

Schultz, Siegfried

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## DEVELOPMENT ASSISTANCE

# Development Policy in the Doldrums?

by Siegfried Schultz, Berlin\*

The "Third Development Decade" of the United Nations, which runs to the end of the present decade, opened with a promising outlook for the developing countries. The economic situation of the OECD countries had improved during 1979 and the North-South dialogue seemed to be making progress. But the further course of 1980 revealed that the extent and long-term effects of the second oil price explosion had been seriously underestimated. As a rule these affected the developing countries more seriously than the industrialized countries. The recessive trend in the industrialized countries moreover contributed to budgetary bottlenecks which were not without consequence for development policy.

Following the first surge of oil prices it was above all the oil importing developing countries that had to fall back to a growing extent on sources of finance from the rest of the world. Between 1973 and 1979 their current account deficits increased approximately five times; the 1980 balance is estimated to have been around US \$ 70 bn. However capital market finance was available on a considerable scale because the commercial banks reacted flexibly in recycling the oil funds. This meant a massive increase in the proportion of finance on market-governed non-subsidized terms. An inevitable consequence was a drastic rise in indebtedness.<sup>1</sup> The medium-term and long-term foreign obligations of all non-oil developing countries at the end of 1980 were nearly four times the 1973 figure, and the debt service rose by a factor of nearly five over the same period.

In order to contain this growing mortgaging of the future through credits on tough terms it was important for the developing countries – especially for the weaker ones among them – to obtain more official development assistance. In this they were largely successful. Yet in spite of a considerable increase in absolute amounts the proportion of these concessional funds, which at the beginning of the decade still accounted for more than 40 %, declined to approximately 30 % by the end of the decade.<sup>2</sup>

The total flow of concessional development assistance from all sources in 1979 – the last year on which comprehensive information is at present

available – amounted to approximately \$ 28 bn net. This represents an increase over the preceding year by nominally about 15 % or slightly over 5 % at constant prices. A good three-quarters of the inflow came from the western industrialized countries. The share of the OPEC countries, on the other hand, which had amounted to just under one quarter after the first oil crisis, dropped back to one-sixth, and the contribution made by the CMEA countries to concessional aid has for a number of years amounted to only about 6 %.<sup>3</sup>

### Western Industrialized Countries: Few New Funds

In this situation particular importance is attached to the development of the performance of western industrialized countries. In spite of a difficult economic situation and financial bottlenecks the absolute amount of their development aid has considerably increased since 1973. The increment, over an average of several years, came to 5 % in real terms. The level of disbursements showed a slight increase in relation to the nominal gross national products in 1980 compared with 1979. The DAC<sup>4</sup> Secretariat, no doubt somewhat optimistically, expects this ratio (currently 0.37 %) to

<sup>1</sup> Cf. S. S c h u l t z : Zur Verschuldungslage der Dritten Welt (On the debt situation of the Third World), in: Vierteljahreshefte zur Wirtschaftsforschung, No. 1/1981.

<sup>2</sup> OECD: Development Co-operation ("Chairman's Report"), 1980 Review, Paris 1980. – Except where otherwise indicated this source is the basis of OECD data used in the following text.

<sup>3</sup> A further \$ 0.1 bn was received from other donors in 1979. These included the following Third World countries: Spain, the People's Republic of China, Mexico, India, Yugoslavia, and Israel.

<sup>4</sup> Development Assistance Committee of 17 member states of the OECD.

\* Deutsches Institut für Wirtschaftsforschung. – The present article was first published in German in Wochenbericht des DIW, No. 23/81.

