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GERMAN PRISM

German Resource Transfers to Developing Countries in 1973

by Axel Borrmann, Hamburg *

The net total of German resource transfers to developing countries and multilateral organisations in 1973 amounted to about DM 4.8 bn and was thus 15.6 p.c. smaller than in 1972. In no other year since 1968 has the contribution of the Federal Republic been so unsatisfactory. The "fat years" of German development spending — a peak of about DM 8 bn was reached in 1969 — seem to be over for the time being. While there have been a few structural improvements, the gap between target and performance has clearly been widening.

It must be noted that the ratio of net transfers to gross national product (GNP) has been declining continuously in recent years and that the expenditure of effectively 0.52 p.c. contrasts sharply with the 1 p.c. target and commitment. Only a little more than half of this has in fact been provided.

A comparison with the financial contributions of the other member countries of the OECD Development Assistance Committee (DAC) shows that the former "development paragon" has also failed to come up to the standard, on the international scale. Not only is its performance clearly below the DAC average which was 0.78 p.c., but with 0.52 p.c. the Federal Republic ranked only twelfth among these donor countries. The fact that the total of resource transfers puts the Federal Republic in absolute terms in fourth place among DAC countries offers little comfort.

Lower Private Sector Transfers

The private sector must bear the major responsibility for the disappointing trend. Its contribution to the total expenditure of the Federal Republic fell from 45.5 p.c. in 1972 to 25.6 p.c. in 1973. That the private sector provided about DM 1.2 bn only in 1973 is not the fault of the churches, foundations and similar private contributors — they actually spent 5.3 p.c. more than in 1972 — but it

is due to the meagre allocations by the private sector of the economy. The latter provided no more than DM 805 mn, i.e. 63.0 p.c. less than the previous year's DM 2.6 bn. As a share of GNP the resource transfers of the private economy have thus shrunk from 0.31 p.c. in 1972 to 0.14 p.c. Large minus balances for private financial credits (— DM 725 mn) and guaranteed private export credits (— DM 832 mn) accounted for this decline.

Table 1
Net Transfers by the Federal Republic of Germany to Developing Countries and Multilateral Agencies
(1972 and 1973)

Item	1972		1973	
	DM mn	p.c. of GNP	DM mn	p.c. of GNP
Public transfers	3,083.2	0.37	3,552.7	0.38
Public development aid	2,604.7	0.31	2,941.1	0.32
Bilateral grants	980.3		1,079.7	
Bilateral credits	957.9		1,032.6	
Multilateral grants and credits	666.5		828.8	
Other public transfers	478.5	0.06	611.6	0.06 ²
Credits by Reconstruction Loan Corporation (KfW)	391.0		487.2	
Refinancing by the Federal Ministry of Finance	— 21.7		109.5	
Loan by the German Development Company (DEG)	4.2		0.1	
Federal Bank credits to the World Bank	105.0		14.8	
Private transfers	2,576.2	0.31	1,224.5	0.14 ³
Private development aid	398.4	0.05	419.5	0.05
Allocations by other than state institutions from their own resources	398.4		419.5	
Transfers by the economy	2,177.8	0.26	805.0	0.09
Investments and other private bilateral capital transactions	1,669.4 ¹		1,313.8	
Guaranteed private export credits	— 198.6		— 832.8	
Multilateral transfers	707.0		324.0	
Total net transfers	5,659.4	0.68	4,777.2	0.52

¹ Including direct investments of DM 136.7 mn recorded subsequently by the Federal Bank.

² Rounded off to 0.06 (actually 0.07) as public transfers only total 0.38 p.c.

³ Rounded up to 0.14 (actually 0.13) as total net transfers must amount to 0.52 p.c.

Source: Federal Ministry for Economic Cooperation.

* The Hamburg Institute for International Economics.

