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ARTICLES

Development Policy

Structural Changes in Development Aid

by Klaus Linke, Hamburg

A comparison of the amounts spent by various countries on development aid must necessarily be based on some fairly clearly defined conception and demarcation of what is to be understood by "development aid". The present analysis adopts the definition of the OECD which describes development aid as "Flow of financial resources to less developed countries". By this is meant—roughly speaking—all sources of aid, material and immaterial, official or private, which donor-countries make available, either direct or by way of multilateral institutions, for purposes of economic and social improvements in the developing countries. It is not intended to enter here into a discussion of the problematic nature of this definition.

The present investigation covers the following countries: USA, France, Great Britain, Federal Republic of Germany, Italy, the Netherlands and Sweden; it comprises therefore the four most important OECD/DAC members, on the one hand, and at the same time also the major EEC and EFTA partners, on the other.

The investigations start essentially in 1961—the year in which the Development Assistance Committee (DAC) published for the first time a survey of the development aid contributions made by its individual members.

By combining the conclusions drawn from the study of individual analyses it is possible to arrive at an overall analysis of the changing structure of the development aid provided by the countries under review.

Change in the Form of Aid

The investigation shows that in the period under review the development aid provided by the selected countries has gradually assumed different forms. These countries should be representative of all the DAC members.

First of all, a relative decline is clearly visible in the contributions to multilateral organisations. The reason for this may be that with this form of aid the individual donor-country stays a little in the background. Many donor-countries frequently combine with their development aid political or business considerations, for which the "silent aid" that passes through multilateral organisations is hardly suitable.

Table 1
Changes in the Net-Allocations for Development Aid by DAC Countries in 1961 and 1966

	1961		1966	
	in million US dollars	per cent	in million US dollars	per cent
Official bilateral allocations, net	5,277	88	5,919	92
Grants	2,892	48	2,944	46
Grantlike contributions	1,142	19	817	13
Credits, net	1,243	21	2,158	34
Official contributions to multilateral organisations	734	12	513	8
Total	6,011	100	6,432	100

See: Development Assistance Efforts and Policies, 1967 Review, OECD, Paris 1967, page 121.

Credits Increase Compared with Grants

There is a connexion between what has just been said and the considerable rise in development aid in the form of credits, while grants have been stagnating. Within these two categories, too, there have been remarkable shifts. The absolute amount of outright grants as well as their relative share have hardly changed, whereas the so-called "grantlike contributions" have fallen steeply. As for the latter, there has been a sharp decline, particularly in transactions involving payment, or the promise of payment, in the currency of the recipient country. This is essentially due to the fact that this type of aid was used above all by the USA in their sale of agricultural products. But the American stocks of farm surplus products

have in recent years shrunk considerably. Nothing can be said against this structural change as long as the debt service operations do not impose too heavy a burden on the recipient countries. This was precisely not the case. The developing countries' total indebtedness rose from year to year (for instance by 17 per cent from 1964 to 1965), and what makes this rather disquieting is the fact that interest and amortisation payments must be made in foreign currencies. On the other hand, it must be admitted that conditions on which credits are granted have on the whole become less onerous. Since 1966 average interest-rates have declined to about 3 per cent, while the average period for which credits are arranged has lengthened to 23.5 years, (though this is still slightly shorter than in the period 1962/4).

Grants still represented a relatively high proportion of the total official aid, being 60 per cent on average in the last three years, although they were appreciably smaller than previously. Of particular significance is the fact that grants and lenient credit conditions still tend to go to recipient countries with which the donors have especially close traditional or constitutional links with the result that the most effective kind of aid frequently never reaches where the need is greatest.

Rapid Growth of Technical Aid

One of the most remarkable changes in the structure of official development aid may be seen in the increasing emphasis donor-countries are placing on technical aid. From 1962 to 1966 technical aid (included under grants) given by DAC members rose from 14 per cent to 20 per cent of their total bilateral aid programme.¹

In absolute terms the largest amount spent on technical aid came, and still comes, from the USA (in 1966 it was \$ 35 mn or 15 per cent of its total aid expenditure); relatively, the highest technical aid contributions were made by France and Sweden, representing some 50 per cent of their total expenditure on aid. The USA, Great Britain and France were to only exception is Great Britain). France would seem

¹ Before 1962 no statistical data available for purposes of comparison.

gether responsible for 90 per cent of all the technical aid given by the DAC countries in 1966.

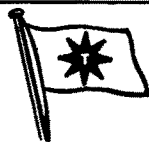
There has also been a change in the structure of technical aid. There is a tendency for fewer technicians to be employed, while the number of teachers, instructors and technical advisers tends to grow (the to be largely responsible for this development, for France seems to have used its technical aid programme as a pretext for effecting some slight adjustments to its own labour market.

