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## Public Development Aid: Below the Target

by Volker Bethke, Hamburg\*

**At the beginning of the Second Development Decade (1970–1980) the industrial countries set themselves the target of stepping up their public development aid to 0.7 p.c. of their GNP by 1975. The validity of this aim is still emphasised by representatives of international organisations as well as spokesmen of individual industrial countries, such as the Federal Republic of Germany.**

On the occasion of his most recent visit to Bonn, World Bank President McNamara based his deliberations on the 0.7 p.c. target. Also the Ministry for Economic Cooperation recently more than once stressed the intention of not relaxing the efforts towards reaching this target. But still, the public aid performances of the majority of industrial countries fall, in some cases considerably, behind the target set for 1975. The DAC countries, providing among them more than 95 p.c. of all countries' public development aid, in 1970 reached a share of only 0.34 p.c. of the GNP with their public aid performances. In 1971 it amounted to 0.35 p.c.

Subdivided according to individual countries, the Federal Republic of Germany fell below the DAC averages in both years (1970: 0.32 and 1971: 0.34 p.c.). Such an important donor country as the USA shows even lower values at 0.31 and 0.32 p.c., respectively. Therefore the Federal Republic as compared with the USA is by no means playing the role of an outsider (see Table 1).

### Past Development

But Germany stands out, in a negative sense, inasmuch as its share of public aid has in the last 5 years gone down in percentage of the GNP. In 1968 it amounted to 0.41 p.c. but in 1972 it was merely 0.31 p.c. in spite of repeated warnings of the importance of adequate public development aid for the realisation of the targets set for the Second Development Decade (see Table 2).

This, however, does not mean that Germany's efforts have been relaxed in absolute terms. In 1970 German public aid was DM 2.20 bn. net, and the respective figures for 1971 and 1972 were DM 2.56 and 2.60 bn. In the last 2 years the GNP went up by 21 p.c. whereas, during the same

period, German public aid increased by 18 p.c. In former years this gap had even been wider because, regardless of substantial absolute increases, public development aid simply could not keep in step with the growth of the GNP.

But last year, according to provisional figures, also the absolute increase of public development aid by 1.56 p.c. was extremely small compared with the previous year. There is, however, no lack of assurances by the responsible Ministry that the absolute figures as well as the share of public aid in the GNP will in 1973 once again show marked increases. The relatively unfavourable picture of 1972 is explained by the Ministry in the main with technical difficulties, which, in turn, stemmed from the belated passing of the Federal budget by Parliament. This delay, according to State Secretary Matthöfer, led to the situation that aid already approved could in fact not be expended at the time envisaged. All the same, though, even if the technical difficulties can be overcome, it would still have to be said that the structure of public development aid gives reason to judge the future trend with caution.

### Unfavourable Structure

Public development aid consists of bilateral and multilateral performances, according to the nature of each transaction. In 1972, of the total of German public aid of DM 2.60 bn. net, 75 p.c. represented bilateral performances, and 25 p.c. were multilateral ones. In bilateral aid itself one must distinguish between non-repayable grants (such as technical aid) and repayable loans and credits.

The share of grants was, in 1972, 41 p.c. of total gross performances, and that of loans and credits amounted to 59 p.c. It must be added that a growing part of the loan and credit aid flows back to the Federal Republic of Germany in the form of

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interest and amortisation payments. In 1972 there was, against an increase of the gross credit aid by 15 p.c., an increase of the backflow by 29 p.c. One-third of credits extended, therefore, flowed back as payments for debt servicing. The net amount of credit development aid thus was DM 960 mn., an increase over the previous year by 9.6 p.c. Thereagainst, grants went up by only one p.c., from 973 to 985 mn. DM (see Table 3).

Whereas non-repayable bilateral aid performances by the public sector were only a little higher, there even was a setback in the case of multi-lateral grants and credits; the latter being given at relatively favourable terms. In 1971, DM 715 mn. were given through multilateral institutions, but in 1972 this sum dwindled to DM 667 mn.

It follows that last year the consolidation of development aid could be secured more or less solely by aid which has relatively unfavourable consequences for the LDCs. This stands out at once when looking at the substantially higher backflow for the purpose of debt service.

### Aid Conditions

It must be born in mind, however, that one credit is just not like another. In spite of the structural shifting of public aid in favour of the extending of means in the form of credits, it does not necessarily follow from this that the result was an additional burden for the LDCs. The size of a burden depends in each case on the conditions at which credits are given. During last year the Federal Republic succeeded in improving the

conditions for bilateral aid: the duration of the contracts was extended from 29.6 years in 1971 to 31.3 years, the amortisation-free period lengthened by one year from eight to 9 years, and the average rate of interest reduced from 2.69 to 2.18 p.c.

