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# Concepts of National Development Aid

by Klaus Linke, Hamburg

**T**he present analysis takes as its starting point the year 1961 — the year in which the OECD's Development Assistance Committee (DAC) published for the first time a systematic survey of development aid rendered by individual member countries.

## **United States**

The aid programme of the USA for 1961 contained some essentially novel features: From this time onwards the programme was concerned primarily with economic development projects. The emphasis was on self-aid and long-range planning in the developing countries, on long-term loans at low interest and repayable in dollars instead of, as before, on grants and loans, repayable in the currency of the recipient.

The development aid rendered by the American government, which has four programmes for the distribution of that aid, is in absolute terms by far the most important one of all the donor-countries. Its share fluctuates between 55 and 60 per cent of all the aid rendered through the DAC. In absolute terms US aid has roughly remained the same since 1962, (\$ 3.6 billion), while relatively it has declined when compared with the rise that has occurred in the American national income.

## **Aid Structure**

Government aid has undergone considerable structural changes: the share in multilateral contributions has decreased from 76 per cent in 1963 to 64 per cent in 1966, and American participation in the agricultural aid programme (PL 480) has likewise declined considerably. The explanation of the change is to be found in the endeavour on the part of the responsible US authorities gradually to move away from grants to loans. The reason for the decline in agricultural aid is the following: Food aid which constitutes the major part of all agricultural assistance, had in the past largely come out of existing surplus stocks. But these surplus stocks have in the last five years steadily shrunk.

Bilateral grants which are distributed by the AID have appreciably increased in the period under review. They take for the most part the form of technical aid and supporting assistance. This latter aid form is by its very nature economical, but it is mainly made available to countries which use the means thus placed at their disposal to strengthen their military defences. In 1967, 71 per cent of this type of assistance went to Vietnam, 22 per cent to Korea, Jordan, and

Laos, while the remaining 7 per cent went mainly to countries on whose territory the Americans maintain military bases.

## **Geographic Distribution of the Aid**

A structural change has also to be noted in the geographic distribution of American development aid. Most recently there has been a certain concentration on the Latin-American area, though this trend is not yet discernible in the official figures. In 1961 Latin-America received 32 per cent of the total bilateral aid, whereas in 1962 and 1963 the Latin-American share was only 22 per cent. These figures are however misleading in view of the fact that the percentage for 1961 was abnormally high because of the unusually large credit granted to Brazil for the stabilisation of its currency.

The large increase in aid to Africa in 1962 and the subsequent decline in 1963 is probably partly due to the dollar loan granted to Ghana in connexion with the Volta project.

Asia's share, which amounts to about half the total, showed a slight rise in the period under review, a large part being absorbed by loans granted to India and Pakistan through the relief committees. The year 1965 was in this connexion an exceptional one because development aid to India and Pakistan was temporarily suspended.

A feature of the American aid policy is the tendency towards concentration on a few countries. In the fiscal year 1967, 92 per cent of AID-aid went to 20 countries. 84 per cent of the development loans was concentrated on the eight countries which were seen to make the greatest efforts to help themselves; they were: Brazil, Chile, Colombia, India, Korea, Nigeria, Pakistan, and Turkey.

## **Conditions**

The terms on which American development aid is granted vary according to each particular programme. The rates of interest may be anything between 0.75 and 5.75 per cent and the loans may be for anything between one and forty years. Until 1963 credits granted within the framework of the Foreign Assistance Act (i.e. half the total credits) used to be made available at 0.75 per cent interest; they ran for forty years with redemption starting after the first ten years. From 1963 onward interest charges went up; they now amount to 1 per cent during the redemption-free period and 2.5 per cent thereafter.

In the initial period (until 1958) only such programmes were tied to purchases of American goods and services as were under the auspices of the Export-Import Bank. It must be added, however, that these programmes constituted about half of all the government help given at that time. Since 1959 the clause insisting on the purchase of American goods has been extended to other aid programmes, until it now appears in almost all American aid contracts, largely because of the American balance-of-payment difficulties.

Another change that has manifested itself in the course of time is the shift from projects to aid programmes. This change is due to the belief that aid programmes enable the donor-country to exercise some influence on the recipient-country in the matter of the composition and total volume of its imports.

### France

The French government aid programme—in absolute terms the second-largest after the USA—has been tending to decline since 1963. In 1966 the net liabilities incurred fell to 0.95 per cent of the national income. This was the first time it declined from its highest level of 1.9 per cent in 1961 to below the one-percent level. The slow decline in the total volume of French government aid was primarily due to the sharp reduction in aid to Algeria, from \$ 358 mn in 1962 to \$ 95 mn in 1966.

