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German Development Aid: 1.23 Per Cent

by Dr Christian Uhlig, Bochum

The effectiveness of development aid ought not to be judged only by the share it claims of a country's Gross National Product. On the one hand, if we want to change its size, we have also to undertake modifications of the individually planned assistance, which takes much time. On the other hand, the volume of aid depends decisively on the business activity. A booming home market will cause producers to preempt all their chances on the "safe" inland market, whilst a turndown towards a recession compels any given national economy to open up new outlets, and among these, developing countries will play a major part.

Soaring Volumes in 1967

This is the background which forms the foundation for any just assessment of the Federal Republic's activities in the field of development aid during 1967 and 1968. By a relatively sluggish movement after 1962, its volume had reached nearly DM 2,950 mn in 1962, jumping in 1967 suddenly to DM 4,567 mn, a rise by almost 55 p.c. (cf. the table). This brought it up to a level of 1.26 p.c. of the West German National Income, or 0.95 p.c. of the GNP. After 1961, there had never been such a record achievement.

German Development Aid in 1950–1968
(Effective values in DM million)

	1950-1960	1961-1965	1966	1967	1968
I. Bilateral net outgoings	11,809	11,653	2,829	4,317	4,897
of which:					
(a) from public funds	4,519	7,806	1,798	1,922	1,782
breakdown:					
1. net credits	2,184	4,927	1,347	1,381	1,142
2. grants-in-aid	2,335	2,878	451	540	640
(b) from private funds	7,291	3,848	1,030	2,395	3,115
breakdown:					
1. credits and direct investments	2,268	2,351	620	943	1,936
2. net export credits	5,023	1,497	410	1,452	1,018
3. KfW* export credits	–	–	–	–	161
II. Multilateral outgoings	2,838	2,411	121	272	1,613
of which:					
1. grants-in-aid	785	1,084	185	317	435
2. credits	2,053	1,327	./·64	./·45	1,178
breakdown:					
from public funds	1,776	764	./·40	./·24	–
from private funds	277	563	./·24	./·21	1,178
III. Total net outgoings	14,647	14,064	2,950	4,587	6,510
breakdown:					
from public funds	7,080	9,653	1,944	2,214	2,217
from private funds	7,567	4,411	1,006	2,374	4,293
IV. Percentage shares					
from public funds	48	69	66	48	35
from private funds	52	31	34	52	65

* Kreditanstalt für Wiederaufbau, i.e. Credit Institute for Reconstruction.

Source: Entwicklung und Zusammenarbeit. Deutsche Stiftung für Entwicklungsländer (Development and Cooperation. German Foundation for Developing Countries), No. 4, 1969, p. 28. Federal Ministry for Economic Cooperation. Cd. Paper II B06 – 0 2095 – 112/68.

This growth was mainly caused by the rise in outgoings from private funds, which went up by 139 p.c. against 1966, and the share in these outgoings in the West German GNP changed from 0.28 p.c. in 1966 to 0.66 p.c. in 1967. The dominant factor in this increase was the expansion of the item "export credits" which had swollen by 255 p.c. against the previous year to a net DM 1,452 mn. Export credits granted during 1967 alone equalled the five-year total for the period 1961–1965. Private net investments and net credits, however, rose only by 53 p.c. to a total of DM 943 mn. Direct investments (including reinvested profits) showed a mere 16 p.c. increase, from DM 585 to 677 mn, but bilateral purchases of securities grew more than sevenfold, from DM 35 to 266 mn [1]. Outgoings from public funds were augmented by 12 p.c. against 1966 to DM 2,200 mn, a total which was higher than any annual sum since 1961. Their share in the GNP went up from 0.53 p.c. to 0.60 p.c., but in actual figures, this item was for the first time lower than the sum total of private outgoings. Public fund expenditure was caused to rise by deliberate anti-cyclical spending by the government, for it was hoped that credits would eventually lead to export orders and deliveries, which might increase the volume of inland production activities.

Germany Reaches the One Per Cent Target

The overall value of assistance in 1968 rose to DM 6,500 mn, another 43 p.c. increase against 1967. Though slightly more modest than in the previous year, this rate of growth was again considerable. At his press conference, the Federal Minister for Economic Cooperation was therefore able to state early in April how satisfied he was with the fact that the Federal Republic, in 1968,

[1] Cf. OECD, Development Assistance, 1968, Review, Paris, 1968, p. 258 passim.

had not only reached the minimum target figure outlined by the Second World Trade Conference (UNCTAD) of 1 p.c. of the GNP, but was able to outstrip it by achieving 1.23 p.c. Based on National Income[2] the proportion for the Federal Republic is even 1.62 p.c., the highest share ever reached by the Germans.