As far as the infrastructure is concerned, the main emphasis has shifted to the agricultural sector. This shows that in the short run the improvement of food production still has priority. The use of fertilisers, pest-controls and agricultural machinery is however not enough; it must be accompanied by an extensive campaign of instruction in the use of these things, in accordance with the motto "Aid for Self-Aid". Within the framework of technical aid Sweden is a special case and an example. Sweden is the only country to help with the vocational training of women in the developing countries and to carry out a programme to control population growth. Birth control—necessary though it is—holds out little promise of success however, at least as long as the problems of sex instruction and logistics remain as formidable as they are at present.

Change in the Conditions for Aid

During the period under review a shift became noticeable away from unconditional aid to aid tied to deliveries. This once again "denatured" the very idea of aid by mixing-up aid for developing countries with budgetary assistance and cyclical policies of the donor countries. The only exception in this respect was Sweden and, to a large extent, the Netherlands.

It is true that some years ago already the member countries of the DAC agreed to endeavour jointly and severally to restrict the extent of tied aid. This was to be a gradual process, which was ultimately to reduce procurement conditions to a minimum. But no appreciable progress has been made during the past few years in this direction. On the contrary, some donor-countries, especially the USA, have made their procurement conditions even more stringent. The USA



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pointed out in justification of its policy that it could not drop these conditions unilaterally as long as its DAC partners did not do likewise. Moreover, so it was said, the country was faced with balance-of-payments problems and had to consider public opinion, which showed little understanding for completely unconditional aid.

Most donor-countries recognise, it is true, that aid tied to special conditions makes it more difficult to apply it most effectively; they are ready to restrict their own share in the total of conditional aid, provided that other donor-countries do the same as part of a simultaneous concerted action.

Shifts Towards Aid Not Tied to Special Projects

In the initial period of development aid, that is during the fifties, most donor-countries and international distributing agencies showed a marked preference for aid that was earmarked for special projects. This was true at least as far as aid in the form of credits was concerned. Grants, on the other hand, were made rather early to help with special programmes designed to support the budget and the balance of payments. The opinion prevailed at first that the financing of special programmes would ensure a more effective use of the aid granted and that this form of aid would make it easier to distribute scarce investment goods in accordance with approved priorities. Several infrastructural projects were financed in this manner—projects that are essential to enable and promote further growth projects such as roads, ports, electricity supply and communications.

Now experience has shown that the realisation of specific projects, however suitable, is no substitute for an all-embracing development strategy which must be based on the totality of the available sources of aid, irrespective of whether they are available from abroad or inside the developing country itself. It became clear, moreover, that the projects engendered a constant demand for raw materials and spare parts which for the most part had to be imported. Many developing countries were not yet economically capable of making the large-scale substitute and subsequent investments that such big projects require for their upkeep.

For the above-mentioned reasons the donor-countries have gradually gone over to aid that was not linked to a special project, to the so-called programme aid.

Table 2
Bilateral Allocations—Arranged according to Main Programmes 1965/66 in per cent

	1965	1966
Technical Aid	17.7	18.1
Aid not tied to projects	41.8	49.7
Capital project assistance	21.3	16.8
Official export-credits	10.8	11.0
Consolidation and refinancing loans	4.3	1.5
Other items	4.1	2.9

The percentages represent the average allocations of the DAC countries. See "Development Assistance Efforts and Policies", page 127.

Programme-aid seems to be more sensible in countries that have already attained a certain level of development, where donor-countries can therefore be reasonably certain that their aid will be used as part of a well thought-out plan to increase productivity. Programme-aid should be particularly effective in cases where the recipient countries dispose of not fully exploited equipment capital and whose economic growth can be stimulated by a steady stream of raw material imports rather than by the import of new capital goods.

Practical experience has shown that programme and project-aid cannot always be clearly separated. Each aid that is not tied to a special project may possibly release funds which the recipient country had itself planned for the programme in question and which can now be drawn up for projects that the donor-country would never have supported.

The Ultimate Use of the Remaining Project-aid

Project-aid is the only type of aid about whose ultimate use relatively complete information is available, with the one qualification, however, that data are available only about the purpose the aid was originally to serve. Whether the aid did in fact serve that purpose or whether it merely went to facilitate the realisation of other projects cannot be established with certainty.

Allocations for the financing of projects reached a record height in 1964 and have subsequently been declining. A good two-fifth of the total amount was spent on projects concerned with economic infrastructures and a good quarter financed industrial and mining projects.

