

German Aid

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German Aid

One of a series studying the aid contributions of the main donor countries, *German Aid* analyses the content and purpose of the West German effort. The growth of an Aid programme, the volume and types of assistance given, technical and academic programmes in Germany, private investment, trade, participation of non-government bodies and public opinion are some of the subjects that are studied in detail.

The author emphasises the single-mindedness of German policy and the systematic approach to problems that is often in marked contrast to British thinking on the subject. The object is the promotion of development.

While there is a great deal that is wrong with the German programme there is also a continual search for right methods and a striving for more efficiency.

This study does three things: it describes in detail all the more important aspects of German overseas aid policy and practice; it offers an assessment of the nature and design of German aid; and it draws attention to a number of areas of German aid policy in which there appear to be lessons of particular interest to Great Britain.

The analyses are supported by comprehensive tables and statistics. As the portrait of a donor the study is limited to sources of aid, policy, and structure of the programme.

The study is one of ODI's series on donor countries financed by the Nuffield Foundation. The author, John White, is a member of the Institute's research staff.

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German Aid

A survey of the sources, policy
and structure of German aid

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Introduction

The primary aim of German aid to developing countries is to promote economic development in those countries to which aid is given.

That statement is not quite so 'platitudinous' as it may seem. Aid, as a co-operative exercise by the richer nations to propel the economically backward areas of the world towards prosperity, was hardly an important factor in international relations before 1960. Aid had been given before then, admittedly, but piecemeal and for limited political purposes. Even today, the essential nature of aid is still the subject of controversy. Debates within the principal aid-giving countries have been clouded by arguments between those who see aid as a matter of good will, of help or of moral obligation, and those who expect aid to achieve all sorts of subsidiary national or international objectives for which it is not designed. In this argument, the technical requirements of economic development become obscured. Things have been advocated and done which do little to assist the aided nations' economies, and this has happened, not because of ill will, but because of a lack of clear purpose.

In Germany, the technical requirements of economic development are constantly at the forefront. There is singularly little discussion of reasons for giving aid beyond the promotion of economic development, and what discussion there is has only a marginal effect on the aid programme itself.

That is not to say that German aid is more disinterested than that of other donors. The usual motives of self-interest are discernible – political and economic. But a clear distinction is maintained, which can be expressed in the English language as a distinction between motives, or reasons, and objectives, or aims. An objective is what one is trying to achieve; a motive is why one is trying to achieve it.

The Germans have as wide a range of reasons for giving aid as anybody – charity, a desire to maintain international stability, the need to keep East Germany ostracised, a longing to cut a dash in the world, export promotion, and a host of others – but there is a reasonable degree of agreement that the immediate role of aid in the satisfaction of these aspects of the national will is the promotion of development. It is seen as one necessary element in the creation of an economically and politically more favourable international situation, not as an intermediate means towards that end. The practice of aid-giving is constantly under scrutiny by the sole yardstick of its contribution to development. The conflict of motives does not produce a conflict of objectives.

Germans themselves would probably be surprised by this judgment. On the face of it, Germany's aid programme is as confused as the aid programmes of others, and it has had just as many failures. But the confusion arises largely from the imprecisions of the German language. German aid remains fundamentally simple, not because of any startling clarity of vision, but because of the circumstances in which its origins

lie. Germany's entry into the company of aid-givers was the result of a conscious political decision, not of a historical accident. Towards the end of the 1950s, Germany re-emerged as a major power with a part to play in the world at large. In 1960, the Federal Government devised, more or less from scratch and without the burden of outstanding commitments, a policy for aid.

Any policy requires an objective. The policy may be revised, or be bogged down in practical difficulties, but it remains as something identifiable. The Federal Government defined its policy, and then devised machinery to implement it. Other and less fortunate aid-givers have had to make use of existing machinery, often the inheritance of an imperial past, to implement a policy that has never been properly defined.

The single-mindedness of German policy is reinforced by the systematic nature of German thinking. Each new departure involves the defining of a new concept. Outwardly, this creates an appearance of confusion, even of clumsiness, but it ensures that basic objectives are not obscured. Occasionally, the Germans have felt themselves compelled to follow the example of other donors. The restriction of American aid to the purchase of American goods and services, for instance, pushed the Germans into imposing similar limitations, although their more favourable balance of payments gave them no rational reason to do so. Occasionally, also, imitation has been brought about by outside pressure. American pressure, for instance, was a contributory factor in the setting up of a German peace corps. But the German tendency to conceptualise has the result that such borrowed ideas are subjected immediately to the criteria of policy, and fashioned into a shape that accords with stated objectives. The German version of the peace corps bears little resemblance to its American original.