**Table 2**  
**Performances of the Federal Republic of Germany**  
(In percentage of the GNP)

Year	GNP (in bn. DM)	Share of total performances in the GNP (percentage)	Share of public performances in the GNP (percentage)
1967	495.5	0.92	0.41
1968	548.0	1.23	0.41
1969	605.2	1.31	0.38
1970	685.6	0.88	0.32
1971	758.8	0.88	0.34
1972	828.5	0.67	0.31

Source: Federal Ministry for Economic Cooperation.

All the same, though, the conditions of the past, will continue for the time being to have the affect for the LDCs of a burden, and for Germany, on the other hand, of a guarantee for an increasing backflow. In as far as this trend might create difficulties for the LDCs becomes at once apparent when taking a mere glimpse at the past pattern of projects of Germany's bilateral capital aid for the LDCs.

Of the DM 15.4 bn. that were put at the LDCs' disposal up to the end of 1972, 11.8 bn. were project-linked aid, and further aid to the amount of DM 1.2 bn. could not be defined according to project ranges. Of the remaining DM 10 bn. plus, 6.6 bn. were infrastructure projects and DM 2.5 bn. "directly productive" ones. The amortisation of infrastructure projects is as a rule spread over a very long period of time because of their relatively high rate of capital investment, and in the case of directly productive projects the initial cost is relatively high; these projects can only rarely carry the burden of infrastructure aid performances as well. The question therefore remains open whether Germany's relatively favourable credit terms will, seen from the angle of the utilisation of credits, in the end lead to a higher burden upon the LDCs.

### Regional Differences

This question cannot be answered for all LDCs generally. A sub-division by regions makes it clear that the circumstances are very different: In Africa, infrastructure projects amounted to DM 2.1 bn., whereas the sum of directly productive projects was DM 0.3 bn., pointing at a relatively low level of development. In Asia there were infrastructure projects to the tune of DM 2.9 bn.

**Table 1**  
**Expected Development of Public Performances**  
(in percentage of the GNP \*)

Country	1970	1971	1972	1973	1974	1975
Australia	0.59	0.52	0.59	0.59	0.59	0.60
Austria	0.13	0.06	0.17	0.19	0.22	0.25
Belgium	0.48	0.49	0.54	0.58	0.62	0.66
Canada	0.42	0.37	0.48	0.51	0.55	0.59
Denmark	0.38	0.43	0.48	0.53	0.58	0.64
France	0.68	0.68	0.65	0.65	0.65	0.65
Federal Republic of Germany	0.32	0.34	0.33	0.36	0.36	0.38
Italy	0.16	0.17	0.16	0.16	0.16	0.16
Japan	0.23	0.23	0.28	0.32	0.36	0.40
Netherlands	0.63	0.60	0.70	0.74	0.76	0.78
Norway	0.32	0.33	0.47	0.56	0.67	0.75
Portugal	0.61	0.75	0.45	0.45	0.45	0.45
Sweden	0.36	0.45	0.50	0.56	0.65	0.71
Switzerland	0.15	0.12	0.22	0.26	0.30	0.32
United Kingdom	0.37	0.41	0.41	0.41	0.45	0.46
USA	0.31	0.32	0.30	0.28	0.26	0.24
TOTAL	0.34	0.35	0.36	0.36	0.36	0.37

\* The values for 1970 and 1971 are the actual figures. The expectations for the following years are based on World-Bank estimates of the growth of the GNP, information about budget provisions for development aid, and on statements about development policy by the various governments.

and directly productive ones in the sum of DM 1.8 bn. In accordance with these interrelations between the two kinds of projects, and the different level of productivity possibly coupled to them, the credit conditions ought to be regionally differentiated.

In 1972 Asia had the lion's share of German government's assents; in fact 45.9 p.c. of the total of DM 1.6 bn. Next came Africa with 32.1 p.c., followed by Europe with 11.4 and Latin-America with 10.6 p.c. While Asia succeeded in having its share stepped up (1971: 40.5 p.c.), Latin-America's share was smaller absolutely and relatively (1971: 11.1 p.c.).

The bilateral performances in the most important categories of capital aid and technical aid went up by 5 p.c. against the previous year, but the multilateral ones, including credits, were lower by 8 p.c. The main causes for this downward trend were smaller contributions to international organisations (DM 667 mn. in 1972 against 715 mn.

the year before) and smaller payments in respect of capital applied for from international funds and development banks (down from DM 274 mn. in 1971 to 267 mn.).

### Other Public Performances

Looking at the present state and the development of German public aid, such performances that resemble public aid as such must not be left out of sight altogether, although there is of course every justification for the existence of a border line between the two.