#### Grants and Loans

Typical for French bilateral aid has always been the form of grants. Their share in 1961 was 90 per cent and in 1967, 52 per cent. The net balance of French government loans has been declining in recent years. This is thought to be due to three factors: reduction in the gross total of disbursements; an increase in redemption payments on loans previously granted and finally to the considerable time lapse between commitments and actual disbursements that exists with regard to countries outside the franc-area. On the other hand, so-called "mixed credits", that is a combination of government credits and guaranteed private export credits, have shown an increase.

Technical aid—the field in which France is leading—has been steadily increasing in the period under review (from 30 per cent of the total aid in 1962 to 36 per cent in 1963). Capital expenditure, on the other hand, which is intended mainly to build up the social and economic infrastructure, has currently declined (from 52.4 per cent in 1962 to 39.3 per cent of the total in 1963).

#### Geographic Distribution and Terms

French government aid goes primarily to countries of the franc-area, although the share of countries outside that area has increased from 3 per cent in 1962 to 10 per cent in 1966. Inside the franc-area itself substantial shifts have taken place: aid to Algeria has sharply declined since 1963 when that country became independent, while disbursements to Morocco and Tunisia show increases. Generally speaking, dis-

bursements to French departments and territories overseas have risen until in 1966 their share in the total bilateral government aid amounted to 35.5 per cent. The main recipients outside the franc-area were Turkey, Cambodia, and Vietnam.

The present geographical distribution is governed mainly by two principles: Firstly, the desire to keep the bulk of the aid within the franc-area, and secondly, to distribute the remainder as widely as possible. As far as the countries of the franc-area are concerned, credit terms are traditionally easy. In 1965, 95 per cent of the credits granted ran for more than five years (56 per cent for more than 15 years) and 53 per cent carried interest rates of less than 3 per cent. (30 per cent were granted at rates lying between 4 and 7 per cent.) The terms for credits to countries outside the franc-area are more onerous. All the aid to countries of the franc-area is tied to purchases of French goods.

### Great Britain

The British aid programme has in the past ten years undergone gradual but nevertheless substantial modifications — changes that reflect the varying links with the individual countries concerned and also the transition to comprehensive coordinated aid-programmes. Characteristically new were the extension of development aid to cover a greater number of non-Commonwealth countries for one thing and easier terms for another.

There exist together eight separate programmes, and British government aid, which is made available through a multitude of organisations, has been steadily increasing since 1956 to reach in 1966 with net outgoings of \$ 501 mn a record. In spite of a 20 per cent increase since 1962/63 expenditure on development aid has failed to keep in step with the rising national income. (Aid as proportion of national income: 1961: 0.73 per cent, 1964: 0.68 per cent, 1966: 0.60 per cent.) The considerable expansion of the bilateral credit programme should to some extent be due to the rapidly increasing repayments of previously granted credits. Balance-of-payments and budgetary problems have been responsible for the volume of aid falling short of earlier intentions.

#### Terms

By far the greatest part of British government development aid goes to autonomous or dependent states in the Commonwealth (1961: 93 per cent, 1966: 90 per cent of the total). The share of non-Commonwealth countries trebled from 1956 to 1962, reached 13 per cent in 1963, only to decline again to 8 per cent in 1965. What was particularly noticeable within these totals was the fact that countries belonging to the Sterling-bloc (Libya and Jordan) suffered most from the general decline, while the share going to countries with no special ties with Great Britain steadily increased, presumably mainly as a result of the expansion in the technical programmes. (Main beneficiaries: Turkey, Jordan, Argentina and Chile).

The terms for credits granted under the Export Guarantees Act, Section 3—that is more than 50 per cent—were relatively harsh until 1962 with interest rates of the order of 6 per cent. In 1963 the interest burden was, however, lightened by means of the introduction of interest-free periods, which reduced the average interest level to 4.8 per cent. (Duration of loans about 25 years, of which 7 years are free of redemption). Since 1965 there have been some completely interest-free credits granted.

Development loans to independent Commonwealth countries are granted on condition that Great Britain participates in the programmes and projects that are to be financed by these loans. Section 3 of the Act—pertaining to loans—provides that any goods that need to be imported in the execution of the programme or project in question must be purchased in Great Britain.

#### **Federal Republic of Germany**

From 1956 until 1960 no clear concept was discernible in the Federal Republic of how and where to apply development aid. Characteristic for the period was the so-called "Giesskannenprinzip" — the "watering-can principle", that is the indiscriminate pouring out of aid without concentration on any selected area.