The Germans, like other aid-givers, are now beginning to recognise that the promotion of development is itself a far more complex objective than was originally believed. But a forceful awareness of what it is that they are trying to do has given the consequent adjustments of method a continuity which is lacking from the policies of some of their partners. In their theoretical approach to aid, they seem to be two steps ahead. The thinking is still only half developed, and has not got far beyond the stage of considering discrimination between different kinds of economic progress and the general exercise of benign influence as necessary parts of any aid programme, but even that much is a valuable start. For most countries, after all, both aiders and aided, the suggestion that aid entails an attempt to influence is still taboo, for the historically proper reason that the objective of such influence is in many cases suspect.

We sometimes tend to think that the movement of money or men from a developed country to a developing one automatically constitutes aid. It is an unfortunate by-product of the excellent work done by the Development Assistance Committee of the Organisation for Economic Co-operation and Development that its statistics have encouraged people to think in terms of cash totals. At the same time, American pressure on other donors to give aid in the American image – that is,

on easy terms and lots of it – has had the even more unfortunate result of encouraging people to think that a qualitative assessment of aid involves a determination of the extent to which it is a genuine sacrifice for the donor, rather than the extent to which it is of genuine benefit to the recipient. But it is becoming evident that the quantity of aid and the terms of repayment are overshadowed by problems of priorities, administration and control. A loan for ten years at 5½%, skilfully applied to the right kind of project, is not necessarily of less value to the recipient than a loan for twenty years at 2½%, sloppily applied to an ill-chosen project.

These are problems which are at the forefront of German thinking, but the Germans lack the practical experience to put their conclusions into effect. In practice, as is widely admitted, German aid is in something of a mess, and the Germans frequently express a great eagerness to learn from other donors which have long-standing experience of the economies of Africa, Asia and Latin America. It is true that they could gain from the lessons of other people's practical experience, but it is also true that their extremely valuable theoretical thinking is specifically the outcome of their lack of practical experience. There is room here for a fruitful dialogue.

This is why German aid is of particular interest to other donors. Of the principal ones, the United States embarked on aid-giving in the shadow of the Cold War, and with memories of the rapid success of the Marshall Plan, and is only now disentangling itself from these inhibitions. France and the United Kingdom passed without a clean break from the commitments engendered by overseas dependencies to the commitments of aid-giving. They found themselves amid the remnants of an imperial structure which gave them valuable points of contact, but also a terrible tangle of improvised and unco-ordinated instruments which are proving less and less adequate to meet the changed circumstances. Japan is still too unsteady on its feet to have a clearly identifiable policy of giving aid to others. The Soviet Union is encumbered by compulsions which are the mirror image of those of the United States. China hardly even pretends that its purpose is a constructive one.

But Germany, grinding slowly forward, has to some extent succeeded in breaking out of these patterns. The consequent bleakness of the language in which German aid policy is couched may shock others – both donors and recipients – by its insensitivity, its slightly self-righteous air of being the vehicle of absolute truth, and its brutal exclusion of practical assumptions which others take for granted; but the thoughts behind it are always at the heart of the matter.

There is a lot that is wrong with German aid, but the faults are nearly always faults of prescription, rather than of diagnosis; and the search for more effective prescriptions is unremitting. The policy has been ruthlessly stripped of all those accretions which cloud the policies of other donors, with more complex entanglements in the countries which receive their assistance. The things that are wrong with German aid are things that are fundamentally wrong with the whole uneasy and painful relationship of rich and poor nations in the present world, and the stonily self-conscious efforts of the Germans to fashion

instruments that are mechanically more efficient shed light on the essential nature of aid.

In the following study of the German aid programme, an attempt is made to do three things:

1. For the specialist who is interested in other countries' techniques of giving aid, it describes in detail all the more important aspects of German overseas aid policy and practice. This description is supported with statistical tables which appear with the sections to which they are relevant;
2. As one in a series of ODI studies of other donors' aid policies, it offers an assessment of the nature and design of German aid. It does so, not in order to pronounce judgment, but in order to characterise a system which is fundamentally and significantly different from our own;
3. Special attention is given to a number of areas of German aid policy in which there appear to be lessons of particular interest to Great Britain. In several fields, such as the promotion of private investment in developing countries, co-operation between private and official organisations, and the proper direction of a co-ordinated technical assistance programme, the Germans have experimented with ideas which are seldom even discussed in this country. Both their successes and their failures are instructive.

Although an attempt is made to reach general conclusions concerning the effectiveness of German aid policy in its various aspects, it is not claimed that the study amounts to a detailed evaluation of the contribution that German aid makes to the recipients' economic development. Where reference is made to the practical results of one or another aspect of policy, this is intended as a demonstration of some of the implications of that policy. In some cases, such references are based on the author's personal knowledge, but in most instances they are drawn from the comments of others who have been either at the giving or at the receiving end of German aid.

