

STATUS AND PERSPECTIVES CONCERNING AID PERFORMANCE AND POLICY OF MAIN DONOR COUNTRIES

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INTRODUCTION

THE THIRD United Nations' Development 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 by the end of 1980 it was clear that the extent and long-term effects of the second oil price explosion had been seriously underestimated. As a rule the developing countries were affected more seriously than the industrialized countries. What is more, the recessive trend in the industrialized countries, which became fully evident in 1981, contributed to budgetary constraints which were not without consequence for aid policy. The main lines of development are being presented here.¹ The picture emerging from the scattered information is that times of recession do not favor new conceptual approaches to development policy.

I. WESTERN AID: AGGREGATE PERFORMANCE

The flow of concessional development aid from all sources amounted to about U.S.\$35 billion net in 1980. About three-quarters of this flow came from the western industrialized countries, a share slightly smaller than in the year before. The absolute amount of aid has increased considerably since the first oil shock, despite a difficult economic situation and financial bottlenecks. The United States regained some lost strength as a donor in 1980 and still holds the leading position with a share of approximately 26 per cent (21 per cent in 1979), followed by France, Federal Republic of Germany, and Japan. The poor 1979 U.S. performance was due to the slow approval by Congress of contributions to multi-lateral agencies. The 1980 recovery is partly to be explained by the allocation of funds originally intended for previous years.

¹ A previous more comprehensive study was prepared on behalf of the government of the Federal Republic of Germany and completed in 1980. The material basis of the study are the memoranda of the OECD member states and the chairman's reports of the Development Assistance Committee of the OECD [1]. This information is complemented by various documents from the DAC secretariat. Furthermore results from discussions in the DAC secretariat, with national delegations at the OECD, and with some national aid administrations have been drawn into the evaluation. The rest is based on press releases and newspaper reports.

In relation to nominal GNP there was also a small increase in the level of development aid disbursements in 1980, though admittedly the moderate U.S. performance affects the overall picture. The combined ratio of official development assistance (ODA) to GNP of the Development Assistance Committee (DAC) members other than the United States remained at its 1979 level of 0.43 per cent. The DAC secretariat expects the overall ratio (currently 0.37 per cent) to remain approximately the same over the next few years. Even that may be optimistic. Certainly the target of 0.7 per cent once envisaged for 1985, will not be achieved for some time to come. As the DAC chairman, J. P. Lewis, has put it, "the collective DAC ODA performance, by its own collective standards, is depressing" [1, 1979, p. 41].

II. RECENT TRENDS

For a number of years discussions in national aid administrations, between bilateral partners in cooperation, and in international forums have revolved around a number of subjects; the main features of the most important subjects will now be identified.

In a number of DAC countries there is political controversy about the proportion of aid that should be directed through *multilateral* channels. The most common objection to contributions to international organizations is that the use of the money is not subject to sufficient control. Moreover, according to the critics, great bureaucratic organizations are created to administer these contributions and they consume some of the aid money for themselves. The efficiency of the multilateral organizations is also considered not very high. In many cases, bilateral aid is favored because the political benefit (particularly to foreign policy) to the donor country is greater with this type of aid. On the other hand the recipient countries stress the importance of multilateral aid on the grounds that it allows projects that exceed the capacity of individual donors. Furthermore the recipients have, through their representatives in the multilateral organizations of the U.N. group, a greater influence on the distribution of funds.

The DAC secretariat notes as a positive aspect of multilateral aid the fact that the relatively poorer countries are assisted to a much greater degree than with bilateral aid. At the end of the 1970s 90 per cent of multilateral aid was going to countries in the lower income group. The secretariat even assumes that the advance in multilateral aid could compensate for the tendency of donor countries to reduce bilateral aid support for the poorer countries, but not the least developed countries (LLDCs) during the 1970s.

The terms of official development aid are varied, but may be classified according to several components. Unfortunately, the changes in the terms are not well documented in a number of countries, so painting a picture of the aggregate situation is difficult. However the following details are worth mentioning.

The overall *grant element* has been at a high level for a number of years now. This is to be attributed above all to the high proportion of outright grants. In 1980 the DAC average was 90 per cent of ODA commitments. Certain countries

(e.g., Australia, New Zealand, Norway, and Sweden) for some years have distributed their official aid exclusively in this form. Generally speaking, however, the average aid terms of the DAC countries were affected by the worldwide rise in interest rates, the average grant element of loans dropping to 58 per cent in 1980.