First of all, "other public performances" must be taken into consideration aside public development aid proper. The former consist, for instance, of credits given by the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation) including means provided for purposes of debt consolidation. There are in addition also loans and credits extended by other public and semi-public bodies. Although these "other public

**Table 3**  
**Aid Performances of the Federal Republic of Germany**  
**to LDCs and Multilateral Bodies 1971 and 1972 \***

(in mn DM)

Nature	1971			1972 (provisional)		
	gross	back-flow	net	gross	back-flow	net
I. Public performances	4,540.0	1,403.8	3,136.2	4,773.6	1,685.9	3,087.7
A. Public development aid	2,928.1	364.9	2,563.2	3,081.5	472.3	2,609.2
1. Bilateral	2,213.6	364.9	1,848.7	2,414.8	472.1	1,942.7
a) non-repayable grants	973.0	—	973.0	984.8	—	984.8
— technical aid	721.1	—	721.1	778.6	—	778.6 *
— other grants (incl. of Indus Basin)	251.9	—	251.9	206.2	—	206.2
b) credits for more than 1 year	1,240.6	364.9	875.7	1,430.0	472.1	957.9
— bilateral capital aid (incl. debt consolidation and DEG participations)	1,240.6	364.9	875.7	1,430.0	472.1	957.9
2. Multilateral grants and credits	714.5	—	714.5	666.7	0.2	666.5
a) contributions to multilateral organisations	408.9	—	408.9	383.4	—	383.4
b) payments on subscribed capital applied	273.9	—	273.9	266.8	—	266.8
c) financial aid performances	31.7	—	31.7	16.5	0.2	16.3
B. Other public performances	1,611.9	1,038.9	573.0	1,692.1	1,213.6	478.5
1. Bilateral	1,154.4	650.4	504.0	1,154.3	780.8	373.5
— Credits of the Reconstruction Loan Corporation (incl. of debt consolidation)	954.2	499.0	455.2	1,016.2	625.2	391.0
— Refinancing of the Federal Ministry of Economics and Finance	184.3	150.9	33.4	132.7	154.4	— 21.7
— DEG loans	15.9	0.5	15.4	5.4	1.2	4.2
2. Multilateral	457.5	388.5	69.0	537.8	432.8	105.0
— Credits of the Federal Bank	457.5	388.5	69.0	537.8	432.8	105.0
II. Private performances	10,138.9	6,589.3	3,549.6	10,389.3	7,932.0	2,437.3
A. Private development aid	378.1	—	378.1	400.0	—	400.0 *
Grants of private organisations from own resources (bilateral)	378.1	—	378.1			
B. Performances of the economy	9,760.8	6,589.3	3,171.5	9,989.3	7,932.0	2,037.3
1. Bilateral	9,191.3	6,424.8	2,766.5	9,094.3	7,764.0	1,330.3
— Investments and reinvestments	4,230.3	2,894.8	1,335.5	5,826.0	4,297.1	1,528.9
— Settlement of Turkish trade debts	—	8.1	— 8.1	—	—	—
— Guaranteed export credits (100 %)	4,961.0	3,521.9	1,439.1	3,268.3	3,466.9	— 198.6
2. Multilateral	569.5	164.5	405.0	875.0	168.0	707.0
III. Total performances	14,678.9	7,993.1	6,685.8	15,142.9	9,617.9	5,525.0

\* provisional result. Source: Federal Ministry for Economic Cooperation.

performances" have last year been responsible for an increase of total public performances, inclusive of development aid, by DM 479 mn., they failed to improve the overall picture of altogether stagnating, or even smaller, efforts by the state. The net performance in the field of other public aid went down from DM 573 mn. in 1971 to 479 mn. last year, so that the overall public performances were smaller by 2.5 p.c. (DM 3.087 bn. against, in 1971, DM 3.136 bn.).

Even those spheres of private performances that are very similar in nature to public development aid performances did not make the overall result any better: the performances of non-state institutions such as churches, trade unions, foundations, etc., went up from DM 378 mn. in 1971 by 5.8 p.c. to the provisional 1972 total of DM 400 mn. But between 1970 and 1971 the increase had been at the rate of 33 p.c.

#### **Development of Private Investments**

It is possible in the above context to neglect private activities in LDCs because of their aid

nature being very different from the rest of the performances. But even so, private activities in their relation to public performances are far from insignificant: in 1971 LDCs received public aid in the sum of DM 3.136 bn. net, and private performances amounted to DM 3.549 bn. The fact that the picture has been more favourable for public performances in 1972 is due to a considerable increase of the backflow from private investments and export credits. Hand-in-hand with higher gross investments and reinvestments by the private sector (DM 4.230 bn. in 1971, and 5.826 bn. in 1972), the corresponding backflow went up from DM 2.894 bn. in 1971 to DM 4.297 bn. in 1972. The guaranteed export credits thereagainst went down from DM 4.961 bn. in 1971 to DM 3.268 bn. last year, but the corresponding backflow was reduced only from DM 3.522 bn. to DM 3.467 bn. (see Table 3). For the year 1972 thus results a ratio between public and private activities of DM 3.088 bn. to DM 2.437 bn. This does not mean, though, that private engagements in the LDCs have receded, but it does mean that public performances stagnate.

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