Information gathered in this way is at best incomplete, and certainly does not offer a basis for a comprehensive evaluation of the impact of German aid in the countries to which it is given. To make such an evaluation would require a systematic study of specific projects on the ground, a study which would devote greater attention to the economies of the principal recipients of German aid, and less to the central policy and administrative structure from which the aid programme springs.

This study is intended primarily as a portrait of a donor, one of the four or five most important aid-giving countries in the world. It is, to quote the comment of someone who read the draft, a 'headquarters view', and the problems that it discusses are discussed from a headquarters viewpoint, that is, from the viewpoint of the donor. The donor's side of the relationship inherent in the aid-giving process is important, particularly in view of the weakening of public support for aid that has taken place in some aid-giving countries in recent years.

But certain aspects of the donor's situation would be obscured if they were described incidentally in the course of a more diffuse evaluation of the impact of aid in individual countries. The scope of this study is therefore limited to the sources, the policy and the structure of German aid, with only incidental reference to local application.

For the same reason, no attempt is made in the final chapter to offer a comprehensive assessment of the German aid programme. Some of the main structural features are summarised, and some of the arguments of other chapters are briefly restated. But the final chapter is concerned with the image of German aid policy, rather than with the policy itself. Special attention is therefore given to the question of public opinion.

Equally, fact and comment have not been kept separate in the central descriptive chapters. It should be clear from what has already been said that the difference between German aid and, say, British aid, is not, in the author's view, merely a difference of technique. The difference is in the underlying concepts, and the main purpose of this study is to analyse the conceptual basis of German aid in the hope that this may lead to closer questioning of some of the fundamental assumptions current in other aid-giving countries. Factual description shades into conceptual analysis, and conceptual analysis shades into comment. To try to separate them would involve arbitrary and artificial divisions in the total picture. It is hoped, however, that a sufficiently comprehensive array of facts is given to enable the reader to reach his own independent conclusions, and that the author's comments are sufficiently identifiable for the reader not to be misled into supposing that they represent an official German view.

Much of the material in this study comes from published sources, notably published policy documents of the Federal Government, the annual reports of the Kreditanstalt für Wiederaufbau and other institutions involved in the aid programme, the annual reports of a number of non-governmental economic and financial institutions, speeches and writings of politicians and officials engaged in the formulation of aid policy, the Lutzeyer Handbook of Development Assistance, academic studies, and so on. But this material has been significantly supplemented by conversations with German officials and others engaged in the giving of aid.

I should like to express my sincerest thanks to those who gave their time to discuss aspects of German aid, and especially to the large number of officials who illuminated with great forthrightness some of the more controversial aspects of the Federal Government's aid programme.

I should also like to thank several officials in the Federal Ministry for Economics and the Federal Ministry for Economic Co-operation for their help in preparing suitable statistical material, much of which had to be presented in forms in which it had not previously been available. In some cases, statistical material had to be collected from two or more Government departments in order to present a clear general picture. Where a Ministry is given as a source, this merely indicates the principal authority for the figures used. It does not

necessarily mean that the table is one to which that Ministry has given its official approval. If mistakes have arisen through the combining of figures which may have been calculated on differing bases, the fault is mine. The responsibility for all interpretative comment is also, of course, entirely mine.

My personal thanks are due to members of the staff of the Deutsche Stiftung für Entwicklungsländer and of the Carl-Duisberg-Gesellschaft for their generous practical help in the collection of material, and to those specialists in Germany and elsewhere who have read and commented on the final draft.

1—The Growth of an Aid Programme

I The German Outlook

After the Second World War, Germany was left virtually without foreign relationships, and therefore without foreign commitments, except for those which arose directly from its defeat in war. The country was locked up in itself, preoccupied with the problem of recovery.

But the problem of recovery was one which beset Germany's neighbours also. Germany lay at the heart of a continent in ruins, and German recovery was part and parcel of the recovery of Europe. In this, Germany had more in common with its neighbours, which had been victors, than with its defeated ally, Japan. The positions of Germany and Japan resembled each other in that both countries found themselves shorn of their former influence overseas, but Japan's path to recovery lay in the re-establishment of its lead over its neighbours and of its former economic distinction. For Germany, the path to recovery led to integration in a reconstructed European economy. The Marshall Plan, which laid the foundations of European recovery, was a plan designed for a continent. Germany is in the centre of that continent, and it is in Europe's reconstruction and renaissance that Germany's prosperity now lies.

