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Limits of Public Aid

In the last twelve months public opinion in the world has come to realize more clearly than ever before how narrow are the limits set to the public development aid policy. Where are these limits? How efficient is the public aid? Should new aid concepts be evolved? We have discussed these questions with Professor Karl-Heinz Sohn who until recently held the post of State Secretary in the Federal Ministry for Economic Cooperation and is now the Chairman of DEG (German Company for Economic Cooperation) *.

IE: Professor Sohn, the Pearson target which requires industrialised countries to devote 0.7 p.c. of their GNP to public development aid, has so far not been attained. The net transfer of the Federal Republic for instance last year amounted to 0.36 p.c. of its GNP; for all DAC countries together the figure in 1972 was 0.34 p.c. and in 1973 0.30 p.c. Does a further decline threaten either this year or in the next few years?

SOHN: Yes, it does. In relation to the GNP the percentage rate recorded last year will at best be consolidated in 1974. It will certainly not increase. We calculated at the time that we might in the most favourable circumstances achieve an extra 0.5 p.c. but seeing at what rate prices have been rising this is unlikely to materialize. We shall have cause to be glad if we stay at last year's level.

IE: Why is it that the Pearson target has never been reached in the past and will never be reached in the future?

SOHN: One of the reasons is to be found in the ubiquitous inflationary trend which must ultimately raise the question whether the nominal GNP can be a suitable yardstick for apportioning development aid contri-

butions. The crucial factor however is that as the industrialised countries are themselves facing troubles, the willingness to render public development aid weakens more and more. It is a truism that "close sits the shirt but closer still the skin".

IE: Professor Sohn, you were until recently the State Secretary in the Federal Ministry for Economic Cooperation. Soon after you left the then Minister, Dr Eppler, resigned because the Cabinet decided on cuts in the development budget. Do you think that these cuts and perhaps also the way in which Dr Eppler's successor, Minister Bahr, conducts the affairs of the department indicate a reorientation of development aid by the Federal Government which may involve a noticeable curb on public aid?

SOHN: I can only recount what the Federal Chancellor announced in Nairobi last year when he was still Minister of Finance — that the German public development aid would be doubled by 1977. His successor in the Finance Ministry has adhered to this statement although it is now possible that this target will not be achieved before 1978. This means that the Federal Government is still intent on doubling its

development aid contribution in absolute terms. No changes have been made in this respect. That the sum originally earmarked for public development aid in 1975, which Minister Eppler had demanded as a minimum, has been reduced by about DM 200 mn, chiefly owing to the expectation of revenue shortfalls resulting from the tax reform, is the outcome of internal negotiations inside the Cabinet. As you have already mentioned, it prompted Minister Eppler to resign.

But Minister Bahr is free of any encumbrance. He has not had to commit himself to any quantitative forecasts. In my opinion however any change in German public development aid policy is not so much a matter of volume as of emphasis. In this respect I can perceive certain deviations by Minister Bahr from the policy of his predecessor.

IE: What are these changes?

SOHN: Herr Bahr will for instance pay more attention to the

* The DEG was set up by the Federal Government in 1962 in order to stimulate and support private initiative for investments in developing countries. It places investments in private enterprises in LDCs through the acquisition of equity investments and the grant of loans which serve a similar purpose as equity capital. The DEG operates in accordance with commercial economic principles.

Mediterranean area than Dr Eppler did; the Mediterranean littoral countries are of interest to us, especially on grounds of general economic and foreign policy. It may also be assumed that Minister Bahr will make a much smaller allocation to India than Dr Eppler had envisaged; the reasons for this concern partly the Indian Government and partly the opportunities for efficient employment of our resources in India. Besides, Herr Bahr would prefer to make much smaller allocations than was visualized under Dr Eppler's plans to countries such as Indonesia which have in the meantime built up large foreign currency earnings. For the next few years at least he would like to freeze the sums made available to such countries at last year's level or even reduce the absolute amount. This means in practice that the previous regional priorities will undergo a change.

If I see the things correctly, Minister Bahr furthermore believes that in countries, which have foreign currency earnings of their own, public development aid can be allowed to contract. Such countries are Nigeria and Zaire as well as the countries in Latin America and Asia which have already achieved a higher level of development and now obtain revenues for themselves from raw materials, mineral oils and ores. In their case more use ought to be made of other forms of development aid, e.g. private investments which would be made with the support of the DEG or other institutions.

Efficiency Shortcomings

IE: If, as seems to be the case, the industrialised countries feel that their own needs must come first and consequently there is no chance of public aid or its share of the GNP being stepped up, more will depend on its efficient application. How do you judge

the efficiency of the public aid rendered so far?

SOHN: Put bluntly, public aid to date has only had a number of stopgap results. It has for instance closed foreign currency gaps; it has provided foreign currencies to finance essential imports of raw materials and food; it has helped to give assistance with education through personnel for the developing countries; it has furthered the development of agricultural structures. But as far I can see, it has had no lasting effect in the direction of stabilising employment, of dynamic development of the national economies, of reinforcing the incentives in the countries concerned. Its effects have never been more than temporary: individual infrastructure projects were financed irrespective of spin-off and side effects. In this way, it is true, the public aid has closed gaps in quite a number of developing countries but its longer-term structural results have not been great.

IE: What then can or must be done in your view to improve the efficiency of the public aid?