From the middle of the 1970s some donor countries have complied more closely with the wish of many developing countries for *multi-year commitments* to facilitate longer-term planning by the latter. The Scandinavian countries, Australia, and Canada can commit themselves financially for three to about five years in advance. Such commitments were made with "program countries," that is to say, with those partners with whom there already exist quite extensive relations. The member states' memoranda fail however to give sufficient information about what proportion these long-term engagements occupy in their overall aid programs and under what circumstances the maximum commitment period is authorized. It should also be added that a purely statistical comparison ignores differences in the budgetary laws of the countries concerned. Earnest efforts by more DAC countries to make long-term commitments can only be effective after obstructive budget rules have been changed.

Tied aid is a form of aid allocation well covered by data in so far as formal tying is concerned: recently more than half of ODA funds from all DAC countries was not formally tied to the purchase of goods from the donor country. New Zealand, Sweden, Norway, and Finland are leaders in untying aid. In view of the move toward greater commercialization of development aid that is now evident in several western countries, it is unlikely that the moderate trend toward reduction in purchase restrictions will continue. The impression now is rather that under the slogan of mutual dependence of industrial and developing countries, in future aid will be more closely linked with procurement obligations. It cannot be ruled out that a positive impression will continue to be conveyed by official statistics, while the growing economic pressure on some donor countries to open or keep open export channels for their industries gives rise to various forms of informal tying of aid.

In recent years increased *local cost financing* has been recognized by several member countries as a means of strengthening the absorptive capacity of the recipient. After the introduction of DAC guidelines in 1977 local costs do seem to have been borne to a greater degree. However considerable difficulties hamper an empirical study in this field, because of poor statistical coverage.

As far as figures on commitments by purpose are available, we can note certain changes since the mid-1970s in the direction of nonsectoral allocation. In individual cases, growth of *nonsectoral allocation* could be interpreted as a reorientation toward a basic needs approach. Generally, however, this cannot be confirmed due to poor data. Moreover, in interviews at the OECD and the British Foreign Office, the chances of most donor countries pursuing a basic needs strategy were judged rather sceptically. Some countries point out that their aid programs have all along had such nonsectoral categories (that are now simply classified differently in official statistics); others were obliged to reconsider their

commitments because the intervention in politically sensitive areas in the partner countries was regarded as paternalistic.

For the part of ODA allocated to individual sectors, clear accents in *sectoral commitment* can be identified. Thus about a quarter of the allocable funds has been regularly devoted to the expansion of public utilities, about one-sixth has gone into education, and another sixth into agriculture. Somewhat different distribution patterns, but patterns consistent over the years can be seen for France, which favored education, and for the Netherlands and the United States which have placed consistent emphasis on the agricultural sector. Promotion of the social infrastructure, which, on the average, accounts for just under 5 per cent for all DAC countries, had greater importance only for the Netherlands and France.

Here again it should be mentioned that greatly varying availability of information prevents accurate comparisons of sectoral preferences. Moreover considerable change from year to year with certain countries does not necessarily indicate a shift in emphasis; these movements may also express the fact that there is no definite sectoral policy (e.g., in the case of the United Kingdom) or that sectoral distribution is unintentional, simply following from the decisions on distribution according to country.

When it comes to distribution according to *country groupings* there is consensus among the DAC countries that ODA should primarily be directed to the most needy. Every member country is called upon to set its priorities accordingly, if it has not already done so. Complementary to preferential treatment of LLDCs is discrimination against the newly industrialized (NICs) and OPEC countries. However, judging by disbursement practice in 1978 with a large share for LLDCs and a small share for NICs and OPEC members as a criterion, only about half of the member countries are keeping to DAC guidelines in their regional distribution policy. Those include the Scandinavian countries, Netherlands, Belgium, United Kingdom, Canada, and Switzerland.

In future aid preference for LLDCs will be further restricted by the increasing tendency to distribute ODA funds according to geopolitical preferences, which limits the scope for development policy proper (increase in aid for Pakistan, Turkey, Thailand, and Israel might be cited here).

The majority of DAC countries distribute the greater part of their development aid in the form of project aid. In recent years a case has been argued for increased use of *program aid* (or nonproject aid, i.e., commodity aid, food aid, retroactive terms adjustment, balance of payments, or budget aid, as well as humanitarian aid), especially as it speeds up the flow of funds. Figures for the period under review do not, however, show a rise in the program aid proportion for DAC countries generally. In actual fact it has fallen from 45 per cent of bilateral ODA commitments in 1976 to 28 per cent in 1979.