1973 was however the first year in which guaranteed export credits to North Korea to a net amount of DM 132.8 were included in the statistics since the DAC has expressly allowed transfers to North Korea and North Vietnam to be incorporated in these figures. The decline of the private credits is primarily due to the restrictive German financial policy (high interest rates, siphoning-off of private liquidity) and the uncertain currency situation which caused foreign importers of German goods to avoid carrying debts in Deutschemark. These importers often got better terms in the international finance markets than were obtainable in the Federal Republic of Germany.

The decline of private sector transfers also could not be offset by the increase to DM 2.1 bn (1972: DM 1.9 bn) in direct investments in developing countries by German firms. These investments have been rising continuously over a number of years and in 1973 reached a cumulative total of DM 9.7 bn. As a proportion of the total of this kind of capital investment abroad the in-

Table 2
Net Transfers of the FRG in p.c. of GNP
(1967-1973)

Year	p.c. of total transfers	p.c. of public aid
1967	0.92	0.41
1968	1.23	0.41
1969	1.31	0.38
1970	0.88	0.32
1971	0.88	0.34
1972	0.67	0.31
1973	0.52	0.32

Source: Federal Ministry for Economic Cooperation.

vestments of German firms in developing countries have remained fairly constant — at about 30 p.c. — for several years.

Increase in Public Sector Transfers

In contrast to the private sector the public transfers are showing an improvement for almost all items. The total made available to the developing countries from public funds in 1973 was about DM 3.6 bn. This was 15.2 p.c. more than in 1972 and raised the ratio of public transfers to GNP slightly — from 0.37 to 0.38 p.c. This however was still far below the target figure of 0.7 p.c. As in previous years it was due to the accelerated rise of GNP in 1973 (by 11.2 p.c.) that the ratio of transfers to GNP was not more satisfactory.

It may however be recorded as a positive sign that the financial transfers of the public sector —

Table 3
Resource Transfers by DAC Countries to LDCs and Multilateral Agencies¹ (1972 and 1973)

Country	Public Aid				Total of Transfers			
	\$ mn		p.c. of GNP		\$ mn		p.c. of GNP	
	1972	1973	1972	1973	1972	1973	1972	1973
Australia	267	286	0.59	0.44	445	354	0.98	0.55
Austria	18	37	0.09	0.13	112	130	0.55	0.47
Belgium	193	235	0.55	0.51	405	478	1.16	1.04
Canada	492	515	0.47	0.43	1,015	1,105	0.98	0.93
Denmark	96	130	0.45	0.47	120	195	0.57	0.70
France	1,320	1,486	0.67	0.58	2,082	3,014	1.06	1.18
Germany	808	1,102	0.31	0.32	1,756	1,790	0.68	0.52
Italy	102	192	0.09	0.14	656	585	0.55	0.42
Japan	611	1,011	0.21	0.25	2,725	5,844	0.93	1.42
Netherlands	307	322	0.67	0.54	722	924	1.59	1.55
New Zealand	19	29	0.23	0.27	31	36	0.38	0.33
Norway	63	85	0.43	0.45	56	93	0.38	0.49
Portugal	154	75	1.79	0.71	222	209	2.59	1.99
Sweden	190	275	0.48	0.56	273	360	0.66	0.73
Switzerland	65	64	0.21	0.15	177	180	0.58	0.43
United Kingdom	609	603	0.39	0.35	1,486	1,322	0.96	0.76
USA	3,349	2,968	0.29	0.23	7,574	7,532	0.66	0.58
DAC Countries: Total	8,670	9,415	0.34	0.30	19,857	24,151	0.78	0.78

¹ Net Resource Transfers after deduction of Capital Repayments. Figures rounded off. Including contributions by charitable organisations.