**Table 1**  
**Important Aid Donors in Global Comparison in 1980**

	ODA \$ million	ODA as per cent of GNP
United States	7091	0.27
France	4041	0.62
Germany	3518	0.43
Japan	3304	0.32
United Kingdom	1785	0.34
Netherlands	1577	0.99
Canada	1036	0.42
Sweden	923	0.76
Belgium	575	0.48
Australia	657	0.48
Denmark	464	0.72
Norway	473	0.82
Italy	678	0.17
Switzerland	246	0.24
Austria	174	0.23
Finland	106	0.22
New Zealand	60	0.27
DAC TOTAL	26708	0.37
Opec	6999	1.45
of which:		
Saudi Arabia	3033	3.66
Kuwait	1186	3.87
Iraq	854	2.19
U.A.E.	1062	3.96
Qatar	299	4.50
Other	565	n.a.
CMEA	1817	0.12
of which:		
USSR	1580	0.14
Eastern Europe	237	0.06
Total ODA	35524	n.a.

Source : OECD : Press Release, June 15, 1981, Paris.

remain approximately the same over the next few years. Certainly the target of 0.7 %, at one time envisaged for 1985, will not now be reached. "The collective DAC ODA performance, by its own collective standards, is depressing."<sup>5</sup>

Among western industrialized countries the USA again regained some weight as a donor in 1980 and still holds the leading position with a share of approximately 26 % (1979: 21 %), followed by France and the Federal Republic of Germany. The poor 1979 US performance was due to the fact that Congress had been slow to approve contributions to multilateral agencies. The 1980 recovery is partly explained by the allocation of funds originally intended for previous years. Mid-term prospects are not very bright. Rather there are increasing signs from several countries suggesting that their own economic and financial situation may lead to a restrictive development assistance policy in the future.

<sup>5</sup> Assessment by the Chairman of the Development Assistance Committee. OECD: Development Co-operation, 1979 Review, Paris 1979, p. 41.

<sup>6</sup> Cf. "Tendenzen der Entwicklungspolitik der westlichen Industrieländer" (Trends of the western industrialized countries' development policy), DIW-Forschungsbericht, Berlin 1981. This study was commissioned by the Federal Ministry for Economic Co-operation, from which copies may be obtained.

A number of DAC members have made statements on their future volume of assistance; even though these may not agree completely in indicator or time scale, they nevertheless outline trends.<sup>6</sup> The "pacemakers" in development policy over many years (the Netherlands, Norway and Sweden) intend to increase their contributions by no less than the rate of the nominal growth of their GNP; naturally the possibility cannot be ruled out that here too the economic recession may affect their readiness to make these payments. Even though a few countries intend to increase their official development assistance appreciably (e. g. Belgium, Italy, Switzerland and Finland), this will not result in a substantial increase in the overall performance of the DAC countries. The high-volume countries include, on the one hand, "expansionists" such as the Federal Republic of Germany and Japan. France, too, has been maintaining an extensive aid programme for a number of years and (in September 1980) reconfirmed its commitment to the 0.7 % target. The statements made so far by the new French President suggest that this commitment will still be valid. In the case of Britain, on the other hand, a real decline of official development assistance, at least until 1983, is to be expected according to the plans of the Conservative Government. The public statements made so far by the new US Administration point in the same direction. The reduced financial scope now approved by Congress and the Government's intention to engage itself to an increasing extent in the field of military expenditure leave less room for civilian foreign aid. Even the funds for the bilateral aid programme are being curtailed, and inpayments for capital increases, e. g. with the World Bank, are being slowed down. Generally speaking, it seems that there is once more a swing in favour of those who see the relationship with the Third World merely as a part of the East-West conflict. It cannot be ruled out that this view may gain ground in other donor countries as well.

The trend in most industrialized countries, where the budget appropriations for development aid are basically stagnating, is towards more emphasis on qualitative aspects, in particular more efficient implementation. This includes — in line with the wishes of many partner countries — longer-term commitments as well as organizational measures in the area of fund allocation (e. g. greater harmonization among the donors, greater authority for project managers on location, greater participation of non-governmental organizations). There is now an increasing realization that it is largely the donor procedures that contribute to the hold-ups in funds committed but not disbursed (pipeline problem). It is intended, by means of increased local cost financing

and a more flexible practice in disbursement procedures (more programme aid rather than project aid), to speed up the outflow of funds for which commitments have been made and generally to increase the transfer of resources. However, little progress has so far been made in this field beyond declarations of intent.

