been incorrect, and invited cooperation and confession in accordance with usual practice. X admitted that his accounts were not correct and instructed his accountants to quantify the omissions after re-examining the business records and his private bank account, but it transpired that his confession was neither full nor frank.

The accountants checked X's transactions with other traders with whom he was known to do business and reported that his sales had been considerably understated. They also reported however that X himself, apart from business assets, owned nothing but his house and, as his withdrawals from the business were very modest, he had to live very frugally. This was not in accordance with the tax authorities' knowledge of him. From personal observation he was known to have bought a number of expensive cars over the last few years, and enquiries revealed that he had also acquired property abroad, and that the withdrawals made from his business were quite inadequate to account for this expenditure, which had clearly come from the still undisclosed sales of the business.

X was prosecuted and sentenced to imprisonment.

### Some Issues Raised by the Case History

- How frequently would discrepancies between declared sales and purchases be likely to be noticed and how much routine matching of sales of one firm against purchases of another takes place?
- How frequently would the private expenditures of a taxpayer suspected of under-declaring his income be investigated?
- To what extent are major expenditures (houses, cars, pleasure boats, cruises, jewellery, etc.) of taxpayers notified automatically to the tax authorities?
- Would evidence based solely on discrepancies between private expenditures and declared income be sufficient to support prosecution for fraud?
- To what extent are tax evaders becoming aware of this method of detection and successfully concealing their expenditure patterns? What alternative detection methods can be used in cases of this kind?
- Would criminal proceedings normally be instigated in a case of this kind? If so, would clemency be shown if the taxpayer had confessed and cooperated either before the tax authorities had begun their investigation or at some stage during their investigation?
- What are the relative advantages and disadvantages for taxation policy of allowing or not allowing clemency if a fraudulent taxpayer confesses and cooperates? How far does this depend on public opinion and judicial attitudes within the country?

The answers to these questions, and to questions arising from other cases, vary from country to country, reflecting differences in legal powers, different organisation of tax administrations and types of tax system and reliance on different techniques for combatting and detecting tax fraud, as well as the divergent attitudes of the judiciary and of public opinion towards tax fraud.



# HOW CAN TAXPAYERS INTERNATIONAL A new OECD

by Jean-Louis Liénard, Fiscal Affairs Division,  
Financial Affairs Department

*In determining the scope and form of its taxation powers, a State is sovereign: it can tax income which residents derive from their activities abroad, and it can tax income which persons living abroad receive from sources within its jurisdiction. So when someone carries out business in, or receives income from, two or more countries, the fact that both governments have taxation powers often means that he is taxed more than once in respect of the same income or capital.*

*To prevent this state of affairs, governments often conclude bilateral conventions. OECD has just published a new Model Double Taxation Convention and recommended that governments of Member countries conform to it when concluding such conventions or revising existing ones (1).*

So as not to handicap their trade and capital movements, a number of governments have, over the years, tried to remedy the problems created by double taxation. They have introduced provisions into their laws—exempting certain activities or allowing for taxes already paid in other countries—which have enabled them unilaterally to prevent and eliminate double taxation.

However, such measures do not eliminate all forms of double taxation. For reasons of fiscal equity and efficacy, governments attach great importance to taxing the whole of a person's income whatever its source, and this necessarily leads to overlapping.

It is therefore important for governments to agree to limit their sovereign powers of taxation and, for this, the so-called bilateral double taxation convention is a particularly suitable instrument: two governments fix rules for eliminating double taxation and agree to share the budgetary cost of doing so. This means that taxpayers in the two countries are given guarantees on the conduct of their activities for the future.

The scope of such conventions goes beyond the elimination of double taxation, however; it regulates the entire relationship between the signatory countries as to the taxes covered and also creates a framework for administrative cooperation between the two governments. Such cooperation exists already, but it is sure to become more important especially in the fight against tax evasion (see page 32).

## Previous Progress

The countries which are now Members of the OECD were attempting to overcome the impact of double taxation on movements of capital and persons and the development of trade even before the OECD was formed (2). But the models proposed at that time were not uniform and left certain gaps and hence were not fully or unanimously accepted by governments. Yet, the increasing interdependence of the OEEC countries in the post-war period and the

growing economic cooperation among them had clearly shown the need to extend the network of bilateral double taxation conventions to all Member countries of the OEEC, and subsequently of the OECD. At the same time it was felt necessary to harmonize existing conventions on the basis of uniform principles, definitions and methods, and to agree on a common interpretation.

