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Some Aspects of German Development Aid

By Hermann J. Abs, Frankfurt/Main

There is justification in seeing Development Aid as one of the most important tasks of our age. No matter whether we believe this task to be mainly of a political, economic, or simply humanitarian nature, nobody will deny either its urgency or the vast scope of its mere size and width of application. It is certain that this must definitely n o t lead us to one or the other of the following two conclusions: that we resign face to face with the giant extent of the given task; or that we rush along in a sort of panic, lest we somehow "miss the bus", and try to do too much and this too fast. We can and must do no less and no more than to plan for the things that are possible under conditions as they are, and to aim at them with determination. This does not mean that we will believe development aid to be of secondary importance only but that we must place this aid in its appropriate position within the framework of all other unsolved national and worldwide problems. In recent days, we quite frequently hear about donor countries allegedly becoming "tired of development aid". It may well be the case that the degree of understanding for the needs of the developing countries shown by a wider public has not grown in recent years as much as might have been desirable, under the impact of certain events which have been unjustly generalised. On the other hand, nowhere, and certainly not in the Federal Republic of Germany, are there signs that responsible quarters have taken their obligations towards developing countries not seriously enough.

Efficacy of Development Aid

German development aid, as shown in the table next page, reached a net value in 1965 of DM 2,750 million. Though this was slightly less than in 1964, it was nearly 15 % more than in 1963. The slight decline was caused exlusively by the drop in private aid by more than DM 200 million, whilst aid by public authorities increased, but not by the full amount of the drop. To qualify this observation further: effective public aid had shown a moderately declining trend during the years 1962-1964, falling to a relatively low level in the latter year. On the other hand, private aid was exceptionally high during 1964. This was due, especially in the case of export credits, to a number of random influences (the importance of big individual deliveries and the accumulation of credit grants on a number of applications that had been studied for a long time), whilst the decline in 1965 has been caused largely by the deterioration of the West German capital markets, which imposed considerable restrictions on the refinancing of export credits. State credits (not the total value of aid by public authorities) contracted slightly during 1965, but this was mainly caused by the hostilities between India and Pakistan, which led to a temporary shutdown of deliveries and payments to the two countries.

Such brief hints may already demonstrate how questionable short-term comparisons must be in regard to the subject under review; but they are also going to show that actual credits and capital exports do not depend simply on the attitudes and good will of donor countries but in many respects also on given conditions in the development areas. And this is, of course, not only true of the political and economic atmosphere in which investments can be made, though this "investment climate" is of decisive importance for private capital exports to the young nations. This general climate also determines the fate of aid from public funds, especially with regard to the genuine capacity of aid-seeking countries for absorbing capital. There is probably no objective and generally valid unit of measurement for assessing this capacity for capital absorbtion. Those who generally prefer to grant aid for supporting certain programmes, instead of giving purposeful support to individual projects, may produce higher estimates of the capacity for absorbing foreign aid than project-oriented observers. I myself am stronly inclined to believe that aid tied to definite projects is of much higher efficacy. In such cases, the risk of investing in the wrong place and for the wrong purpose, especially from the viewpoint of the world economy, appears to be much lower than through general programme aid or support for the recipient country's balance of payments. This is not to say that there is no scope or need whatever for the latter form of help. In fact, the share of capital aid that is not tied to definite projects, in the total granted by the Federal Republic in 1965, has for example increased. Operations will have to be kept flexible, which means that they have to be adapted to conditions as they are found. But on the whole, the habit of tying German aid to definite projects has proved its worth. Tying aid to a project, however, also implies that payments will only be made proportionally

to progress achieved by the project. In the past, this has frequently led to delays, for which the donor countries cannot be held responsible.

Agreements in principle by the Federal Government to grant bilateral capital aid to developing countries had reached cumulatively DM 9,800 million on September 30, 1966; the promises of the Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau: KfW) to grant credits based on these agreements amounted, at the same time, to about DM 8,100 million, and credits actually paid out up to that date were DM 5,700 million. The surplus of KfW promises to pay (which follow the required scrutiny of projects submitted and transform the general promises of the Government into actual credit agreements) over and above payments already made was thus DM 2,400 million on the 30th September last, against only DM 2,000 million at the end of 1964. Payments, which can only be made in proportion to progress made by individual projects, have thus grown more slowly than the promises to make credit available. On the other hand, the gap between the Government's agreements in principle to grant aid and the amount of credit agreements issued by KfW has steadily narrowed during recent years. So the German Development Bank has succeeded in making good progress, accelerating the study of projects and fulfilling the promises made by the Government.

One aspect which is of high importance for a further evolution of effective development aid has, in my view, been somewhat neglected in the middle of all the efforts made: hardly anybody has seen how essential is the creation of efficient local banking facilities in the recipient countries. Industrialisation, or economic growth, and banking facilities are dependent on, and cannot exist without, each other. The evolution of local banking, coupled to an increase in its efficiency, will improve local and international possibilities of financing and, at the same time, increase the scope for promoting and collecting local savings. If it should come to it that national development banks arise and grow more effective in their work, the problem whether to grant project aid or programme aid will appear in quite a different light. The more such banks are capable of guaranteeing the quality and the selection of projects on their own authority, the sooner it may be possible to channel perhaps more unspecified global aid through such institutes.

