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New Initiatives for Development Cooperation?

The recent Group of Seven summit in Lyon paid a surprising amount of attention to the problems of developing countries. Was this merely rhetoric, intended to divert attention from the world-wide dwindling of development aid?

According to preliminary OECD statistics, in 1995 the development aid provided by the industrial countries fell to a nominal US \$ 59 bn., representing a real drop of 9.3% over the previous year. Measured as a percentage of gross domestic product, aid transfers, at an average of 0.27%, have reached their lowest level since 1970. This "aid fatigue" is particularly marked in the USA, where grants to developing countries were reduced by 28% in real terms to US \$ 7.3 bn. Furthermore, the share of funds which can be used for the acceleration of growth is showing a declining trend: for example, the share of German development aid funds used for short-term emergency aid rose to about 10%. In the face of these facts the new "development partnership" between the leading industrial nations and the international financial and trade organisations (World Bank, International Monetary Fund, World Trade Organisation) proclaimed at the Lyon summit appears downright cynical.

The purpose of the new partnership is to ensure that the increasing globalisation of the world economy brings benefits to all countries and in particular to support sustainable development in the poorer countries. This does not mean that the developing countries are to be freed of their responsibility to pursue the correct economic policy mixture and to take all the measures necessary for the alleviation of poverty and for environmentally sound development. In the opinion of the Seven, democracy, the respecting of human rights and politics based on the rule of law also belong to a sustainable development process.

Such declarations and proposals are anything but new. They have become a part of the standard ritual for public statements on development policy. Somewhat more original and more specific was the recent statement by the Development Assistance Committee (DAC) of the OECD: at its May conference in Paris it decided upon an action programme containing, among others, the following elements: the industrial countries wish to halve the number of the 1.3 bn. poor in the world by the year 2015, by the year 2005 every child is to be guaranteed a basic education and illiteracy is to be eliminated, by 2015 the infant mortality rate is to be reduced by two-thirds and the maternal mortality rate by three-quarters. In addition, by the same date opportunities for family planning are to be made available everywhere and the environmental decisions of the Rio summit of 1991 are to be put into practice.

This departure from input-oriented promises, as expressed in the traditional UN goal according to which the industrial countries were to give 0.7% of their gross domestic product for development aid, is certainly welcome. The UN goal was illusory from the beginning and at best helped the Minister responsible for development aid to defend his budget against the Minister of Finance. But output-oriented goals are just as dubious if it is not pointed out what measures will be taken and what funds are available to achieve them. It has been demonstrated again and again in the past that the commitment to poverty alleviation remains a residuum. This is unlikely to change in future given the strains on government budgets in the industrial countries. One indication of this is the fact that the share of tied development aid has risen steadily since the seventies to its present rate of over 50%.

It was also demanded at the G7 meeting that in future all concessionary bilateral and multilateral development funds should be concentrated on the poorest countries. Particular

attention should be paid to the development of the sub-Saharan African countries. Based on the global initiative for Africa which was launched in mid-March of this year by the United Nations together with the World Bank, a medium-term strategy for the development of these countries is to be drawn up.

With regard to these proposals it should be noted that most of the poor countries, above all those in sub-Saharan Africa, are already highly dependent on transfers from the industrial countries and it is doubtful whether this dependence can be reduced by means of additional funds. Although domestic rents, such as those which accrue from the taxation of international trade, from the implicit taxation of the agricultural sector or from the provision of loans at negative real interest rates, have been reduced by means of structural adjustment programmes, at the same time they have increasingly been replaced by international rents in the form of aid transfers. It appears rather strange that the country which has recently been given prominence by the World Bank as a model of successful development - Ghana - has had the steepest rise in development aid per capita in Africa since 1989. Falling aid contributions would be a more convincing sign of successful sustainable development. Furthermore, many of the poorest countries have probably already exceeded their absorptive capacity for foreign aid.

A further aspect of the new partnership is, finally, the debt relief for a number of highly indebted countries which was agreed upon in principle at Lyon. The beneficiaries would be up to 20 countries whose total debt presently stands at US \$ 97 bn., of which almost 60% is owed to bilateral creditors and 22% to multilateral financial institutions, mainly the World Bank and the International Monetary Fund (IMF). This would be the first time that these institutions make a contribution to debt reduction. The World Bank is to put US \$ 500 m. from its profits into a trust fund this year (and up to US \$ 2 bn. altogether). The IMF is to make its contribution via long-term, interest-free loans from its enhanced structural adjustment facility. The suggestion put forward by the USA and France in agreement with the IMF that the reduction of the indebtedness of the poorest developing countries should be financed by the sale of US \$ 2 bn. of the IMF's gold reserves (total: circa US \$ 40 bn.) was rejected due to the vehement resistance of the German government, but it will probably remain on the agenda of the Bretton Woods institutions.

To what extent the planned debt relief will in fact mean an increase in the development capacity of the countries involved or whether it will simply mean a cleaning up exercise for the balance sheets of creditors remains to be seen. The debt servicing obligations of the 32 poorest countries with a considerable debt overhang represented 45% of their exports in 1993. In the same year their actual debt service payments represented only 18% of their exports, so that considerable arrears exist. If the debt relief only means that in future these arrears disappear then little will have been gained for development. Uncertainty also remains with regard to the "critical mass" of debt relief and the extent of the economic policy reforms which are necessary in the beneficiary countries in order to solve their debt problems permanently.

To summarize: a greater integration of the poorest countries into the world economy and their participation in the process of globalisation will be achieved neither by rhetoric nor by spectacular initiatives which ex post frequently turn out to be nothing but hot air. As long as the industrial countries continue, particularly in the agricultural sector, by means of the escalation of customs duties to hinder the poorest developing countries, which are largely dependent on exports of raw materials, from selling processed goods, and to make the diversification of these countries' production in the industrial goods sector more difficult by means of non-tariff barriers, their initiatives remain unconvincing. There is no reason to lie back and rest on the results of the Uruguay Round, which were unsatisfactory for many developing countries. And the well-meant advice for economic policy reforms in the poor countries is in danger of becoming less and less credible as long as the old industrial countries experience difficulties in their own societies in drawing up savings packages, in enforcing structural economic reforms and in responding to global competitive challenges.

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