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# Aid Programme of the Neutrals

by Dr Jürgen M. Bartsch, Paris

**Foreign aid has often been considered as one aspect of the world-wide confrontation between East and West and one might therefore wonder to what extent the neutral European countries have an aid policy of their own reflecting their status of non-alignment. The following article tries to give an answer to this question by analysing the aid policies and efforts of Austria, Finland, Sweden and Switzerland.**

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Of all the neutral countries Sweden has the largest and most ambitious aid programme. Swedish development assistance began in 1952 but it was not until 1962 that a government aid agency was established. Since then Swedish official development assistance has been expanding rapidly to reach \$ 121 mn in 1969. In 1968, the Swedish Parliament adopted a plan put forward by the Government for expanding official Swedish assistance to developing countries. According to this plan budgetary appropriations will reach 1 p.c. of GNP (at market prices) in the fiscal year 1974/75. While the rate of increase may fluctuate from year to year, the annual increase in absolute terms is to be at least equal to that of the preceding year thus providing a firm basis for long-range planning. In fact, Swedish aid appropriations have increased annually by at least 25 p.c.

## The Swedish Medium-term Assistance Plan

The Swedish medium-term assistance plan represents the most ambitious aid programme of all DAC<sup>1</sup> Member countries since Sweden is the only donor country intending to reach the international aid target of 1 p.c. of GNP exclusively in the form of official development assistance. Sweden is firmly opposed to the general concept of including private and other official flows<sup>2</sup> when measuring a country's aid effort. Nevertheless, Sweden's private flows to developing countries

<sup>1</sup> Development Assistance Committee of the OECD. The Members of the Committee which provide about 95 p.c. of total resource flows to developing countries are: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States. Finland is not a Member of the Committee.

<sup>2</sup> Other official flows consist mainly of official export credits and IBRD bond purchases.

during the 1960s exceeded its official flows and rose from \$ 40 mn in 1960 to \$ 92 mn in 1969.

As a percentage of GNP Swedish official development assistance increased from 0.05 p.c. in 1960 to 0.44 p.c. in 1969 and exceeded in that year the DAC average for the first time. Total net flows rose during the same period from 0.37 p.c. to 0.77 p.c. of GNP.

Sweden is a strong advocate of multilateral aid. More than half of its official assistance has been channelled through multilateral organisations, mainly through UN agencies and the World Bank institutions. In terms of GNP Sweden contributed more aid to multilateral organisations than any other aid donor. Even in absolute terms it is one of the biggest contributors to the United Nations Development Programme (UNDP) and the International Development Association (IDA). For a long time Sweden was the only country to make supplementary contributions to IDA.

## Strong Multilateral Bias

In addition to contributions to multilateral organisations Sweden implements its bilateral aid programme increasingly in collaboration with multilateral agencies either through trust funds or through joint financing. The strong multilateral bias of Swedish development assistance, although first reflecting Sweden's limited experience with developing countries, is an expression of Sweden's policy of non-alignment, of its strong support of the United Nations and of its belief that multilateral aid is better for the recipients as no political or economic strings are attached to it.

Swedish bilateral assistance is characterised by the predominance of grants mainly for technical

assistance activities and so-called integrated projects where financial and technical assistance are closely interwoven. Bilateral loans, the first of which was extended in 1963, have played a modest role until 1967 but have somewhat expanded since. Some bilateral aid activities have been carried out in co-operation with other Nordic countries (Denmark, Finland and Norway) through joint Nordic projects. However, the importance of these projects is declining steadily. Swedish private flows consist approximately of two-thirds private investment and lending, and one-third export credits.

Vocational training and education was the first field of Swedish assistance. It still remains a priority sector but the emphasis has now shifted to teacher training. Aid to agriculture started late for lack of experience in tropical agriculture, but is now a priority sector of Swedish assistance. A special feature of Swedish aid policy is assistance to family planning. In this field Sweden was a pioneer and for some time the only donor country. Family planning has been receiving growing attention under the Swedish aid programme and accounts at present for some 10 p.c. of bilateral assistance.

#### **Geographical Distribution of Swedish Aid**

Geographically Swedish aid was deliberately concentrated on a few recipient countries in Africa and Asia, namely Ethiopia, Kenya, Sudan, Tanzania, Tunisia, India and Pakistan. In future years a substantial part of Swedish aid will be directed to so-called "progressive" countries such as Cuba, North Vietnam, Tanzania and Zambia and to countries in a "specially vulnerable geographic position" (Botswana, Lesotho and Swaziland). The inclusion of communist less developed countries among its aid recipients is so far unique among Western donors and is another expression of the Swedish policy of neutrality and non-alignment.