The debate about project versus program aid has become particularly topical because of the growth of the pipeline problem as an obstacle to higher budget appropriations for development policy purposes. Furthermore the insufficient absorptive capacity of recipient countries is being discussed within an increasingly

wider framework of causes. Included among these are the ways and means of allocation by the DAC countries. The DAC chairman's report [1, 1979] pressed for, analogous to a call for greater local costs financing, acceleration of the flow of committed funds through liberalized allocation practice, and for a stepping up of the transfer of resources. The unburdening of aid administrations by simplification of decision making processes in the approval, procurement, and monitoring should be paralleled by establishing institutions in recipient countries.

The pace setters in promoting the strategy of greater program aid are the Scandinavian countries. The large donor countries behave rather more conservatively. Although it has a tradition of formulating detailed country programs, the United States is bound by law to tie funds to projects that are approved by Congress. France does not indicate how much, or to whom, program aid is granted. The volume of funds allocated in this category by the Federal Republic of Germany has been increasing since a previous tight definition of program aid was abandoned. On the other hand, Japan is an advocate of project aid, and resorts to nonproject aid only in exceptional cases.

Here it is worthwhile mentioning a new variant practiced by the Netherlands. This is the so-called "programmatic" approach, which lies somewhere between project aid, seen as too specific, and program aid, considered as too general. It is regarded as the coming form for implementing measures that favor certain target groups. With this approach concrete activities are not stipulated in any detail; rather a particular region, sector, or institution is identified as worthy of help. Then, with parliamentary approval, a commitment extending over several years (up to ten) can be given, without precise prior determination of what is to happen during any part of the period.² In general, the call for more program aid would no doubt elicit a stronger response if evidence were found that this form was either more effective in attaining objectives or more efficient in implementation. Without such evidence the majority of donor institutions, caught between the demand for better performance set forth in the DAC review and the need to prove reasonable use of funds to parliament and government auditors, will in the short to medium term hardly be in a position to divert more funds to program aid.

In November 1979 guidelines were agreed upon at ministerial level with regard to the *organization* of aid in order to improve the quality and effective use of funds. This move is aimed at reducing administrative obstacles on the donor countries' side. The sluggish flow of funds curtails the political chances of increasing new commitments or even maintaining them at their present level. The demand for greater efficiency in allocating funds becomes all the more forceful at times of stagnating budgets.

It has not been possible to fully implement the intended measures since the guidelines were established. However under the label of "increased flexibility in

² Another feature of Dutch development policy, the active support for the redeployment of industries in favor of developing countries by means of public funds, did not have the expected response and thus was replaced in 1978 with the more conventional approach of promoting direct investment.

allocation" the following developments can be observed.

(1) Some DAC countries have agreed to *multi-year commitments*. Others arrange annual consultations with their partner countries, not least with the intention of reducing the administrative work devoted to many individual projects once the main outlines have been worked out. Another way of easing the central administration's task is the delegation of decision making to local offices.

(2) The suggested *reduction in processing and control expenditures* causes problems for several reasons: first, the processing time for each project seems to be a function of the nature of the aid and the type of project; second, too far reaching a liberalization may in the long run affect the provision of funds, as has already been indicated. In any case a easing of budget regulations would have a positive effect, allowing budget items to be dealt with more flexibly.

(3) A further possibility for simplifying procedures while simultaneously improving efficiency lies in the cooperation with *nongovernmental organizations*. Some of them work in specific fields, have a good deal of accumulated experience, and have proved themselves to often be in a better position than official bodies to pursue certain aims (e.g., adult education, help for minorities, support for rural development).

The use of *innovative finance* as an instrument of aid is also being more intensively discussed and tested under the changing economic indications in the western industrial countries. It is likely that mixed credits, as well as cofinancing and interest subsidies will gain ground because fading exports and rising unemployment will in future more strongly motivate some DAC countries to use part of their ODA funds for a de facto cheapening of private export credits, thereby creating a competitive advantage for their exporters in foreign markets. This trend toward commercialization of development aid, euphemistically referred to as "mutual interests" in the DAC chairman's report [1, 1979], will continue in some DAC countries as long as overt or concealed forms of export promotion can offset some of the negative effects of acute structural change and persistently high unemployment, being thus complementary to the already flourishing import protectionism. In view of the worldwide economic stagnation liberalization in the field of trade policy has little prospect of being carried out at the moment. Hence 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 voiced their belief that greater integration of the developing world into the international system of trade would be beneficial.

