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New Trends in Development Cooperation

Preliminary statistics on financial flows to developing countries in 1993 indicate important changes in their composition. Total net resource flows – official development assistance (ODA), other official flows and private sector resources – to developing countries from the members of the Development Assistance Committee (DAC) and multilateral institutions amounted, according to OECD estimates, to US\$ 160 billion. This is a new record, and well above the levels seen in the late 1980s and early 1990s.

A significant change in the structure of flows was the major rise in private flows of bonds, equities and direct investment, offsetting a large decline in international bank lending. On the other hand, total ODA from member countries of the DAC to developing countries and multilateral institutions fell sharply to US\$ 54.8 billion in 1993 from US\$ 60.8 billion in 1992. This was a decrease of 7.8 per cent in real terms and it reduced members' combined ODA to 0.29 per cent of their GNP – the lowest ratio reported since 1973.

Germany was no exception to this trend in aid volumes. In 1993, ODA amounted to US\$ 6.8 billion, which in real terms represented a sharp drop of 8 per cent compared with 1992. Multilateral contributions, which had declined in 1992, recovered by 4 per cent, but bilateral disbursements dropped by 13 per cent. Germany's ODA/GNP ratio fell to 0.36 per cent from 0.39 per cent a year earlier.

Whether Germany's continuing drop in aid figures reflects pressure from the public, a divergence of aid towards new claimants, aid fatigue within the bureaucracy or is the result of a new conceptual framework is difficult to judge. Furthermore, one has to keep in mind that the decreased volume of aid may have been compensated by improved aid effectiveness and strengthened non-aid development efforts.

Given the dramatic changes in the geopolitical scene in the last couple of years Germany has, starting in 1991, placed new accents in its development cooperation concept. This now has a more political profile emphasising humanitarian considerations and Germany's security interests. Among the themes emerging in this context are poverty alleviation and environmental degradation, policies to prevent migration flows and fight against cross-border problems which can be associated with underdevelopment, including drug traffic, organised crime and the spreading of epidemic diseases.

In the centre of the new conceptual approach is the commitment to criteria for aid allocation which are oriented towards the most important domestic policy conditions for sustainable development including respect of human rights, a minimum of legal security, participation of the population in the political decision-making process, a market-oriented economic policy stance and development orientation in the politics of recipient governments. These five criteria are considered essential for the efficiency and sustainability of development cooperation and underline the principle that developing countries themselves have the main responsibility for their own development.

German aid policies aim at providing incentives and supporting measures to help developing countries improve their internal prerequisites for development. Therefore a shift is taking place from project-oriented aid in the economic and social sectors towards assistance to overcome structural impediments to development in the economic system, politics, administration and society. Examples of the more political orientation of Germany's development cooperation

are support for the reform of economic and social legislation in formerly socialist economic systems and the building of democratic institutions in formerly non-pluralistic societies. Development and military expenditures are also a major concern within Germany's new political sensibility in aid policies.

Together with the introduction of new criteria for the granting of aid a further concentration of development cooperation in a few priority sectors should help to make Germany's aid more efficacious and efficient. The choice of sectors was governed by Germany's (perceived) relative advantage in development cooperation over other donors and by their central importance for the development of the recipient countries.

- Poverty alleviation is the superior priority and cross-sectional target. Important elements of this approach are the preparation of poverty profiles of individual developing countries and the examination of each development scheme with regard to the extent to which it contributes to the improvement of the situation of the poorer population segments.
- The second priority is environmental protection for which more than a quarter of bilateral aid commitments is allocated. For population policies, directly linked with poverty alleviation and the protection of natural resources, about DM 160 million were provided in 1993. Progress in this area has been relatively slow, mainly due to lack of support from partner governments.
- Similar difficulties in implementation could be observed in the third priority area – education and training. While the importance of investing in human capital is still not fully recognised in many developing countries there is also a donor problem with regard to the long-term nature of involvement necessary for making support effective.

As a consequence of the insight that sustainable development is not only dependent on the amount of disbursed resources but mainly on the efficiency of measures and adequate approaches the German government has introduced a number of modifications in procedures and methods. Furthermore, the range of financial cooperation was enriched by a new guarantee instrument enabling the German government to mix resources from its budget with funds from the capital market. The creation of the new financing instrument may be interpreted as an indicator of a new strategic alliance between development cooperation and the private sector, strengthening the commercial component of aid efforts. The new financing instrument is designed for more advanced countries with overproportionally low investment risks and a low degree of debt problems and should provide additional low interest capital resources for infrastructure projects, industrialisation and environmental technology. The new credit offer reflects an effort to improve the position of German firms in relation to other competitors in the more dynamic emerging markets.

Given the diversity of situations in developing countries, the urgency of global problems such as narcotics, population, migration, the environment etc. and the erosion of industrialised countries' credibility in many policy areas there appears to be a case for reshaping the traditional development assistance approach. A new paradigm could include a new type of conditionality on aid commitments and aim at more coherent and consistent policy mixes. For example, it is hardly understandable that donors support developing countries which are unwilling to reform their poor tax systems. Why should a low-income tax payer in an advanced country accommodate richer people in poor countries who are reluctant to contribute to poverty alleviation in their own country?

Various studies initiated by the OECD, World Bank and the IMF have pointed to the significant impact which the macroeconomic, trade, agricultural, financial, environmental and other policies of industrialised countries can have on developing countries. As the costs of policy incoherence can be substantial, there is an increasing demand for a more consistent and co-ordinated strategy. Although the desirability of such a strategy is recognised by most donors the existing institutional framework of policy-making in donor countries prevents development agencies from playing a leading role in promoting the concept of policy coherence in development assistance.

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