From 1961 the first signs of a coherent aid policy became noticeable. Cooperation within the many official

aid organisations improved, more aid was given and the conditions on which it was extended were adjusted to the situation prevailing in the recipient country, and aid became concentrated on specific projects.

From 1966 on another change began to take place, characterised by the slogan "Entwicklungspolitik aus einem Guss" — "aid policy of one piece". More purposefully than before development aid was made to serve the interest of the German export trade. By interlocking the government's technical and capital aid with private assistance allocations were made more dynamic — a policy that had planned joint projects as a starting point. There was a growing inclination to turn away from costly infrastructural projects.

#### **Bilateral Contributions**

Since 1961 bilateral disbursements by the German Federal Republic on development aid account have shown a marked increase — not least because of the reparation payments to Israel, Greece and Yugoslavia. In 1965, for instance, reparation payments amounted to \$ 75 mn or 12 per cent of gross contributions. Within the total there was a rise in credits, the highest levels being reached in 1961, when large-scale purchases of shares in the International Bank for Reconstruction and Development (IBRD) took place, and again in 1965. Disbursements for technical cooperation

# **P. KRUSE**

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also increased. In 1966 these disbursements represented about 23 per cent of the total bilateral aid rendered.

#### Geographic Distribution

Because of the "Watering-can principle" there existed in the initial phase of German aid policy no noticeable concentration on any region. Since 1960 German aid has been increasingly concentrated on Asia. This was due to the fact that the Federal Republic has become a member of the relief organisations for India and Pakistan. Since 1960 German commitments have been geographically distributed as follows:

- ☐ Asia: 60 per cent to 19 countries;
- ☐ Africa: 19 per cent to 34 countries;
- ☐ Europe: 14 per cent to four countries;
- ☐ Latin-America: 7 per cent to 11 countries.

Since 1965 a tendency has become apparent to restrict official aid to relatively few countries, with 60 per cent going to six countries not counting the reparation payments to Israel. The six countries were: Brazil, India, Pakistan, Turkey, Spain, and Peru. It is worth noting that, apart from India and Pakistan, none of the other four states had previously figured among the main recipients of German aid. This clearly illustrates the policy of the "shifting emphasis".

#### Terms

From the point of view of the recipients there has on the whole been an improvement in credit terms, which are, of course, primarily determined by the nature of the project for which help is sought. Rate of interest: in 1963: 4.3 per cent, in 1966: 3.3 per cent; duration of loans: 1962: 15.2 years, 1966: 21.8 years; redemption-free period: 1962: 4.5 years, 1966: 6.4 years.

During the period from 1956 until 1962, 57 per cent of all financial credits had no strings attached. As from 1963 the granting of aid has been increasingly made dependent on conditions, following the example of other donor-countries in the DAC. From the beginning the Federal Republic of Germany has shown a preference for aid intended for definite projects (1961: 50 per cent, 1963: 68 per cent of bilateral assistance). This preference is prompted by the wish to make sure that the means serve clearly identifiable ends.

#### Italy

The volume of Italian development aid has in the period under review undergone considerable fluctuations. This applies in particular to net disbursements

by the government. Within these total disbursements grants have tended to decrease. Credits, on the other hand, have increased, particularly in the most recent past when an appreciable rise in repayments by developing countries made it possible to grant fresh credits on a much larger scale. Contributions to multilateral institutions have on the whole tended to rise, notwithstanding repeated temporary decreases (in 1963 and 1964 Italy made no contributions to the European Development Fund). Since 1965 in particular disbursements have increased as a result of payments to the World Bank, the purchase of IBRD-shares and contributions to IDA and UN-Institutions.

Italian government aid—financial and technical—is concentrated on the Mediterranean area and Somalia because of Italy's traditional ties with that region. It must be added, however, that aid to Somalia, which in 1963 still represented more than 50 per cent of Italy's total grants, is being gradually reduced. In 1963, credit terms were made easier, but nevertheless remained relatively stringent. (Average rates of interest about 6 per cent; period about 8 years.) Aid to Somalia is for the greater part intended to help the country with its budget, but also to build up its infrastructure and to assist it in the disposal of its farm produce. A large proportion of the official credits (41 per cent in 1963) is intended to enable certain recipient countries (Yugoslavia, Argentina, and Brazil) to repay previously contracted commercial debts. Another not inconsiderable part (28 per cent in 1963) is to contribute towards the economic development of certain countries (Ethiopia, Egypt, Greece, and Turkey). In granting guaranteed export credits Italy expects to receive some benefits for its own industry as far as productivity and employment are concerned.