Table 3
Presumed Ultimate Utilisation of Project-aid granted by DAC Countries, 1962/66

	1962	1963	1964	1965	1966
Project-financing in million dollars	2,380	2,356	2,428	2,099	2,067
of this (in per cent)					
Agriculture	10.2	10.6	10.6	8.6	12.0
Economic infrastructure	41.0	46.9	43.7	42.7	45.1
Industry and mining infrastructure	27.0	23.4	24.2	29.4	28.0
Social and administrative	21.8	16.8	17.2	14.3	10.7
Others	—	2.3	4.7	5.1	4.2

See: Development Assistance Efforts and Policies, 1967, page 128.

The projects designed to strengthen social and administrative infrastructures have registered a marked decline. The share of agriculture, amounting to 10 per cent on average, requires a special comment: this 10 per cent must be regarded as a rather meagre share in view of the leading role agriculture plays in most developing countries and having regard to the constantly deteriorating food supply situation. It must, however, be pointed out that the agricultural sector probably benefits indirectly from projects that are classified under the heading of economic infra-

structure. Part of the aid not tied to special projects (estimated at about 10 per cent) and part of the technical aid are likewise of advantage to agriculture.

Geographical Distribution of Development Aid

There have been comparatively small changes in the geographical distribution of development aid. This is without doubt due to the fact that most donor-countries have traditional links with certain developing countries, on which they concentrate their aid measures. Examples of this are the links between the Franc-Area and France, between the Commonwealth

Table 4
Geographical Distribution of the Official Bilateral Net-aid of the DAC Countries, 1960/65, in per cent.

	1960	1961	1962	1963	1964	1965
Europe	9.0	11.0	8.7	8.0	5.9	6.2
Africa	31.0	29.4	30.5	27.6	29.2	25.8
America	6.5	15.7	14.7	14.4	12.5	14.6
Asia	50.2	40.1	40.8	44.9	48.8	48.0

See: Development Assistance Efforts and Policies, 1967, page 129.

and Great Britain, between the Mediterranean Area and Italy and between Surinam and the Dutch Antilles and the Netherlands. The USA have no such traditional links, but they grant nevertheless 90 per cent of their aid to 16 countries whose composition has remained the same. Only the Federal Republic of Germany is an exception in this respect. Initially it scattered its aid rather at random and more recently proceeds on the principle of "shifting emphasis". Appreciable shifts in the links between donor and recipient countries actually occur only when one of the politically dependent recipient countries severs its political bonds (Algeria in the case of France and West-New Guinea in the case of the Netherlands). True, most DAC countries have made it their policy to distribute their aid over a wider area, but the resulting changes have hitherto been rather insignificant.

Private Development Aid

Any analysis of the structural changes of development aid must also consider the alterations that have taken place in the flows of private capital. This is composed in the main of direct investments, portfolio-investments and state-guaranteed commercial credits.

In some cases these private investments constitute far more than half the total aid granted. More often than not there is no single explanation for fluctuations in this category of aid, for it depends on a multitude of private decisions. Decisions of this kind may be triggered off by government measures encouraging them (Federal Republic of Germany), by balance-of-payments problems (USA and Great Britain), by an uncertain political situation in the recipient country, by the level of interest rates in the donor-countries, and similar considerations. Nevertheless, certain pointers exist which make it possible to speak of structural changes. Initially fluctuations in the total of private aid could in the majority of cases be attributed to changes in the allocations of American private aid. Until at least 1965 the average share of American private aid accounted for just under 40 per cent of the total of all the countries under review. Moreover, direct investments have always been playing the leading role in private aid so that changes in this category are a further cause of the changes in the total.

The decline in private aid in 1962 and 1963 could accordingly have resulted from a drastic shrinkage in the direct US-investments in the Latin-American oil industry. Equally, a rapid rise in these investments is likely to have been the cause of the renewed upswing in private development aid from 1964. A fundamental change in private aid began in 1966. Total allocations by all the countries under review declined by some 17 per cent, and the allocations by US sources by nearly 50 per cent. Reasons for this may have been voluntary restraint on the part of the donors anxious to support the American balance of payments, revolutionary changes of government and expropriations in some recipient countries and, finally, the exceptionally high level of interest rates prevailing on the US capital market.

The gap created in this manner was partly filled by Italian private aid, which rose to nearly three times the figure for 1965.