SOHN: I think that in devising and allocating public aid more attention should be paid to regional concepts and integration measures. If we were, for instance, to link public aid in the form of capital aid — i.e. for financing projects for the development of transport or water resources and similar schemes — with appropriate personal assistance aiming to train skilled personnel and advance the educational services in the developing countries, and if furthermore we should promote private initiatives — i.e. private investment — which can be done directly or indirectly through public aid, such a combination of various initiatives could generate a dynamic force sufficient to start a self-propelling motion in the economies of the

developing countries without the application of an external stimulus. But public aid cannot do this alone.

Limits of Multilateral Aid

IE: These are in the main aspects of bilateral public aid. A large part of the public aid however is swallowed up by multilateral organisations which have come in for a great deal of criticism on the ground of alleged inefficiency. If this criticism of the multilateral organisations is justified, it may be asked whether more stress should not again be laid on bilateral aid.

SOHN: First of all, the developing countries have certainly a legitimate interest in receiving aid not only from national donors but from multilateral institutions as well, and this for the simple reason that some projects are fraught with such hazards that they cannot be tackled and financed by bilateral donors. For this reason there will always be a need for enabling the World Bank for instance, as a "non-governmental" institution, to select and finance projects from a higher vantage-point regardless of any nationalist implications, and there is also a perpetual need to concede to such institutions in certain situations a kind of leading or sponsoring role. Secondly, there exist institutions which in my opinion are working with a gratifying high degree of efficiency. I think that the World Bank is all in all one of them.

An altogether different question is whether all the UN agencies are really as efficient as one might wish; and here I have grave doubts. I should put it conversely: if these institutions were found to operate with an appropriate degree of efficiency — and the Jackson study¹ of the capacity of the UN development

¹ cf. R. G. A. JACKSON: A Study of the Capacity of the United Nations' Development System, Geneva 1969.

aid system does not really make for optimism — I should think that the big donors would be the last to deny financial resources to these institutions. However, many of them, including WHO, FAO, UNIDO and UNDP, have failed to furnish ultimate proof of their ability to do better than the big donor countries.

The Federal Republic is currently supplying 28 p.c. of its total public aid as multilateral aid. I have the impression that the present Federal Government regards this proportion as a ceiling and will not go higher. I should even expect the multilateral share of German development aid to fall rather than rise, for it must be acknowledged that there are limits to the efficiency of such forms of aid.

Demoralising Effect of Public Aid

IE: The efficiency and limitations of public development aid certainly do not depend entirely on the donor countries. There are surely limits on the side of the developing countries. Where are these limits?

SOHN: If a developing country is constantly supplied with funds without being asked how it intends to repay these sums or indeed whether it can repay them at all or if a developing country is constantly subsidised, it is in my opinion bound to be demoralised or else public opinion will be affronted by such disbursements. Private initiatives in the form of private investment, on the other hand, have in my view the opposite implications. Such investments will if profitable always have some positive effects on the country and, besides, they do not put anybody under a debt of gratitude to somebody else. If somebody invests his own money at his own risk, what happens to his investment is his business and that of the developing country. I therefore question the value of public development aid compared with

other aid performances. The question is this: Do not public disbursements, in contrast to aid variants or initiatives which literally imply a contribution by the recipient himself, demoralise the developing countries, and do they not lead to situations in which the willingness to make one's own contribution is attenuated?

IE: Your remarks suggest that primarily for reasons of efficiency and secondly for reasons which are connected with the volume of aid you are arguing in favour of conducting "development aid" chiefly by means of private investments. Leaving aside the intrinsic problems of foreign private investments in developing countries and having regard to their regional distribution, this supposition may well be realistic as far as the more advanced developing countries are concerned. But what about the other developing countries of which there are about 80–100? Will they not remain dependent on public aid simply because, to put it mildly, private investments in these countries are not a paying proposition?

SOHN: Please do not misunderstand me. I do not regard private investment as a panacea. We are discussing now the limitations of public development aid: I am not discussing the advantages of private investment. This is a subject about which I should have to say much that is critical. I should probably have to specify quite harsh, not to say severe, conditions for such investments to make them acceptable from the point of view of development policy.

It is however absolutely correct that the least developed countries at least are for practical purposes unsuitable for private investments of this kind. Their need for public aid allocations will continue — and I should think on an increased scale.

These allocations should however be shown clearly as budget subsidies. In such cases somebody — perhaps the Federal Republic, France, Great Britain or the USA — would have to see to it that the budgets of these countries or at any rate their foreign payments accounts are kept in balance, and that permanently. For it is hardly to be expected that a country like the Chad for instance will ever reach what we call the take-off stage. This kind of country faces too formidable, too baffling and too unpropitious a situation to allow of such a hope. But if this is the case, public aid must first be concentrated on these countries, and that *ad infinitum* and on a rising scale in line with the improving living conditions to which they like others may lay claim.

Secondly, there are a number of countries which must be helped to reach the take-off point because they have a chance of reaching it. They are only a short distance away from this threshold but still require a number of primary investments in the spheres of infrastructure, agriculture, training, etc., to move up to it. For these purposes public aid, and public aid only, is wanted.

Thirdly, there are however countries which already possess such institutions or can afford to finance them largely from their own resources or else require only marginal financial assistance by third countries, for instance in respect of the foreign currency element. These last-mentioned countries are a suitable ground for private initiatives of the kind which I have described. I consider public development aid entirely irrelevant for this third category of countries in future. I hold the view that we should make better use of the development aid by giving it to the first and to some extent also to the second category of countries.