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Article — Digitized Version

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Intereconomics

Suggested Citation: Krobath, Hermann (1974) : The crisis of development aid, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 1, pp. 22-25, <https://doi.org/10.1007/BF02927390>

This Version is available at:

<https://hdl.handle.net/10419/138957>

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The Crisis of Development Aid

by Dr Hermann Krobath, Vienna *

Measured in per cent of their Gross National Product (GNP), western industrialised countries currently spend far less on development aid than they did ten years ago. This is partly due to the very limited usefulness of the prevailing concept of development aid.

In 1971, the share which so-called public development aid absorbed of the GNP in 6 of the 16 industrialised countries represented in the OECD's Committee on Development Aid¹) had dropped by between 20 and 50 p.c., compared with 1961. And it is just these 6 industrialised countries whose joint annual contributions to public development aid represent well over three quarters of all public development aid of all industrial nations.

Disappointed Hopes

But this is only one of several aspects of what is today known as the "crisis of development aid". It shows only the difficulties into which all efforts to mobilise sufficient funds have run; similar and related difficulties have also arisen in the field of where and how to spend the available monies, which is best circumscribed by scrutinising the uses, the results, and the economic and social side-effects of such aid in recipient countries: LDCs' indebtedness has grown rapidly; the insufficient average growth rates of their GNP conceal the fact that some of them experience only marginal growth, whilst others actually suffer from a shrinking GNP. The economic and social disequilibrium between LDCs and industrial nations, between different LDCs, and even more so, within individual LDCs, tends to get worse instead of better, and the share which LDCs contribute to international trade has been declining steadily.

To be fair, such deterioration of things cannot be charged exclusively to the account of development aid, but undeniably, the high hopes once connected with development aid have been disappointed, and part of development funds have been spent ineffectively or became even brakes that slowed down development.

In order to clarify some of the underlying causes that have led to this crisis of development aid,

it seems to make sense to examine first two facts, though — superficially treated — the two seem to have little to do with each other.

In the first instance, it was only in 1969 that the OECD Committee for Development Aid began to use the term of "development aid" in its official annual statistical returns — which are the most voluminous documentation of development aid efforts of all OECD member states — to describe a specific, newly-created concept. Previously the term had only appeared in the title of the Annual Reviews but not in the statistical tables where the terms used included, inter alia, financial flows and services rendered.

Secondly, in November 1971, US Congress voted down the Administration's Foreign Aid Programme, a refusal to appropriate the suggested sums, which hit, for the first time in the history of US development aid policies, the entire Foreign Aid Bill while in former years only certain parts of that budget had been blocked by Congress.

The underlying causes common to these two events, which transform them into symptoms of an identical, broad trend, seem to be lying in a general crisis of motivations and objectives, the general concept and the reasons adducible for it, of all that which we are accustomed to call (frequently with a very broad sweep) development aid.

Incompatible Aims

Earliest motivations for making available development aid, without doubt, were mainly or exclu-

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¹ In the OECD Committee on Development Assistance (DAC) the following countries are at present represented: Australia, Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the UK, and the US, also the Commission of the European Communities. Its members together contribute more than 90 p.c. of all annual international development aid.

sively imagined benefits for the donor nations¹. Their donations were made to serve military, strategic and security purposes, to which also the expansion of political power and the increase of national prestige were added later. Again later, such strivings were supplemented by economic interests, which means that the main purpose of aid consisted of immediate and sizeable benefits for the donors.

But none of these expectations — directed mainly to profiting the donors — tied to development aid policies could ever materialise in the wished-for forms, as could be clearly seen, and in many ways, during the late fifties and the early sixties. Nor was it possible to reach targets of *development policies* — in so far as such policies had been clearly enounced — i.e. policies designed to benefit the recipients of aid, at least not in the fashion expected: Where the task of aiding foreign countries — visibly or by implication — clashed with the aim to reap profits for the donors, this was only natural. But also in cases of ignorance about the material conditions for effective development aid, even programmes deliberately designed to support economic and social progress in recipient countries were condemned to failure.

Above all short-term political and economic selfishness provides a progressively weakening basis for mobilising development finance, especially as it becomes more and more obvious that measures which have been dubbed "development aid" are incompatible with the real development needs of LDCs. But how did it happen that this discrepancy between the vast cost of development aid and the puny effects in approaching the aims of development policy was not seen much earlier?

Problems of Clarification

For a valid answer to this question, it was useful that, regarding the second of the two above-mentioned facts, DAC decided in 1969 to review and strive for greater precision of the concept of development aid, on which its statistical returns are based. To achieve this, it had first to be asked whether it is at all possible to arrive at a clear notion of what development aid should mean. (Though this term has been and is being used — and apparently also understood — in wide circles, a satisfactory definition of it is not all easy.)