A first model convention adopted by OECD in 1963 met this need and was widely followed. All Member countries had in fact reached agreement, first, on the principles which ought to govern international taxation of income and capital and, second, on the often complex technical procedures for eliminating double taxation. Thus, between 1st July 1963, and 1st January 1977, 69 new conventions between Member countries were signed and 50 existing ones revised. Six countries which were somewhat behind the others in this field, caught up, signing between nine and eleven conventions apiece (Austria, Portugal, Belgium, Spain, Japan and Ireland). At the beginning of January 1977, 179 bilateral conventions had been signed out of a possible total of 276. Negotiations on 30 more are now underway. With only five links missing, there is now a complete network of conventions between seventeen countries: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States (See Chart A.)

Analysis of the conventions signed from 1963 to 1973 shows that in spite of differences between their national laws, tax systems and, sometimes, levels of development, OECD countries have conformed to the model convention and have adopted its structure, principles and main provisions. However, on certain sensitive points, governments have on occasion agreed to depart from the

(1) *Model Double Taxation Convention on Income and on Capital, OECD, Paris, 1977.*

(2) *When OEEC, the precursor of OECD, adopted its first Recommendation on double taxation, 70 bilateral conventions had been signed between countries now Members of the OECD.*



# BE PROTECTED FROM DOUBLE TAXATION?

## Model Convention

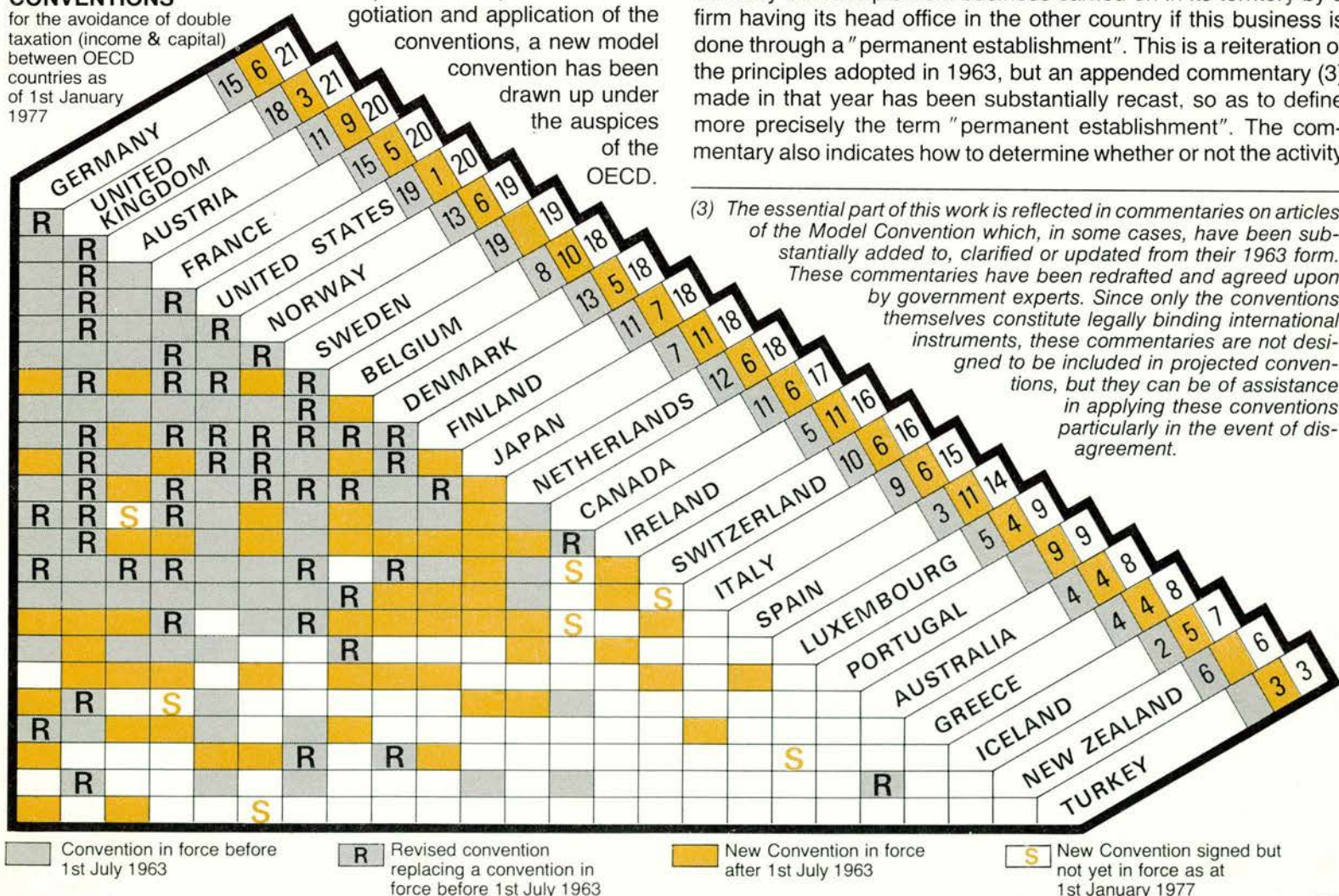
model, especially when their laws dictated such a procedure. They have, for example, agreed on a broader or narrower definition of "permanent establishment" (see below) or a higher rate of withholding at the source than recommended by OECD (table 1).