Private activities had been pressing to the foreground even more strongly than in 1967. They claimed a share of 81 p.c. of total spending, or DM 4,293 mn, equivalent to 1.07 p.c. of National Income. The rate of increase, though slower than in 1967, was steeper by a high degree than the growth rate of public outgoings. The latter crept up only slightly to a total of DM 2,217 mn and their share of the GNP dropped to a mere 0.55 p.c. The rising value of aid given was thus almost exclusively generated by the torrent of private expenditure.

Structural Changes

However, the composition of private spending in 1968 was different from that of 1967. In the first rank, we this time see bilateral direct investments and direct grants of credits, which together improved by 105 p.c. to DM 1,936 mn, and these were even outpaced by private credits given to multilateral agencies, which raced forward from minus DM 21 mn (i.e. net repayments) to DM 1,179 mn. Export credit totalled DM 1,179 mn (of which DM 161 mn were granted by Kreditanstalt für Wiederaufbau, the German Credit Institute for Reconstruction), but this was slightly less than in 1967. The overall trend in 1968 was thus determined unilaterally by the expansion of capital exports to developing countries, whose main form was that of investment in securities. The World Bank alone issued loans for the equivalent of nearly DM 1,200 mn. Large loan issues were also launched by the governments of Mexico, Argentina, Venezuela, Iran, Malaysia and other countries[3]. For the first time since industralised countries started their efforts to aid development systematically, finance for this has largely been found in the private capital market. This was in line with the policy advocated by the experts in the field for many years[4].

Public-fund spending, it is true, achieved the total estimated by "medium-term financial planning" for 1968 of the German Government, i.e. DM 2,075 mn[5] but not the budgetary expenditure provided for by the Financial Report of 1969[6]. A breakdown of development aid totals for 1967 and 1968 shows that 1966 and earlier years had produced a fundamentally different structure of sources for the funds used: in 1966, two thirds of all aid were still derived from public and one third from private funds; conditions in 1968 were completely reversed.

Recession – a Source of Improvement

The favourable results of 1967 and 1968 can only be explained by their dependence on the overall business situation in the Federal Republic. Emphasising the considerable improvement in the share claimed by development aid in total National Income or the GNP, we must never forget that the very changes in the structure of the GNP themselves have largely contributed to this – because the GNP rose from 1967 to 1968, calculated in market prices, only fractionally, by 0.6 p.c., and National Income even dropped by 0.7 p.c. This means that the favourable changes were partly caused by business stagnation.

Two additional factors must be mentioned: the vigorous rise of export credits proves that businessmen, in order to maintain employment, as far as possible, throughout the recession, eagerly seized any and every chance to export. They were no longer satisfied–as they were frequently in earlier years–to accept only such development orders as were financed from public funds. They rather tried to increase their turnover by sales on guaranteed credit. This now led to the disappearance of a trend that had been noticeable in earlier years – towards increased financing of export orders from public funds, in preference to private finance[7]. The trend was still there in 1968, but much weakened.

Another favourable influence was in 1967 that aid totals were boosted through the refusal to cut public fund spending on assistance, in spite of budgetary difficulties. Expenditure under this title was, on the contrary, increased. This prevented rising private spending from being absorbed by a decline in outgoings from public treasuries.

Private Exports of Capital in 1968

The GNP resumed its steep increase in 1968 – by 8.9 p.c., and so did National Income, by 10.4 p.c.[8] The high share of development aid in the GNP persisted, and this was due to its maintaining its increase in absolute figures. Public fund spending, however, stagnated in 1968, but massive private exports of capital caused an excellent result. This

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[2] Calculations based on the annual projections made in 1969 by the Annual Economic Report of the Federal German Government (without place of publication and without the year of issue), p. 19 passim.

[3] cf. Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank (Statistical Supplements to the Monthly Reports of the Federal Bank), Second Series: Statistics of the Security Market, February, 1969, Table 12.

[4] cf. W. Hankel, Erfahrungen mit der deutschen Kapitalhilfe (Experiences with German Capital Aid), Hamburg, 1967, p. 19 passim.

[5] cf. Federal Ministry of Finance; Financial Report, 1969, Bonn, 1968, p. 108; estimates were: for 1969: DM 2,215.5 mn; for 1970: DM 2,433.0 mn; for 1971: DM 2,559.0 mn; and for 1972: DM 2,736.0 mn.