For such a definition to make sense, it has to be based on a viable (applied) theory of development comprising several theoretical assumptions on the possible strength of effectiveness, the aims that should be set, and the scope of aid, etc.,

which must be applicable over a sufficiently generalised field, and must have proved their value by sufficiently wide experiences. But such hypothetical assumptions, coupled to sufficiently generalised knowledge about interlocking effectiveness of various forms of aid, hardly exist. And this virtually total ignorance about interlocking effects frequently prevents us from analysing even *ex post* the overall effect of a given development aid measure. All this goes to show that, under present conditions of knowing next to nothing, it is impossible to define aid by its operational efficiency through measuring its effects in any LDC.

To escape this dilemma, we can only measure development aid through the costs arising to donor countries from it. But this again requires exhausting knowledge about the overall costs of the economic opportunities foregone by the donor country by totting up all the government-directed and private development aid measures, together with their effects upon the economy of the industrialised donor country, and these effects must also be quantifiable.

Quite apart from the technical difficulty of measuring these sacrifices, the "sacrifice" and the effect of this "sacrifice" cannot possibly be identical quantities². The decisive question to be answered by working out a satisfactory concept of development aid: what is the effect of aid in the LDC so aided? — will not be answered by finding the size of the sacrifice.³

The Concept of Development Aid — a Political Compromise

The present concept of development upon which OECD statistical returns are based, is a purely political term — if for no other reason — because it defines itself through another political category: that of the LDC. And nothing which is not paid over or granted to an LDC will ever be called "development aid". This infers that the entire (and unresolved) theoretical problem: what is an LDC? — enters also into the problem of how to define development aid. What constitutes an LDC, currently changes, depending on the international forum where such questions are being posed and discussed.

Also the *scope* of the current concept of development aid is being determined by a political compromise, which defines all the services, grants,

² Cf. Rudolf Eder and Hermann Krobath, *Die österreichische Entwicklungshilfe* (Austrian Development Aid). Politik — Organisation — Leistungen. Handbook of OFSE, ed. Rudolf Eder, Vienna, 1972, Vol II, p. 10 et seqq.

³ Unless a socio-economic model with absolutely heroic and unrealistic basic assumptions is adopted.

and other transactions of industrial countries in their relations with LDCs, and which distinguishes these from other services and transactions. Current notions of what constitutes development aid services are mostly ruled by the composite factors of the balance of payments, or more precisely, of those sections of the balance of payments of industrial nations, which relate to all their transactions with LDCs. How the services, which are accepted as development aid, are selected depends upon a political compromise between the requirements of donor countries (which would like to see as many of their transactions as possible with LDCs listed as aid) and the wishes of LDCs (in whose interest it is to minimise the number, of transactions listed as aid).⁴

Arbitrary Definition of "Net Aid"

DAC statistical returns centre upon the notion of "net flows" of funds from industrial countries to LDCs or to multilateral authorities. "Net flow" has here been defined as: Gross flow (grants-in-aid, new credits, loans, new investments, etc.) minus outflow (disinvestments, capital remittances home, debt redemption of loans and credits). As the OECD Committee on Development Assistance defines net aid flow, it comprises the transfer of grants-in-aid and long-term capital paid over by governments of DAC states (or other public authorities) directly and bilaterally to LDCs or to multilateral organisations for development aid. As to private contributions, net flow comprises all long-term transfers of private capital made by residents of DAC member states, including unrequited private payments made by organisations (but not by private individuals).

As can be seen, the term "net flows" encompasses fundamentally only such transactions, which impinge on the balance of public and private grants-in-aid (donations) and that of long-term capital movements — but always *only certain parts* of these balance sheets. And besides, net flows reproduce long-term capital movements only in the form that they picture changes of *industrial countries' credit balances* kept in LDCs. They do not comprise industrial countries' liabilities to LDCs, i. e.: LDCs' credit balances kept in industrial countries or, more precisely: the credit balances kept by LDC residents, legally or illegally — which represent capital flight from LDCs in industrialised countries, nor the private income based on interest payments or other in-

come forms due to residents of LDCs, which derive directly from transactions within the balance of capital payments (and which thus effect the balance of current transaction).

The definition of overall aid as "net flows" is obviously deficient, as has been shown in the discussion of the problems of clarifying the concept of development aid.

First it must be stated that the various elements which are being totted up to arrive at "net flows" have been selected very arbitrarily, according to the model: "more net flows (in relation to the GNP at the time of reporting) mean more sacrifices and thus more development aid", and then drawing international comparisons along a purely linear scale (the magical 1 p.c. formula). These sacrifices give only a *partial* aspect because, for the calculation of sacrifices borne by the entire economy, remittances on private account (payment of interests, net profits, etc.) must be included, and so must changes in the credit balances held in industrial countries by residents of LDCs — i. e. they must be deducted from the overall "sacrifice". Only thus could be found the approximate net total made available, in a given period, to LDCs by industrialised countries, in the form of additional resources.⁵

But even after the concept of net aid has been improved in this way, the former criticism of this yardstick still holds good: Because *costs* (or sacrifices) say little or nothing about the *effective benefit* generated by them for LDCs in the form of development aid. Finally, the concept of net flows, which has been introduced, gives only an overall picture of capital movements (and this belongs to the problem under review): money capital or capital in the form of manufacturing facilities.^{6 7}

Development Aid in the Doldrums

In which way can the crisis of development aid be brought into context with the question of how to define the concept of development aid? The connection is as follows: since the mid-fifties, development aid, in absolute terms, has steadily grown (in net flow figures), and via the present concept of development aid, it was easy to

⁴ Günther Grosche and Rolf Lehmann-Richter, op. cit.