Increase of German Aid

The Federal Cabinet produced its draft budget for 1967 at the end of September last; its estimate of development aid amounted to DM 1,900 million, against DM 1,500 million in the 1966 budget, and the authority to make binding promises in advance was raised to DM 1,500 million. Increasing development aid by DM 400 million means that an important share in the total increase of State expenditure budgeted for would be caused by such aid spending. It may be that the Government's budget proposals cannot be fully maintained, for it is well known that the draft budget for 1967 must be amended in a number of positions where public income does not cover outgoings: this has led to the proposal to cut the estimated cash outgoings for development aid by DM 100 million, whilst German defence spending will be reduced by DM 200 million and aid and relief payments to Germany's own war victims by DM 120 million. But the significance of being able to obtain agreement on a further increase of development aid must not be underrated in a period when public finance labours under enormous pressure, so that a reduction in social security benefits, an increase of a number of taxes and other, similarly unwelcome measures may have become inevitable through the need to stabilise the exchequer. I do not wish to be misunderstood: I am far from believing that the support given to developing countries now is fully sufficient. Quite a lot remains to be done in this field, but it would be wrong to judge the capacity and willingness of donor countries to spend in complete isolation from their own economic and financial difficulties. Developing countries themselves can receive long-term aid in appropriate amounts only on condition that the countries willing to help them maintain their efficiency and their monetary and economic stability.

Apart from inevitable temporary fluctuations caused by developments both in donor and recipient countries, the quota of one per cent of the national income to be used for development aid, which was recommended both by the World Trade Conference and by OECD, will be, in spite of its very rough approxima-

Aid Granted by the Federal Republic to Developing Countries
(Actual Net Outgoings in DM million)

	1963	1964	1965	1961/65	1950/65
I. Bilateral Aid					
1. from public funds	1,638	1,653	1,729	7,805	12,324
of which: grants-in-aid (including restitution payments)	608	621	703	2,878	5,213
credits	1,030	1,032	1,025	4,927	7,111
2. from private source	614	843	636	3,690	10,980
of which: export credits	287	487	233	1,497	6,520
investments, reinvested profits, and other aid	327	356	403	2,193	4,460
II. Multilateral Aid	147	265	387	2,338	5,176
of which: from private sources	45	229	232	494	770
III. Total of Net Aid (public and private funds)	2,398	2,761	2,751	13,833	28,480

tion, a useful guideline for the aims to be achieved. But most people do not remember that the recommendation adopted in 1964 neither described the One Per Cent Guideline as the ceiling beyond which development aid should not rise, nor did it believe this rule to be suitable for comparing development aid granted by individual countries either by quantity or by quality. Nations that are still linked with dependent or formerly dependent territories generally, and for very easily understandable reasons, register, under the usual statistical breakdown, higher outgoings on development aid account, and the same is true of countries owning relatively big foreign interests in development areas, e.g. through the oil industry. Thus it is not uninteresting to learn from the returns prepared by OECD that of all the net private aid of the last three years, on average, France had been spending over one third, the UK [1] 28 %, the US 21 %, but Western Germany only 11 % in the form of profits ploughed back into direct investments. For a fair and just assessment of the aid given by individual countries, these and other facts will certainly have to be taken into account.

By the end of 1966, the cumulative total of all development aid granted by the Federal Republic will have reached DM 31,000 million or even more. This is a far higher amount than the currency reserves which Germany was able to accumulate in the same period (DM 28,400 million), and it is by about DM 3,500 million more than the total amount of capital German joint stock companies were able to raise through share issues since the time of the 1948 currency reform. The countries belonging to the DAC (Development Aid Corporation) have given aid through credits, investments in capital goods, and in other ways of a total equivalent to $ 53,400 million, from 1960. This is almost four times the amount that had flown to Europe after the Second World War in the form of Marshall Aid. Such figures give no grounds for smug self-satisfaction but they may also prove that western aid, taken as a whole, does not at all deserve the adverse judgments that are sometimes passed on it. Of the mentioned total of $ 53,400 million, more than half come from the United States, Europe contributed over 40 %, and the balance was provided by Australia, Canada, and Japan.

Finally, it is not only outright aid but also aid by trade which should be taken account of. Western Germany, during recent years, has bought from developing countries much more than it could ever hope to sell there of its own products. During the last four full calendar years, the cumulative imports surplus of the Federal Republic in its trade with non-European developing countries amounted to more than DM 10,000 million. The European Common Market, too, imported much more than it exported to all developing countries; its adverse balance of trade towards all developing countries came to $ 10,400 million during the same four years. From 1958, when the European Economic Community was formed, EEC exports to those development areas have grown by 22 %, but imports from there rose by no less than 54 %. In 1958, imports of the Common Market from developing countries were of about the same order as those of the US, but in 1965, the same imports of the EEC were by more than about one third larger than those of the US. This has made the "Six" far and wide the best customers for buying products of the developing countries.

Developing Countries v. Shipping Conferences

By Wolfgang Reisener, Hamburg

Whereever several shipping lines ply the same route they have linked together in so-called "conferences". There the national and/or international shipping companies jointly fix freight rates and all members are bound to certain rules of organisation and working conditions for each route. The conferences range from loose associations to well organised institutions with their own standing secretariats.

Rate policy and all the practices connected with it have been subject to controversy ever since the conference system was established almost a hundred years ago. They are still a bone of contention in the arguments between the suppliers and the users of shipping services. At present the developing countries are the attacking side. They contend that shipping conferences should only continue to exist if they are subject to regulation from outside.

Distrust of Conferences

There is an obvious reason for this attitude of the developing countries. In liner services it is on the whole the privilege of the suppliers to fix rates in mutual agreement under the cloak of conference secrecy. The users of shipping services are forced to play the passive partner who has to adjust his demand for services to rates on the determination of which he has basically no influence. Such a system causes distrust and the users criticise it for being unjust and unfair. This is all the more the case if the users—e.g. the developing countries—have no, or not a sufficiently large merchant fleet of their own to

[1] In the case of UK, no breakdown of the figures for 1965 was available, so that comparative figures have been used only from 1963 and 1964.