It is expected that increasing importance will be attached to the instrument of mixed credit because the marketing and employment problems of certain donor countries will induce them to a greater extent in future to use a proportion of their official, soft-term funds for an actual cheapening of private export credits and thereby to gain for their exporters a competitive advantage in foreign markets. This trend towards a commercialization of development aid, euphemistically described as "mutual interests"<sup>7</sup>, is complementary to an already rampant import protectionism.

#### OPEC Countries: Limited Solidarity

With about US \$ 7 bn the development assistance of the OPEC countries<sup>8</sup> was stepped up again in 1980. According to the preliminary figures this is the highest level so far recorded. Saudi Arabia has for a number of years now headed the list of OPEC countries, followed by the United Arab Emirates, now replaced by Kuwait.

The decline of contributions to multilateral agencies affected in particular OPEC and Arab funds (1978/79: reduction from two-thirds to barely one half) but also development banks. On the other hand, more finance was channelled into traditional international organizations, in particular the International Development Association.<sup>9</sup> However, this increased engagement in "classical" institutions will presumably be of short duration since the OPEC Special Fund was enlarged in 1980 into a "Fund for International Development", which is supposed henceforward to take on development assistance tasks on a permanent basis and to be therefore furnished with a bigger capital base. Disbursements of soft-term credits from pure OPEC funds declined since the boycott of Egypt (end of 1978, as a consequence of the Camp David Agreement) from just under \$ 1 bn to barely \$ 0.3 bn. Egypt's share declined appreciably in the bilateral programme as well (1979: a little over \$ 4 bn). Those benefiting from this were, above all, the other "frontline states", Syria and Jordan.<sup>10</sup> Altogether Arab and Islamic recipient states predominated in the regional distribution. The principal non-Arab recipient countries, India and Pakistan, have been steadily losing in importance since 1976 (jointly 29 %; in 1979: jointly 2 %).<sup>11</sup>

**Table 2**  
**Resource Receipts<sup>1</sup> of Developing Countries by**  
**Type and Origin of Flow, 1970-1979**  
- Net Disbursements -

	1970	1974	1978	1979
		- in US-\$ bn -		
<b>Total receipts</b>	19.1	33.9	79.6	81.0
<b>Official Development Assistance</b>	8.1	14.9	23.5	28.0
		- Structure in % -		
Multilateral	13.6	19.5	25.5	(21.8)
Bilateral				
- DAC <sup>2</sup>	70.4	55.0	55.7	56.8
- OPEC <sup>3</sup>	3.7	20.1	12.8	14.3
CMEA <sup>4</sup>	12.3	5.4	5.5	6.8
Other donors	-	-	0.5	0.3
		- in US-\$ bn -		
<b>Non-concessional</b>	11.0	19.0	56.1	53.0
		- Structure in % -		
Multilateral	6.4	9.5	6.1	(7.9)
Bilateral				
- DAC				
Direct investment	33.6	5.8	19.8	25.5
Bank lending	27.3	52.6	40.1	31.5
Bonds	2.7	1.6	5.3	(5.7)
Private export credits	20.0	13.2	17.8	17.7
Official export credits	4.6	4.2	5.3	2.8
- OPEC <sup>5</sup>	1.8	4.7	1.8	(1.5)
CMEA	0.9	0.5	0.2	(0.2)
Other donors	2.7	7.9	3.6	(7.2)

<sup>1</sup>At current prices. - <sup>2</sup>Development Assistance Committee of OECD.  
<sup>3</sup>Organization of the Petroleum Exporting Countries. - <sup>4</sup>Council for Mutual Economic Aid. - <sup>5</sup>Official flows only; no information on private flows available. - ( ) Provisional figures.

Source: OECD: Development Co-operation, 1980 Review, Paris 1980.