Development Aid as a Proportion of National Income

The amount of aid given by a donor-country is usually measured as a percentage of its national income, with a one per cent share being regarded as the

Table 5
The Flow of Private Capital (net) in million US-\$ and in Percentages of the Total

	1960	1961	1962	1963	1964	1965	1966
USA	1,042 (27)	1,099 (24)	819 (19)	880 (19)	1,325 (28)	1,873 (34)	979 (21)
Britain	452 (50)	447 (49)	330 (44)	311 (43)	423 (46)	517 (52)	472 (52)
France	477 (35)	469 (34)	420 (30)	414 (33)	550 (40)	568 (43)	569 (44)
Federal Republic of Germany	274 (44)	219 (26)	182 (28)	167 (28)	284 (40)	255 (35)	248 (34)
Italy	193 (61)	177 (68)	284 (72)	216 (66)	188 (78)	178 (66)	510 (81)
Netherlands	203 (81)	144 (67)	49 (33)	97 (72)	69 (58)	169 (74)	160 (63)
Sweden	40 (85)	44 (85)	19 (51)	31 (58)	34 (51)	35 (48)	51 (47)
Total	2,681	2,619	2,103	2,116	2,873	3,595	2,989

Composed from data contained in "The Flow of financial resources to less developed countries 1956/63", OECD, Paris 1964, also 1961/65, OECD, Paris 1967. Further: Development Assistance and Policies, 1967 Review, OECD.

ideal limit. In spite of the many problems that such a comparison raises² an attempt will nevertheless be made in this analysis to investigate the relative position of the donor-countries viewed from this angle. What strikes one is that aid allocations have risen on average in absolute terms, but have declined relatively. If one looks at the aid allocations from the point of view of what proportions they represent of national incomes, the donor-countries appear in an order that is very different from the usual list. If one considers official net aid alone, France retains its first place, although its contributions, expressed as proportion of the country's national income, have

² H. W. Singer, *International Aid, Targets, Commitments Realities*; in *Intereconomics* No. 2, February, 1968.

steadily decreased (1.76 per cent in 1962; 0.95 per cent in 1966). The next two countries are the USA and Great Britain (both 0.60 per cent in 1966), then follow: the Netherlands (0.55 per cent), the Federal Republic of Germany (0.54 per cent) and Italy (0.24 per cent).

An entirely different order results if one takes total net aid (from all official and private sources together) and compares it with the national income of the country concerned. The resulting order is then as follows: France (1.70 per cent); Netherlands (1.49 per cent); Italy (1.28 per cent); Great Britain (1.16 per cent); Federal Republic of Germany (0.81 per cent); and USA (0.76 per cent). (All figures relate to 1966).

Economic Development

African Economy in the Melting Pot.

by Dr Hans Cohn, Port Elizabeth

The year 1967 was a year of important developments for the entire African continent. In the first place: South Africa has sent troops to the Zambesi river thus extending the frontiers of what is called „white supremacy“ from the Limpopo north to the Zambesi. This is now the frontier the South Africans and Rhodesians chose to defend. Secondly: The „Six-Day“ war between Israel and the Arab states has brought the proof that the North African states belong to the Arab world. Their problems are Arabic problems and have nothing in common with the problems of the African continent. As a result of these facts many African realists mean the land south of the Sahara and north of the Zambesi, if they speak of Africa.

They are right to exclude the northern territories which according to their history and culture are most definitely parts of the Arab community. It would be however a great mistake, to cut off the southern part of Africa because it is not ruled by Africans but by Europeans, and because it is dominated by an ideology which is contradictory to the principles applied in other parts of the African continent. In fact, a good deal of trouble and hardship could have been avoided, if the southern part of the continent would not have been considered a separate entity right from the beginning by most of the rulers of the newly established „black“ states. The mere fact that South Africa's trade with these states is increasing from year to year despite trade boycotts and official threats, proves beyond any doubt

that black Africa needs the southern countries very much more, than South Africa needs them.

Right Industries to the Right Spots

The African states are undergoing the big change from primary producers to industrial countries, their economies are in the melting pot and the future of some of them appears rather dark. Their main problem is not only how to attract industries, but how to attract the right industries to the right spots, and this is very much more difficult, than to interest overseas' investors in general. The new „black“ states, all of them former colonies, are still products of their past, although they may not like this idea. Some of them are more industrialised, some less, and the more industrialised ones are attracting new industries to a very much larger extent, than their less advanced neighbours. This is one of the reasons for the grave difficulties of the two common markets existing on the African continent, the East African common market and the Union Douanière et Economique de l'Afrique Centrale. One cannot establish new industries in places which are absolutely unsuitable, only because that particular state needs them. The trade balance of a common market comprising one highly industrialised state and some less advanced ones, will always be in favour of the highly industrialised state. This is South Africa's main reason for postponing the idea of a common market in Southern Africa. The South African Government waits till Botswana, Lesotho, Swaziland and the other „black“