The financial conditions of Swedish assistance are among the softest of all aid donors as a consequence of the high grant share and the very soft conditions of its loans. Swedish loans are either extended at Swedish standard terms (25 years maturity, 10 years grace period and 2 p.c. interest) or at so-called IDA terms (50 years maturity, 10 years grace period and 0.75 of 1 p.c. service charge). The latter are extended for joint financing with IDA/IBRD and also independently to countries where Sweden considers such terms appropriate. Sweden is a strong supporter of the untying of aid and has so far provided all its bilateral loans and multilateral contributions free of procurement restrictions.

At UNCTAD II, Sweden was among the countries which agreed that developed countries should provide by the end of 1970 80 p.c. or more of their aid commitments in the form of grants or 90 p.c. as grants or loans at not more than 2.5 p.c. interest, a minimum grace period of eight years and a minimum repayment period of thirty years. Sweden also accepted the suggestion of the developing countries at UNCTAD II that "by 1975, the bulk of bilateral lending should be on terms comparable in general effect though not necessarily identical in all individual respects with the terms currently applied by IDA."

#### **The Austrian Official Assistance**

Austria's official development assistance increased from practically nothing in 1960 to \$ 31 mn in 1965 but then decreased year after year to \$ 15 mn in 1969, which represented only 0.12 p.c. of GNP, the lowest percentage of all DAC countries. The original increase, as well as the following decrease, was due to fluctuations of official export credits recorded as official development assistance. Excluding export credits Austrian official development assistance increased slowly and amounted to about 0.10 p.c. of GNP in recent years.

Austria's official aid programme has been hampered by the smallness of budgetary appropriations. About 85 p.c. of total federal budgetary appropriations are tied by legal obligations and any increase of aid appropriations has to be financed out of the remaining 15 p.c. of the budget. To remedy this situation Austria also used ERP counterpart funds for the financing of its aid programme. By mixing both budgetary and ERP counterpart funds with capital market resources Austria was able to provide more aid to developing countries than would have been possible otherwise. To secure a continuous upward trend of its official aid programme, the Austrian Government has decided in 1968 to establish a medium-term aid plan, but work on this plan has not yet been finalised and no concrete decisions have so far been taken.

#### **Private Austrian Flows**

In contrast to the weak performance of official development assistance, private Austrian flows have shown a continuous upward trend and reached \$ 58 mn in 1969. As a result Austria's total net flows to developing countries and multilateral agencies—as a percentage of GNP—amounted to 0.65 p.c. and came close to the DAC average of 0.75 p.c. It should also be borne in mind, when judging Austria's aid performance,

that Austria has one of the lowest per capita incomes of all DAC Member countries.

Concessional export credits represent the major component of Austrian official aid and accounted on average for almost half of official net flows, but both their volume and their share in the total has been declining in recent years, while contributions to multilateral organisations have been increasing, reflecting a deliberate shift in Austrian aid policy. Long-term development loans and bilateral grants have so far been of limited importance.

Austrian private flows are equally characterised by the predominance of export credits which contrary to the declining trend of official export credits are steadily increasing. The export promotion-oriented character of the Austrian aid programme is largely a consequence of the limited volume of aid appropriations which reflect not only the budgetary difficulties mentioned above but also a certain lack of political support and the absence of an aid agency in Austria. The responsibility for aid is dispersed over several ministries whose programmes are co-ordinated in the form of inter-ministerial committees. This lack of a central administrative aid authority hampers an effective defence of the aid programme before Cabinet, Parliament and public opinion.

#### **Concentration on Education and Vocational Training**

Austrian technical assistance is basically concentrated on education and vocational training. 3,600 people were enrolled in Austrian schools in several developing countries in 1969. Other major fields of activity are tourism and certain agricultural and industrial sectors. Geographically Austrian aid is mainly directed towards Turkey and India and, to a lesser extent, Guatemala, Iran, Thailand and Tunisia.

The financial conditions of Austrian aid are relatively hard as a consequence of the high share of concessional export credits in Austrian official development assistance. These credits carry an interest rate of 5.5 p.c., a maturity of between 7½ and 10 years and a 1–2 years grace period. Although the Austrian authorities

intend to lengthen both the maturity and grace period of their official export credits, it will probably still take some time until the conditions of Austrian aid correspond to DAC standards. Austria is in favour of a concerted multilateral action for the untying of aid, but at present all its bilateral lending is fully tied to procurement in Austria.

#### **The Swiss Aid Performance**

Despite its high per capita income Switzerland's official development assistance was very small during the 1960's, both as regards its absolute volume and as a percentage of GNP. It was not until 1968 that Swiss official aid exceeded one-tenth of 1 p.c. of GNP for the first time reflecting a new attitude towards aid by the Swiss authorities. In contrast to the low official aid volume, the total net flow of resources from Switzerland to developing countries and multilateral agencies has been very high as a result of a substantial outflow of private capital which has largely taken the form of private direct investment and private export credits. In some years the volume of private portfolio investment was also significant, notably in the form of purchases of bonds from multilateral agencies. Although the total flow—as a percentage of GNP—has exceeded the DAC average in most years, its net volume fluctuated considerably from one year to another. In order to ensure that in future total flows regularly reach 1 p.c. of GNP despite the fluctuations of private flows, Switzerland intends to increase its official aid to about 0.3 p.c. of GNP over the next few years.