Indications about the future development of OPEC aid are conflicting. On the one hand, a marked decline in commitments in 1979 suggests a reduction of concessional flows. On the other, the relatively well-equipped "Fund for International Development" is only just beginning to go into action. It may, however, be assumed with some degree of probability that the latest oil price increases will not produce any parallels to the marked increase in development assistance which followed the price rise of 1973, and that at best the present level in real terms will be maintained in the medium term. Admittedly the regional dispersal of OPEC aid may increase in the course of time in order to check rising criticism of the oil price policy and in order

<sup>7</sup> Annual report of the DAC Chairman 1979, op. cit., p. 117.

<sup>8</sup> The members of the Organization of the Petroleum Exporting Countries are Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. Ecuador, Indonesia and Gabon play no appreciable part as donors.

<sup>9</sup> By increasing its share Saudi Arabia moved into sixth place (in front of Canada and Italy) among IMF members.

<sup>10</sup> OECD: Flows of Resources from OPEC Members to Developing Countries 1976-1978, DCD/79.31, Paris 1979, as well as OECD: Development Co-operation, 1980 Review, Paris 1980.

<sup>11</sup> The share of non-Arab donors of OPEC aid (Nigeria and Venezuela) has never exceeded 4 % since 1975.

to strengthen the position of the OPEC countries within the "Group of 77".<sup>12</sup> However, the hopes of oil importers that this flow of finance would increase in direct relation to the development of the price of oil have been dashed by clear OPEC comment<sup>13</sup>:

□ Rising oil prices are no reason for compensation by way of increased development assistance; no seller can consistently compensate certain customers every time a price is raised. The most that can be done is mitigation in individual special hardship cases.<sup>14</sup>

□ Not all OPEC members have financial surpluses. Some of them (Algeria, Indonesia, Venezuela, Iran, Nigeria and Ecuador) actually have considerable foreign debts.

□ Current account surpluses are in the given circumstances the inevitable result of a responsible policy towards the oil consumer, and no obligation in respect of any other benefits can be derived from this.

<sup>12</sup> The "Group of 77" has been in existence since the first United Nations Conference on Trade and Development (UNCTAD I) in Geneva in 1964; by now approximately 120 developing countries belong to this group.

<sup>13</sup> I.F.I. Shihata, R. Mabro: The OPEC Aid Record, in: World Development, Vol. 7, No. 2 (Feb. 1979); I.F.I. Shihata: Die Organisation der Erdöl-Exportländer als Gruppe von Geberländern (OPEC as a group of donor countries), in: Europa-Archiv, Ed. 5/1981; by the same author: The OPEC Fund for International Development, in: Third World Quarterly, Vol. 3, No. 2 (April 1981), OPEC Bulletin, Vol. XI, No. 20 (Nov. 1980).

<sup>14</sup> The concessional terms granted especially by Iraq within the framework of oil sales for a credited part of the purchase price, as well as the preferential prices which Venezuela (together with Mexico) is prepared to grant to certain Central American states may be regarded as moves in this direction.

The surpluses come from the sale of exhaustible resources and cannot be equated with the creation of value added in industrialized countries.

□ The league table of development aid performance in relation to the national product has been headed for years by OPEC members; they are already contributing far more than other donors (GNP share as a group 1980: approximately 1.4 %).

□ The OPEC countries, in spite of their monetary prosperity, are by the usual economic and social indicators at an early stage of development. With an increasing absorptive capacity of their own economies domestic development will receive priority.

#### CMEA Countries: Low Profile

Development assistance by the East European countries and the USSR is not fully documented in Eastern sources. According to OECD estimates the — almost exclusively bilateral — net contributions to recipient countries outside their own political grouping first exceeded \$ 0.5 bn in 1979. If one includes the substantial aid to Cuba and Vietnam this figure over the preceding decade averaged around \$ 1.2 bn annually. For 1979 it is estimated at \$ 1.85 bn. According to an American source<sup>15</sup>, which uses slightly different data, disbursements are presently declining again following a peak in 1977. The USSR regularly accounts for the main part of overall CMEA assistance (about 70 %).