Since no further opening up of trade 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. At the same time there are growing signs in several donor countries that their own domestic economic and financial situations may lead to restrictive aid policies.

III. FUTURE PROSPECTS

A number of DAC members have made statements concerning the magnitude of

TABLE I
PROSPECT OF DEVELOPMENT AID PERFORMANCE BASED ON DECLARATIONS OF INTENT

Increase Intended, with Time Scale	Increase Intended, without Time Scale	Stabilization at Present Level	Reduction
France	Belgium	Netherlands	United States
Germany, Federal Republic of	Austria	Sweden	United Kingdom
Japan		Australia	
Canada		Norway	
Italy		Denmark	
Switzerland		New Zealand	
Finland			

Sources: OECD, PRESS/A(81) 26, June 15, 1981; "Aid in 1980" in *OECD Observer*, No. 111 (July 1981); and newspaper reports.

Note: According to statements of French officials, payments to Departments d'Outre-Mer and Territoires d'Outre-Mer will in future be separated from ODA proper. The French government has firmly committed itself to achieving 0.15 per cent of GNP for LLDCs by 1985. A number of other industrial countries, including all EEC members, have accepted this sub-target in principle but refrained from committing themselves to any timetable.

their future assistance. Even though these may not agree completely in indicator or time scale, they nevertheless outline trends (see Table I). The "pacesetters" in development policy over many years (Netherlands, Norway, and Sweden) plan to maintain an outstandingly high level of net disbursements in relations to GNP. Of course here too the economic recession may affect in practice their readiness to make this assistance. Thus *Norway* recently faced difficulties in adjusting budget appropriations to the rate of inflation, and the slump in *Sweden's* ODA/GNP ratio in 1980 is not fully explained by its failure to deposit notes with the International Development Association in time. Even though a few smaller aid-giving countries intend to increase their ODA, this will not result in a substantial increase in the overall performance of the DAC countries.

Among the high-volume countries there are some encouraging signs from *France* whose new government confirmed its commitment to the 0.7 per cent target during the presidency of F. Mitterrand, i.e., until 1988. As a subtarget, 0.15 per cent of GNP is supposed to go to LLDCs by 1985. Whether this will be accomplished if some dubious items (Departments d'Outre-Mer/Territoires d'Outre-Mer administration costs) are taken out of the statistics, may however be doubted. Moderate nominal increases are to be expected from the *Federal Republic of Germany* as well, even though the government's original medium-term plan which called for increasing the aid budget by twice as much as the entire federal budget in growth rate may not materialize. Due to budgetary constraints the rate of expansion has been scaled down recently to a planned 4.5 per cent increase for 1982, which means there would have been no growth in real terms. However, in late 1981, this was reduced even further to a 3.2 per cent increase.

As reaffirmed during the Paris LLDC conference in September 1981, *Japan*

intends to double disbursements between 1981 and 1985. This is a sign of the intent to phase out the reservation that has existed as regards foreign policy and development assistance. It may be added that the relatively high growth is, numerically, a reflection of the rather low volume of aid given in the past. As a consequence of the planned rapid expansion Japan's aid may overtake Germany's and may be second to that of the United States in 1985. This is in contrast to rather depressing news from the *United Kingdom* whose disbursements dropped sharply in 1980. A slight increase in the ODA/GNP ratio probably will be registered for 1981, but according to the most recent white paper the 15 per cent cut of aid volume against planned expenditure has been followed by a further 11 per cent reduction (in real terms) in the program for 1982/83.

The statements made by the new administration of the *United States* point in the same direction. For two fiscal years there was no congressional foreign aid appropriation at all. Spending simply continued at old levels. The budget cuts planned in the field of foreign aid will affect appropriations until 1986. The reduction in financial scope 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 strictly economic aid. U.S. contributions to multilateral lenders underwent the sharpest cuts: for example, subscription for capital increases of the World Bank are being pared down and the capital replenishment of the International Development Association has been seriously jeopardized by shrinking allotment on the side of the administration and by congressional disapproval. Even the funds for the bilateral aid program are being curtailed, with a noticeable swing to "security" assistance. The fact that the Economic Support Fund suffered only moderate budget cuts may be understood in this context. Generally speaking, it seems that once more those who see the relationship with the Third World merely as a part of the East-West conflict are gaining ground. Proliferation of this view elsewhere cannot be ruled out.