Source: DAC.

unlike the fluctuating and lately retrogressive contributions of the private economy — have been rising uninterruptedly since 1966. Public aid, which forms the major part of the public transfers, followed a coincidental course, apart from a slight decline in 1970. In 1973 it amounted to DM 2.9 bn — 12.9 p.c. more than in the preceding year. From the point of view of the developing countries these figures must again be considered disappointing, but in comparison with those of other donor countries they are tolerable. The public aid by DAC countries in 1973 averaged only 0.30 p.c. of GNP, as against the 0.32 p.c. of the Federal Republic.¹

Multilateral aid last year accounted for 28.2 p.c. of all public development aid by the Federal Republic of Germany. This was, in absolute and relative terms, a new record. According to the Federal Ministry for Economic Cooperation it is intended to raise the share of multilateral aid in the next few years to 30 p.c. and then to hold it at this level.

In regard to the regional distribution of the public aid notable changes have taken place in comparison with previous years. Asia, the key area, in 1973 received only 43.3 p.c. of the total capital aid commitment, significantly less than previously.

¹ Although the value of this indicator may be questioned, it is in view of the devaluation of the US dollar and the general price rises probably at present the most meaningful basis for international comparisons.

There was an appreciable increase in public capital aid to states on the African continent. They received 38.4 p.c. in 1973, Latin America 12.6 p.c., and European "developing countries" 5.7 p.c.

Quality of Capital Aid

The quality of public capital aid by the Federal Republic has improved further in regard to length of credits, number of grace years and rates of interest. The average credit terms with a period to run of 32 years, which includes 9.4 years free of amortisation payments, and an average rate of interest of 2.07 p.c. were also more favourable. The terms on which German credits were granted in 1973 were more advantageous to developing countries than the average terms of the other DAC countries (31.5 years, 7.6 free years, and 2.4 p.c. interest).

Table 4

Net Transfers by the Private Economy to LDCs and Multilateral Agencies (1972 and 1973)

(DM mn)

	1972	1973
Investments and private bilateral capital transactions	1,669.4	1,313.8
Direct investments	1,937.5	2,055.0
New investment	1,327.5 ¹	1,405.0
Reinvestment	610.0	650.0
Portfolio investments	- 205.6	- 15.6
Other bilateral capital transactions	- 62.5	- 725.7
Credits by firms and real estate	246.0	267.6
Credits by domestic banks	- 308.5	- 993.2
Guaranteed private export credits	- 198.6	- 832.8
Private credits to multilateral financial institutions	707.0	324.0
Net transfers by the economy: total	2,177.8	805.0

¹ Including direct investments of DM 136.7 mn recorded subsequently by the Federal Bank.

Source: Federal Ministry for Economic Cooperation.

The trend of net capital aid disbursements by the Federal Republic is of particular interest.

The debt problems of the developing countries are gradually being reflected by the relation of

Table 5

Amortisation Payments for Bilateral Public Capital Aid in p.c. of Disbursements (1965-1973)

1965	1966	1967	1968	1969	1970	1971	1972	1973
11.2	8.7	7.2	15.3	23.2	30.1	29.4	33.0	40.8

capital aid disbursements to amortisation payments reaching the donor countries. In 1973 the servicing of debts cost the developing countries already the equivalent of 40.8 p.c. of the German disbursements. Surely a remarkable ratio!

The proportion of German capital aid (net of rearranged debts) tied to deliveries and services again rose in 1973 to 39.3 p.c. The increase in tied deliveries is in the main due to a tied credit for the supply of goods to Yugoslavia.

Summing Up

Viewed as a whole the financial allocations to developing countries by the Federal Republic in 1973 cannot be considered satisfactory. It is true that the development aid proper, out of public funds, had little to do with the adverse result. The overall decline in transfers is due to the bad showing of the private economy. A very critical view must nevertheless also be taken of the public transfers. The Federal Republic has not shown up nearly as well in regard to the ratio of financial contributions to GNP or on the international scale as it did in preceding years. Moreover, the escalation of the inflation must be taken into account in any assessment of the German development aid or indeed that of other donor countries. The OECD Development Aid Committee has pointed out in its annual review that while the total aid provided by DAC countries in 1973 was 22 p.c. higher than in the preceding year, in real terms the increase amounted to no more than 5 p.c. because of the intervening price increases and dollar devaluation. In view of this fact one is entitled to speak of something like stagnation.

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