Although intended solely to regulate fiscal relations between OECD Member countries, the 1963 model convention has been widely used as a document of reference in negotiations between Member and non-Member countries—and even between non-Member countries themselves; it has also been used in the work of other international organisations—for example, that of the United Nations Expert Group on Tax Treaties between Developed and Developing Countries.

However, tax systems change rapidly: provisions intended to lighten the burden of taxes on distributed profits, for example, have been increasingly incorporated into company taxation laws; the problems are magnified by the emergence of new industries and firms' adoption of increasingly complex forms of organisation in their international operations. In order to take into account these changing realities, and to benefit from experience acquired in the negotiation and application of the conventions, a new model convention has been drawn up under the auspices of the OECD.

### A. NETWORK OF BILATERAL CONVENTIONS

for the avoidance of double taxation (income & capital) between OECD countries as of 1st January 1977



### The 1977 Model

The new 1977 model convention retains the basic principles of the 1963 model and its organisational form. Thus, for certain items of income or capital, it gives the exclusive taxation right to one of the states, generally the "state of residence". For other items no such exclusive right is conferred: the "state of source" has the right to tax as well as the "state of residence", provided that the latter eliminate the risks of double taxation. For dividends and interest, the state of origin has a prior, but limited right to tax.

Although these general principles remain, revision of the convention gave OECD's Committee on Fiscal Affairs an opportunity to examine in detail many legal, theoretical and practical questions which had come to light under existing conventions (3). The new model bears witness to this in the seven major areas discussed below:

- *Permanent establishment*

One of the primary rules of the model convention is that a State can only tax receipts from business carried on in its territory by a firm having its head office in the other country if this business is done through a "permanent establishment". This is a reiteration of the principles adopted in 1963, but an appended commentary (3) made in that year has been substantially recast, so as to define more precisely the term "permanent establishment". The commentary also indicates how to determine whether or not the activity

(3) The essential part of this work is reflected in commentaries on articles of the Model Convention which, in some cases, have been substantially added to, clarified or updated from their 1963 form. These commentaries have been redrafted and agreed upon by government experts. Since only the conventions themselves constitute legally binding international instruments, these commentaries are not designed to be included in projected conventions, but they can be of assistance in applying these conventions particularly in the event of disagreement.



**1. RATE OF TAXATION AT SOURCE  
IN 96 BILATERAL CONVENTIONS  
signed between 1st July 1963 and 1st July 1973  
AMONG OECD MEMBER COUNTRIES**

Rate of Tax at the Source Recommended by OECD		Number of Conventions in which the rate of tax at the source is		
		LESS	EQUAL	SUPERIOR
%		than/to the rate recommended by OECD		
5	Ordinary Dividend	14	74	8
15	Inter-company Dividends	17	18	61
10	Interest	39	30	27
0	Royalties	0	35	43

of a "fixed place of business" is preparatory or auxiliary. If it is, this place of business cannot be considered a permanent establishment.

The complexity of business organisation and the sweep of technical progress sometimes make it difficult to apply the conventions equitably, to decide for example whether a building site or assembly installation is a permanent establishment or not. The commentary defines these sites and also sets out rules on how to define the twelve month period which in the model convention determines whether or not such an establishment is a permanent one. Exploration of natural resources on or off-shore is another area in which a new commentary tries to clarify the situation for tax purposes.