[6] It was intended to use DM 2,200 mn from the Federal Budget and DM 460 mn from the ERP Special Fund and from Länder (regional) and local authorities budgets, l.c., p. 321.

[7] cf. W. Hankel, Die deutsche Entwicklungshilfe (German Development Aid), in Handwörterbuch der Finanzwissenschaft (Compendium of Financial Theory), Vol. 4, Tübingen, 1965, p. 258 passim.

[8] cf. Jahreswirtschaftsbericht (Annual Economic Report), 1969, p. 19 passim.

must be visualised in connection with the general business climate again. As has been shown, these capital exports were not mainly caused by rising direct investments but by bilateral and, even more so, multilateral spendings on investments in securities of the loan bond type. A decisive influence for promoting this development were the comparatively favourable conditions offered by foreign loan issues, as against German launchings. When rates of interest in the German capital market were low, whilst the investing public was eager to buy, this led to highly successful bond sales.

In 1968, favourable development was caused mainly by exceptionally big investments in securities issued by developing countries themselves and the World Bank, which met with a highly receptive inclination of the German investing public.

During future years, however, it will be an open question whether it will be possible to maintain a constant high level of private spending on development aid. German economic capacities are progressively being utilised to their limits, German interest rates are rising, and the German export tax, are all factors which suggest that private engagement in development business will contract already during 1969. It is to be expected, therefore, that the share in National Income and the GNP, respectively, that has been reached cannot easily be maintained over the years.

Export Credits Are Not Genuine Aid

Knowing the reasons for the probable development of private development aid, we find the question justified whether the prevalence of private spending in development assistance can be the foundation of a genuine, long-term, and permanent development aid policy, or if it is not some sort of international "windowdressing" which plays a major part in the show business of reaching the prescribed one p.c. target figure.

For a long time there has been criticism of the practice to include export credits in the definition of development aid. It is argued that export credits only serve to provide finance for increasing the international trade of the supplying country, for which the German example offers full confirmation. Credit agreements stipulate short-term or medium-term repayments. Debtor countries must frequently start to redeem these debts already at a time when the project that has been financed in this way cannot yet possibly produce a profit. This plunges development countries into worse and worse debts[9].

[9] cf. W. Guth, Der Kapitalexport in die Entwicklungsländer (Capital Exports to Developing Countries), Basel and Tübingen, 1957; A. G. Ghaussy, Finanzielle Hilfe (Financial Help), in the volume on Entwicklungspolitik (Development Policies), edited by H. Besters and E. E. Boesch, Stuttgart, Berlin and Mainz, Column 1142 passim.

Capital Export with a Beneficial Effect

In contrast to this, exporting capital to developing countries by way of acquiring loan bonds is a fundamentally useful activity. However, such loan issues will benefit only countries and institutions that have sufficient international credit standing, which is closely tied up with the degree of security they can offer. But only a few developing countries will be capable of doing this. Actually, only the more advanced ones among them, and finance organisations of an international character, will be able to profit from capital market issues. This is not an "equitable" distribution of available funds from which the poorer countries could benefit. A sound state of the German capital market, however, might enable the Federal Government, or Government agencies, to guarantee the loan issues of poorer countries, as a new form of development aid, or Kreditanstalt für Wiederaufbau (the German Credit Institute for Reconstruction) and Deutsche Entwicklungsgesellschaft (German Development Company) might issue their own loans for the benefit of such countries.

Promoting Direct Investments Is Necessary

A fundamental conclusion is suggested: the strong reactions of private enterprise to the fluctuations of the trade cycle, which influence its engagement in developing countries, follow the reverse trend of home market activities. This renders them hardly suitable, because of their uncertainty, for including them into long-term structural planning of development aid. The two recent years and their development are proof that, in spite of booming private development spending, the most important tool for effective structural aid, namely privately financed direct investments, have not yet reached the needed volume. The reasons are varied: we do not have a sufficiency of people who know the countries to be favoured by such aid, the lack of these being particularly acute in regard to Africa and Asia. Employment and training of such experts is still being grossly neglected. Also, incentives for channelling capital into developing countries are obviously too weak, and our chances there are constantly being underestimated through lack of adequate information. This leads to several conclusions: the German law on the Development Aid Levy will have to be closely scrutinised as to its development aid effectiveness. Moreover, training and education of capable overseas representatives should urgently be started, and businessmen should take part in organising and financing a training scheme. It will moreover be necessary to enlarge the general information gathering and distribution services about real market chances, and our diplomatic services must work for improving the investment climate and of the protection of investments in the developing countries.