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Development Aid at Great Cost

by Dietrich Kebschull, Hamburg

Robert Malthus would have been pleased about this: His old theory of the margin for food supply growing slower than the population, stands once more in the fore of the annual report of the International Bank for Reconstruction and Development (World Bank) and its sister-organisation, IDA. The economists around the former US Secretary of Defence, McNamara, look upon increased agricultural production as the focus of development policy in order to protect the mightily growing population from a catastrophical famine.

Farming Policy Has Priority

The World Bank's more pronounced concentration on agriculture is clearly seen from the stepping-up of means made available for farming projects. They amounted to \$ 87 mn in the budget year 1966/67 and were nearly doubled the year after (\$ 172.5 mn in 1967/68).

The advancement for the time being chiefly aims at improvements of seeds and seedlings in the developing countries, greater use of fertilizers and machines, extensions of irrigation schemes as well as intensified cattle-breeding. It seems that even ambitious politicians must realise that the profitability of investments is initially the highest in this sector of the economy.

In the short and the long run, the success of the measures will in the first place depend on the population's growth rate which is particularly high in the developing countries. In the period from 1960 to 1966 the less developed countries' growth rate of the population was 2.5 per cent annually as against an average of 1.2 per cent in the developed countries. The situation in the Latin American countries, whose growth rate is at present 2.9 per cent, is particularly critical.

In view of the most recent statements by the Pope it has to be appreciated that the World Bank did not hesitate to emphasise the necessity of some birth control, indeed making this an unalterable pre-condition for any successful development policy. A catastrophe will be averted only if one succeeds in curbing the rapid growth of the population in the less developed countries.

Regional and Material Orientation

Corresponding to the increasingly urgent problems in Latin America the re-orientation by the World Bank and IDA from Asia onto this part of the globe should be welcomed. Remembering, however, that

last year India and Pakistan together received not even one-half of the aid extended to the relatively small country of Mexico, one will be less ready to applaud. The Institute's aim should be as equal as possible a spread of its means—equal according to requirements. It seems possible that the Five-Year plan announced by McNamara will set the green light for this.

The most important items of last year's expenditure were once again those an infra-structural projects—particularly on energy supply and transport. Their share in total expenditure exceeded 50 per cent. More than one-fifth of the means was placed at the disposal of agriculture. Well down the list follow aid projects for education for which IDA is foremostly the channel. However, owing to lack of means this organisations has had to curtail its financing drastically last year. Up to now IDA and the World Bank provided a total of \$ 160 mn for 19 countries in the field of educational measures. A strengthening of these efforts is intended during coming years. It is also envisaged to promote tourist traffic and technical aid which latter is the essential follow-up to the financing of projects.

Problems of Financing

Both organisations do not only face the problem of how to lend limited means optimally for different purposes of their utilisation. They must also solve the problem of how to obtain funds themselves and pay interest on them. The procurement of the means presents the greatest difficulties. The average cost of the procurement, having amounted to 4.88 per cent only in 1965/66, increased a year later to 5.22 per cent and were no less than 6.17 per cent in the year under review. As the result, the loan interest had to be stepped-up to 6.25 per cent in January, 1968, and once more in August to as much as 6.5 per cent.

An immense burden of interest thus falls upon the borrower and it appears rather odd, therefore, still to speak of "development aid by the World Bank" in view of such rates of interest. All this, however, is not the fault of the World Bank. One has to blame those who are to provide the capital for the World Bank. As long as they try themselves to do business at conditions favourable to them within the framework of bilateral development aid, and look upon multilateral aid merely as a sort of necessary duty performance, the World Bank's activities in favour of the development countries will be considerably impeded.