● *Associated enterprises*

Taxation of associated enterprises (parent and subsidiary companies, "sister" companies) poses complex problems because of the number and size of the transactions involved and the difficulty of determining "transfer prices" within a family of companies. If transactions between associated enterprises are not carried out under conditions "which would be made between independent enterprises", the taxation authorities would, following the model convention, adjust the accounts and tax the firm's profits accordingly (4).

However, such an adjustment by the authorities of one country—that of the parent company, for example—may entail what is called "economic" (as against legal) double taxation, since the profits of the subsidiary in the other country will normally be taxed regardless of any such adjustment. In such a case, the new model convention stipulates that the country where the subsidiary is should make an appropriate adjustment to eliminate double taxation on the enterprise as a whole.

● *Taxation of dividends*

The commentary on the new model convention examines in detail the implications of special features of certain countries' tax laws for application of the conventions. For example, a trend is evident in many countries to avoid or reduce the "economic" double taxation of profits—first on the company then on the shareholder, whether he be an individual or a company. However, the provisions of the model convention itself are directed to the kind of situation in which both parties to the convention have a "classical" system of company taxation, i.e. one which does *not* alleviate "economic" double taxation. Discussions in the Committee on Fiscal Affairs showed that there is no simple or absolute solution to the problem posed when the countries have two different kinds of

tax system. (There are three possibilities: "classical", "split-rate" and "imputation" or tax credit.) The commentary refers to these discussions and outlines certain procedures which could be used by two such countries when negotiating a convention.

● *Taxation of entertainers and athletes*

To encourage cultural exchanges—and for practical reasons also—entertainers and athletes resident in one country may, under a convention based on the OECD model, be taxed on their activities in the other country by that country. It sometimes happens, however, that the payment is made not to the entertainer or athlete himself but to another party, a so-called "star company" located in a third country, for example. If so, the income cannot be taxed either as personal income to the entertainer or as profits of the enterprise in the country where the activity is performed since the star company is unlikely to have a permanent establishment there. For this type of tax avoidance, the new model convention permits the country in which the performance is given to impose a tax on the profits diverted from the entertainer's income to the star company in the following cases: if the entertainer controls the company; if he has rights to the income thus diverted or if he has obtained or will obtain some benefit directly or indirectly from that income.

● *Non-discrimination on grounds of nationality*

The principle of non-discrimination has long been applied in international tax relations. The 1977 model convention, like its predecessor, provides that the taxation to which nationals of one country are subjected in the other may not be "other or more burdensome" than that to which nationals of that other country "in the same circumstances" are subjected. The relevant commentary should help to solve the problems of interpretation which such a principle inevitably raises. In particular, it elaborates on the application of this principle to permanent establishments in the context of existing systems of company taxation.

● *Protection of taxpayers and mutual agreement procedure*

In certain cases, double taxation may not be fully eliminated because of difficulties encountered in applying the convention itself or because of differences of interpretation between the two tax authorities. The taxpayer should therefore be able to put his problem to his own country's taxation authorities and then, if his objections appear justified, the authorities of the two countries should consult and try to put the matter right. This is the purpose of the "mutual agreement procedure" set out in the model convention and described in detail in the commentary.

● *Exchange of information*

Exchange of information between signatories of a convention enables them to determine whether it is applicable and under what conditions. It also helps them in tax assessment for individuals or enterprises quite independently of the convention. In spite of the legal difficulties encountered in certain countries, exchange of information is a vital instrument of international co-operation—especially in combatting tax evasion. The commentary gives examples in which these provisions may be used either in applying the convention (e.g. determining a taxpayer's residence or income) or to help in applying domestic laws (transfer pricing).

(4) The Committee on Fiscal Affairs has undertaken a separate study of the tax problems involved in determining "transfer prices" within multinational enterprises.



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## HIGHLIGHTS

### International markets

A sharp rise in short-term interest rates on dollar-denominated assets and exchange rate uncertainties notwithstanding, activity on international capital markets, in the third quarter of 1977, registered a strong advance in both the euro-bond and the syndicated loan compartments, with only traditional foreign bond issues lagging.