IV. FOR COMPARISON: OPEC AND CMEA FUNDS

The overall impact of budget cuts on Third World countries might be limited if other donor groups were ready to step into the widening breach between rising demand for external assistance and the actual flows originating in the West. In fact, the development assistance of the *OPEC* countries was stepped up to about U.S.\$7 billion in 1980. In terms of available figures, this is the highest level so far recorded. However, apart from its regional concentration on Arab and Islamic recipients, the chances for a bigger aid program are dim. It may be assumed that the latest oil price increases will not produce anything comparable 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 no way can *OPEC* aid be expected to fill the growing gap. Any hopes of oil-importing and aid-recipient countries for aid flows increasing in direct relation to oil prices have been dashed by clear *OPEC* comment.³

³ For details see [2].

TABLE II
IMPORTANT AID DONORS IN GLOBAL COMPARISON IN 1980

	ODA (U.S.\$ Million)	ODA as % of GNP
United States	7,138	0.27
France	4,053	0.62
Germany, Federal Republic of	3,517	0.43
Japan	3,304	0.32
United Kingdom	1,781	0.34
Netherlands	1,577	0.99
Canada	1,036	0.42
Sweden	923	0.76
Italy	672	0.17
Australia	657	0.48
Belgium	581	0.49
Norway	473	0.82
Denmark	468	0.72
Switzerland	246	0.24
Austria	173	0.22
Finland	106	0.22
New Zealand	71	0.32
DAC Total	26,776	0.37
OPEC	6,977	1.35
of which:		
Saudi Arabia	3,040	2.60
Kuwait	1,188	3.88
U.A.E.	1,062	3.96
Iraq	829	2.12
Qatar	319	4.80
Others	539	n.a.
CMEA	1,817	0.12
of which:		
USSR	1,580	0.14
Eastern Europe	237	0.06
Total ODA	35,570	n.a.

Source: [1, 1981].

(1) Rising oil prices are no reason for compensation by way of increased development assistance; no seller can consistently compensate certain customers. The most that can be done is mitigation of individual hardship.

(2) Any OPEC financial surpluses come from the sale of exhaustible resources and cannot be equated with the creation of value added in industrialized countries.

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

(4) The table of development aid performance in relation to national product has been headed for years by OPEC members; they are already contributing far more than other donors (GNP share as a group in 1980 is 1.4 per cent).

(5) The OPEC countries, in spite of their monetary prosperity, are by the usual economic and social indicators at an early stage of development. With

increasing absorptive capacity of their own economies domestic development will receive priority.

As for the *Council for Mutual Economic Assistance (CMEA) countries*, their combined aid program (aid to non-CMEA members only), as far as data are available, are supposed to have totaled somewhere in the realm of U.S.\$0.5 billion net in 1979. If the substantial aid to Cuba and Vietnam is included, aid over the preceding decade averaged around U.S.\$1.2 billion annually. For 1979 and 1980 it has been estimated at U.S.\$1.8 billion per year.

Judging by the attitude of the Group of 77 at the last UNCTAD conferences the CMEA countries, in future will find themselves confronted with growing demands for assuming increased responsibility within the framework of North-South relations. It will become increasingly difficult to reject this demand with the answer that socialist countries are not responsible for the economic consequences of colonialism or the state of certain raw material markets. It is however true that in most CMEA countries the need for economic investment, expectations concerning standard of living, and the burden of defense expenses are such that it will be difficult to divert additional funds into development assistance.

Thus, neither the share of the OPEC countries (for years moving around 17 per cent, recently up to 20 per cent) nor that of the CMEA countries (for years a modest 6 per cent of all ODA receipts by developing countries) is likely to show any significant upward trend.⁴ For the time being it can be assumed that even with all their domestic economic difficulties the western industrial countries will continue to have the highest potential for extending external aid. In each instance the decisive element is obviously the motivation for giving aid and 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 deriving the greatest economic advantage in the form of export stabilization from development cooperation are the ones to be primarily called upon and should be the ones to maintain, if not step up, the volume of their aid funds.

⁴ A further U.S.\$0.1 billion was received from other donors. These included Spain, People's Republic of China, Mexico, India, Yugoslavia, and Israel. This annual flow has been neglected here.

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