The major part of Swiss official development assistance is provided in grant form; in recent years about 85 p.c. (about 50 p.c. bilateral grants, and 35 p.c. contributions to multilateral organisations). Bilateral grants concerned mainly integrated projects, humanitarian assistance and, to a lesser extent, technical assistance and food aid. Multilateral aid, which is continuously increasing, benefitted primarily the United Nations Development Programme (UNDP). Loans amounted to approximately 15 p.c. of Swiss official development assistance. The composition of private flows fluctuates substantially from one year to the other, but on average private flows were roughly equally



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divided between private investment and lending and export credits.

### **Emphasis on Agriculture and Education**

Swiss aid emphasises agriculture and education including agricultural training, rural development and co-operation, aid to agriculture accounted for about half of Swiss technical assistance while education, including industrial training, represented another third. Although in principle worldwide, Swiss aid is, due to its limited resources, concentrated on a small number of recipients among which Cameroon, Rwanda, India, Nepal, Ecuador, Peru and Turkey are worthwhile mentioning.

With the exception of a single loan which was partially provided in untied form, all Swiss bilateral lending is tied to procurement in Switzerland. Although overall financial terms are soft, the conditions of bilateral lending are relatively hard due to the joint transfer credits which are jointly financed out of official and private capital market funds and which carry about 5 p.c. interest, 15 years maturity and a 5 year grace period.

### **The Finnish Programme**

Of the four neutral countries Finland was the last one to start an aid programme. During the 1950's Finland was a net recipient of aid and although it started to extend some aid during the 1960's it still remained a capital importing country. Compared to the Swedish aid effort, the scope and volume of the Finnish aid programme have been very modest. Up to 1968 the volume of official development assistance increased only very slowly reaching less than \$ 5 mn, but almost tripled from 1968 to 1969 exceeding one-tenth of 1 p.c. of GNP for the first time. This marked increase was not a casual outcome but an expression of a new attitude of the Finnish authorities towards development assistance, who decided that budgetary appropriations for aid be increased by at least 40 p.c. per annum in order to reach the target of 0.7 p.c. of GNP for official development assistance by the middle of the decade, and the 1 p.c. of GNP target for total flows as soon as possible. In fact, aid appropriations have increased since 1968 by about 50 p.c. annually. This new attitude of the Finnish government towards aid is probably the result of the combined influence of Finnish public opinion, of the aid efforts undertaken in the other Nordic countries, in particular in Sweden, and of the strategy for the Second United Nations Development Decade.

Finnish official aid consists of over 90 p.c. of contributions to multilateral organisations, the re-

mainder being bilateral grants, while private flows, which were very small in most years, are predominantly composed of export credits. This situation is typical of newcomers in the aid field with no colonial past nor any other historical link with developing countries.

Consisting exclusively of grants, the terms of Finnish assistance are very soft at present. In future years, a certain amount of bilateral assistance will be provided in loan form which might lead to a certain hardening of Finnish financial conditions. Due to the very recent start of Finnish bilateral assistance it is too early to comment on its geographic distribution and fields of activity. At the moment Finland participates in two joint Nordic projects in Kenya and Tanzania and has started two projects of its own in Tunisia and Peru, both of them in the forestry field.

### **Conclusions**

Due to the absence of colonies and other historical ties with developing countries the concern with development assistance and especially with bilateral assistance started in the neutral countries essentially in the 1960's. The scope and volume of official assistance programmes were very modest during the first half of the decade and remained—by international comparison—fairly modest also in the second half of the decade despite very rapid progress in the case of Sweden.

Every government must conduct its aid policy in a way that meets public and parliamentary support. The neutral countries are no exception in this respect. The steep increase of Swedish aid during the 1960's and the ambitious plan for the years ahead are an expression of the support which the Swedish aid programme enjoys in government circles, Parliament, and public opinion. In Finland it was only towards the end of the 1960's that the Government decided, under the influence of domestic and international public opinion, to embark on a rapidly growing aid programme. In Austria and Switzerland, two landlocked countries in the heart of Europe, political parties and public opinion seem to be less aware of the needs of the Third World. Neither Austria nor Switzerland have so far committed themselves to meet the internationally agreed upon target of 0.7 p.c. of GNP for official development assistance but prefer to rely primarily on private flows to developing countries in order to reach the 1 p.c. of GNP target for total official and private flows. It remains to be seen when the Central European neutrals will follow the encouraging example of the Nordic countries.