	International capital markets \$ billion			
	Jan.-Sept.		July-Sept.	
	1976	1977*	1976	1977*
Euro-bonds .....	10.9	14.4	2.9	4.4
Foreign bonds .....	13.1	9.0	3.9	2.9
Sub-total .....	24.0	23.4	6.8	7.3
Medium-term syndicated euro-credits .....	18.5	22.6	6.4	6.9
Grand total .....	42.5	46.0	13.2	14.2

\* Provisional

The medium-term syndicated credit market, which has absorbed some \$ 22.5 billion so far this year—a 20 per cent rise over the corresponding figure for 1976—has responded to persistently heavy demand in part for the purpose of financing balance-of-payments deficits but also increasingly for large investment projects, particularly in developing countries. The structure of demand for funds by types of borrowers during the third quarter denotes a switch to developing countries, both OPEC Members and non-oil LDCs, and a corresponding sharp drop in the share of total lending taken by public bodies in the OECD area which had been the most active demand component in

earlier months. COMECON entities also staged a strong comeback, raising sizeable amounts and at markedly better terms than on previous occasions. Loan demand from private corporations in industrial countries continued to be extremely sluggish. The search by international banks for creditworthy borrowers led to a further easing of contractual spreads and thus enabled several borrowers to secure their lowest level of effective borrowing costs since late 1974.

The size of loan operations known to be under negotiation in early October, and the balance-of-payments outlook of potential borrowers, suggest an overall demand for medium-term loan commitments in the region of \$ 8 to 10 billion in the final quarter of 1977, with oil-exporting countries and non-oil LDCs continuing to make the running. As no overall shortage of funds, or competition from buoyant domestic credit demand, are in sight in the immediate future, the syndicated euro-credit market looks like remaining a borrowers' market. This may lead to some further reduction in spreads on a selective basis to more borrowers who have not yet benefitted fully from the recent improvement in terms.

The third quarter level of nearly \$ 18 billion (annual rate) of euro-bond offerings constituted a new record. Once again, new issues were strongly concentrated in the US dollar and the DM compartments. The flattening of the dollar yield curve resulting from sharply rising short-term rates did not affect issue volumes or borrowing terms. A positive feature in this regard was the continued support from institutional investors and private individuals. Activity on the euro-DM sector accelerated markedly in the third quarter with a large number of borrowers including several LDCs, taking advantage of favourable conditions. Issues in other currencies and units of account were once again modest in absolute terms.

The outlook for the next few months, if somewhat less buoyant, is for a continued high level of issue volumes, with possibly some shifts of borrowing between the two currencies which now dominate the market in favour of the DM. The market should be in a position to absorb without difficulty the volume of new issues that is in prospect though the reduced profitability of dollar security investment funded through short-term deposits is likely to be felt as a constraint but one that would call for only relatively minor upward adjustments of issue and secondary market yields to correct. Issuing activity should continue to derive benefit from greater participation of institutional investors, which provides the market with a more solid base than in previous periods of rising short-term interest rates.

In the first nine months of 1977, non-resident borrowing through foreign offerings on national bond markets fell short of last year's level, admittedly a record one, by a wide margin (\$ 9 billion as compared with \$ 13 billion). The principal causes were lighter issues by Canadian entities in New York and a somewhat less favourable posture of the Swiss market. No marked change of the current trend is in prospect over the coming months, with the notable exception of foreign issues in Japan which are expected to rise substantially towards the end of the year.

### National markets

The desynchronisation of monetary and financial developments between the United States and other major financial centres, already apparent in the first half of the year, has become more pronounced. In the United States, where the economic upswing has continued, albeit at a more moderate pace, the Federal Reserve faced with a too rapid growth in the monetary aggregates, has been tightening monetary conditions since early July. Outside the United States, the monetary authorities have been easing money and credit conditions as economic activity faltered in the strong currency countries, and inflation rates



moderated fairly generally. A widespread concern has also been to counteract excessive capital inflows, notably in the United Kingdom and Japan, though against the background of quite contrasting domestic conditions. Following a consolidation phase over the summer, capital markets in Germany saw another round of sizeable interest declines in August, but since then levels have stabilised again.

The outlook for interest rates over the next three months suggests a further accentuation of recent trends, with United States interest rates

continuing to harden, though more moderately and almost exclusively in the shorter end of the market, while elsewhere the scope for further declines still exists, notably in the context of reflation policies in some countries. Among the major countries outside the United States, the room for significant reductions in longer term yields presently seems largest in the United Kingdom and Japan, in the former where the yield curve is still rather steep, and in the latter, as the effects of the recent discount rate reduction works itself through the interest rate structure. But some more moderate declines could also take place elsewhere.

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