<sup>15</sup> US State Department, National Foreign Assessment Center: Handbook of Economic Statistics 1980, Washington, D.C.

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This, expressed as a percentage of its (estimated) GNP and including aid within the Bloc, amounts to about 0.1 %.

Judging by the attitude of the "Group of 77" at the last few UNCTAD conferences the CMEA countries will find themselves confronted in future by growing demands that at least the industrialized countries among them should, just as those in the West, assume an increased responsibility within the framework of North-South relations. It will become increasingly difficult in future to reject this demand with the stock-answer that the socialist countries are not responsible for the economic consequences of colonialism or the state of certain raw material markets. It is of course true that in most CMEA countries the need for investment, the population's expectations of a rise in the standard of living, and the priority given to armaments are such that it will be difficult to divert additional funds into development assistance.

#### Outlook for the Current Decade

There is no doubt that it will be the countries of the Third World themselves that will have to make the greatest efforts to hold their current account deficits in check. Structural adjustment wherever possible with a view to saving imports of mineral oil and foodstuffs, as well as – possibly in co-operation with foreign countries – the search for and utilisation of domestic sources of energy are indispensable prerequisites of an improvement in the situation. An important contribution by the "North" would be an easing of protectionism with regard to Third World products. In view of the economic stagnation and the massive unemployment also in industrialized countries, however, this trade policy option has little prospect of realization at the moment. Thus the OECD countries at their June ministerial meetings in 1980 and 1981 merely confirmed their determination to view the requirements of the developing countries sympathetically and considered a higher integration of the developing world into the international system of trade to be beneficial.

Since in the area of trade no further opening up of markets is to be expected within the foreseeable future, the hopes of the Third World are increasingly concentrated upon a transfer of resources on concessional terms, i. e. upon development assistance proper. However, there are no great prospects of substantial progress in the aid programmes of the western industrialized countries. The cuts planned by the new American administration in budgetary allocations in the field of foreign aid at present extend

until 1986. Bilateral development assistance and contributions to international organizations are most severely affected by this cut-back in favour of an extension of "International Security Assistance". There must be concern that such a cut-back by the biggest donor country cannot be offset by corresponding increases in the aid budgets of other industrialized countries. The Federal Republic of Germany, in spite of its severely strained budget position, is still bound by the cabinet decision of 1979 to the effect that official development assistance over the next few years is to increase at no less than double the rate of total government expenditure; this was still confirmed for the 1981 budget.

Measured against the 0.7 % target, development assistance by the western industrialized countries is likely to remain disappointing in future. Apart from the Scandinavian group (excluding Finland) and the Netherlands – these countries are already above the target – France and Belgium might reach the target. But this will increase the DAC average only very slightly; according to an estimate by the World Bank<sup>16</sup> it will still stand at the present level in 1990, even on favourable assumptions ("high scenario"). This raises the question of the significance of this target figure: it is not for its sake that certain governments are increasing their aid budgets, while others are cutting theirs in spite of its existence. Yet the complete abandonment of the target might provide an excuse for further cuts. The decisive element obviously is the motivation for development aid in each instance or the national benefit it produces. Since aid to the Third World also serves the promotion of sales and the opening up of markets, those countries which derive economic advantage in the form of export stabilization from development co-operation, are the ones particularly affected and should be the ones most ready to step up their aid funds.

Promotion of sales is not a consideration in the case of the OPEC countries. Yet an increasing sense of responsibility with regard to the international economy, as repeatedly shown by certain OPEC members during price negotiations within the cartel, encourages the hope that this attitude may lead also to concessions to other developing countries. Indeed it would be in the political self-interest of certain oil countries not to allow rising oil prices to become a crushing burden for the Third World. Saudi Arabia and the other Gulf States are probably aware of the dangers in the shape of political change to which any further economic pressure in other countries within the region might expose them too.

<sup>16</sup> World Development Report 1980.