⁵ On the other hand, technical assistance, which consists of the transfer of intangible resources, has also to be expressed in monetary terms. In order to make it statistically assessable. Frequently, however, this leads to unequal evaluation of different units of resources which, e. g. when making expert staff available, cannot be wholly caused by the different degree of labour efficiency in LDCs.

⁷ Cf. more recent studies and critical evaluations, in: J. Mülendorfer and C. Gaspari, Immaterielle und materielle Faktoren der Entwicklung (Intangible and Material Factors of Development), in: Zeitschrift für Nationalökonomie, Vol. 31 (1971), p. 81 et seqq.

⁴ Cf. here and passim the following analysis: Günther Grosche and Rolf Lehmann-Richter, Die Entwicklungshilfeleistungen der Bundesrepublik Deutschland (Federal German Development Aid). Probleme der Erfassung und Messung finanzieller Entwicklungshilfeleistungen (Problems of Registration and Measurement of Financial Development Aid), ed. Willy Kraus, Bochum, 1969.

mistake the *volume of flow* (measured in terms of an imprecise notion of costs and/or sacrifices) with the development *effect* of such aid. This raised hopes that the situation of LDCs would improve. Such improvement was not possible to the expected extent, and in some cases the available concept of development aid (or the aid given in its name) even prevented more and necessary aid from flowing.

When this failure became conspicuous, the OECD Committee on Development Assistance began to grope for a revision of the development aid concept — though, naturally, still within the framework of the sacrificial concept: the experts laid down clearer definitions and stricter criteria for reporting a "sacrifice" of a donor state and measuring it by publishing a number of recommendations on conditions for aid, by the grant-element method⁸, and finally, through the deliberate introduction of the term "development aid" for marking, separating, and describing certain parts of the capital flow within the overriding term of "net flows". Due to the above-mentioned reservations on private transactions, it is clear that these rectifications and new concepts had to be applicable only to public-sector aid.⁹ The result of the first introduction of the ODA (official development assistance) notion into OECD statistics (which means: "all contributions which are administered with the promotion of economic development and welfare of developing countries as the main objective and whose financial terms are intended to be concessional in character") was a number of supporting recommendations by international bodies that every industrial nation ought to absorb, by its public-

sector development aid, 0.7 p.c. (that is: again measured in linear terms) of its GNP.

Unanswered Questions

Admittedly, the newly-created terminology has improved and clarified the concept of development aid to some extent, anyway as regards the sacrificial notion. But it must not be overlooked that the question of how to measure private capital aid has remained unanswered. The dilemma of the development aid concept (which, if its measurements of "sacrifices" were consistently applied, might and would prove net capital losses on private account suffered by LDCs — but even such data would say next to nothing about the overall development effect in a recipient country) has become worse than ever. The fundamental questions of how to define development aid, i. e. how to measure development effectiveness of aid, are still not nearer an answer.

The prevailing notion of development aid, the political pressure of annual school reports doled out to donor countries, measured with a yardstick of effectiveness, whose adequacy must be doubted, deflect attention from the need for measures, which have nothing to do with measurable capital flows, but whose imposition is needed if actual capital transfers shall have a beneficial effect.

Among such measures are, on the international level, trade and structural policies, in LDCs reforms of their social structure, changes in educational planning, the adaptation of technologies, the transferability of institutional models from the industrial countries to LDCs. Since the prevailing concept of development aid deflects attention from the fundamental task of establishing a development aid concept that makes sense — for which an active search for a theoretical foundation of all planned measures is indispensable, so that such measures, based on a viable theory, become effective on interlocked effects — this concept blocks the way towards new insights into the need and the possibility to build development aid policies on objective data, which is the only way for avoiding new crises of development aid, crises which have often been caused by development aid.

⁸ The Grant-Element Method uses mainly the differential between the nominal value of a given volume of contribution and the present value of all future redemption payments, discounted at a rate of interest equal to the alternatively possible profit margin of the capital sum spent, if invested elsewhere. If the latter is greater than the former, this defines the "costs of opportunity", i. e. the income foregone, measured by an alternative (hypothetical) use of the sums granted in aid. This measures the volume of services rendered, especially of credits, and "therefore has nothing to do with the benefit reaped by the recipient". (Cf. OECD, Development Aid. Policy and Effects. Annual Audit, 1967, Paris, 1967, p. 112).

⁹ "The notion of grants made in aid cannot be applied to private capital aid. In the case of equity capital, future dividends are unknown. Moreover, since private investments abroad are based on calculations of potential profitability, expected profit margins, in such cases, are likely to be higher than the investor would expect from investments elsewhere in his home country." (op. cit).

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