#### Netherlands and Sweden

During the period under review the development aid programme of the Netherlands has undergone several changes and reorganisations. Multilateral aid and assistance to the overseas territories of the Kingdom have remained, however, throughout the cornerstones of the programme. Bilateral help for the former West New Guinea was in 1963 replaced by contributions to the UN. Until 1962 government help showed a rapid rise. From 1963, however, a decline set in, caused by the fact that the Dutch government's responsibility for the territories overseas became more restricted. Help for West New Guinea dwindled considerably, and this also resulted in a decline in the share of grants on a bilateral basis. After 1963 there occurred a renewed expansion in government aid (0.32 per cent



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of the national income in 1963, 0.55 per cent in 1966). Technical aid in particular was increased in 1965 by two additional programmes.

After 1965 the Kingdom's territories overseas received almost the whole of the government's bilateral aid. In 1962 and 1963 the Netherlands joined the OECD-organisations for Greece and Turkey as well as the World Bank's organisations for Colombia, India, Nigeria, Pakistan, Sudan, and Tunisia. This led to a wider geographic distribution, but the main emphasis remained on the territories overseas (Surinam and the Dutch Antilles).

Dutch loans within the framework of development aid are divided into three parts: 1. Credits to assist the development plans of Surinam and the Dutch Antilles, these credits are in practice interest-free and run for 25 to 30 years. 2. Credits to countries belonging to one of the aid organisations; these credits carry on average an interest of 3 per cent and extend over a period of some 25 years with seven redemption-free years. 3. Credits to Latin-American countries (interest rate about 6 per cent).

Loans to countries belonging to an aid organisation invariably take the form of programme-aid and are granted on condition that any purchases arising from these loans must be effected in the Netherlands. With this one exception no aid is tied to any special programmes or projects, nor are there any conditions attached with regard to deliveries.

The foundation for the Swedish aid programme in its present form was laid in 1962 with the passing of the

Development Assistance Act. Since then Swedish government aid has steadily grown in volume; it trebled from 1961 to 1963, doubled from 1962 to 1965 and rose by nearly 50 per cent from 1965 to 1966.

In the field of technical aid Sweden distinguishes itself from other donor-countries through its pioneering efforts in the vocational training of women and girls especially in the middle-range professions and in family-planning programmes. Moreover, Sweden is the only country to have voluntarily increased its contributions to the IDA. The percentage-share of net contributions to multilateral organisations has declined, it is true (1960: 85 per cent; 1965: 54 per cent), but the main emphasis of Swedish aid has remained on these endeavours. The principal beneficiaries of bilateral grants are India, Pakistan and Ethiopia. Technical aid is concentrated on relatively few countries. Credits for purposes of financing capital projects run for an average of 20 years, remain redemption-free for five years and carry an interest of 2 per cent. Such credits have only been granted, on a bilateral basis, since 1963 as part of an experimental programme. In the meantime the same conditions obtain for all credits. Since 1963 when the bilateral credit-programme came into being all loans, with the exception of those granted to India, have been for special projects — projects that are mainly concerned to build up the infrastructures for farming and the fishing industries. On principle Sweden in granting credits does not insist on any Swedish goods being bought by the recipient country.

## Arabian Gulf

# OPEC and the Strategy of Oil

by Professor Dr M. R. Kumara Swamy and Ali Jaidah, Doha/Qatar

**Q**atar's oil bearing potential was discovered in 1930, but only after World War II field activities started on a large scale. Two companies are producing crude oil in Qatar, the Qatar Petroleum Co Ltd—an affiliate of Iraq Petroleum Company—and the Shell Company of Qatar Ltd, which received concessions for offshore exploration. With that the Royal Dutch-Shell Group is by far the biggest oil producer in Qatar, for it possesses 23.7 per cent of Iraq Petroleum Company, too. In 1966 the two companies extracted 13.7 mn barrels of crude oil, nearly all of which was exported.

### **Dependency on Oil**

Qatar lives on oil, it is the most important economic factor and the main source of government revenue. Oil gave the incentive to setting up some other in-

dustries and offers the hope for further development. Oil has brought many upheavals to Qatar and social norms and customs have had to adjust accordingly. The process is still going on. As its legislative fabric has gradually consolidated, Qatar has been able to modernise its social patterns within the framework of its Arab patrimony, religion and traditions. This has been a major factor in the nation's orderly development. Universal education is by far the most important factor in the country's society. A lion's share of Qatar's total oil revenue is allocated to this purpose.

Qatar, the unknown country at the Arabian gulf represents nevertheless all problems of oil-producing countries which depend heavily on one or two foreign companies. Therefore the Organisation of Petroleum Exporting Countries (OPEC) was established at a