The difference between the paths taken by the two defeated allies is illuminating. Japan, forced to look overseas, took the first steps towards giving aid to developing countries in 1954, but aid policy has never departed far from the service of Japan's own economic requirements. Germany, in spite of a slightly more rapid recovery, took a few years longer before it began to give aid. When the decision to do so was taken, Germany's economic strength was already well assured, within the European framework. In its relations with developing countries, the Federal Government was not impelled by any overriding need to cut a new swathe for German economic expansion. That requirement had already been taken care of, by other and more effective means.

The lack of serious economic pressure on Germany to look far beyond Europe has both advantages and disadvantages for its aid programme. German efforts and skills can most profitably be used in exploring the markets of Germany's equally developed neighbours. Beyond Europe, neither past ties nor future opportunities offer a sufficient counter-attraction to guarantee the continuance of the aid programme on purely economic grounds. So far as can be seen, the main economic effort will continue to be devoted to Europe. Although this has made it possible for the Federal Government to devise an overseas aid policy which is not distorted by the need to serve short-term interests, it has also created difficulties, notably in the Government's efforts to stimulate private investment in developing countries.

Germany's political preoccupations are also European. Even if, as is

certainly the case, the reunification of Germany is a distant dream which has come to play less and less of a part in day-to-day foreign policy, the fact of the division of Germany is still a political circumstance of hypnotic force. For the Federal Republic, Berlin is the inescapable reference point.

It is not surprising, therefore, that the Federal Government makes some use of its aid programme to demonstrate its superiority over the East German regime. Hardly a visitor of any importance can come to Bonn without being taken up to Berlin to see Herr Ulbricht's wall. Non-recognition of East Germany is the invariable political condition of West German aid, and the Federal Government's degree of success in keeping East Germany diplomatically ostracised is put to the German public as a justification of the aid programme.

These things are inevitable. What is more interesting is the fact that among the recipients of West German aid the conspicuous political string seems not to have aroused particularly strong resentment. Herr Ulbricht's wall is an object of such obvious meaning that it can almost be allowed to speak for itself; and the size of the West German aid programme, compared with that of East Germany, does the rest. The Federal Government has carefully not overplayed its hand, resting content with formal non-recognition, and this is a condition that even the most vociferously non-aligned countries have found it possible to fulfil without seriously inconveniencing themselves. It is almost certainly true that the West German aid programme has played a significant part in preventing the spread of recognition of East Germany, but the need to prevent the spread of recognition appears to have had only a marginal converse effect on the aid programme. Only if a recipient of aid actually recognises East Germany, something that no important recipient of West German aid has done in recent years, is the aid programme likely to be seriously affected. Even this reservation is weakening, as the Federal Government comes to face the probability that it will not be able to hold the line by such means for much longer.

The claim that Germany's short-term political and economic interests are not an important factor in the nature of the German aid programme may cause surprise. There is a widespread impression that it is, if anything, even more strongly influenced by such considerations than are the aid programmes of other donors. But the point is that Germany's interests are of such a kind that they do not conflict with the proper requirement of any aid programme, that is, that it should contribute to the accelerated economic development of the recipient. The Federal Government has not suppressed its own short-term interests. It has simply found that they do not constitute a serious limiting factor, and it has been able to construct its aid programme on other criteria more closely geared to its theoretical conception of the needs of the countries to which its aid is given.

The decision to embark upon a policy of aid was taken for a variety of complex reasons, but they added up to a declaration that Germany, as a legally re-established and respected state, was once again able to take its place in the world and to assume wide international responsibilities. The decision was taken partly in response to pressure from

Germany's post-war allies. In the latter half of the 1950s, the United States in particular had sought to persuade the Germans to contribute on a large scale to the western effort in developing countries. The Germans responded initially with tentative gestures – by bringing an increasing number of technical trainees from developing countries to Germany, by making available guarantees for private export credits for financing capital development projects and, from 1957 onwards, by making massive contributions to multilateral financial agencies. But these gestures were piecemeal and confused, and the Germans themselves would not have pretended that they added up to a coherent aid programme. In technical training and in guaranteed export credits, the proper balance between Germany's immediate interests and the interests of long-term development had not yet become clear. In the contributions to multilateral agencies, there were international political and financial considerations which had little direct connection with overseas development.

Meanwhile, other pressures were at work. The reunification of divided Germany was proving an increasingly sterile objective of foreign policy. To break away from a stultifying position, the Federal Government was casting about for ways to diversify its foreign relations. The great reconciliation with France was in part the outcome of this search. So was the aid programme.

The tentative measures of the 1950s – technical training, export credits, and multilateral finance – also had a part in the making of policy. Etched, as they were, against the background of Germany's re-emergence, they were under constant and critical scrutiny, and their implications were followed to a logical conclusion. The conclusion was that the promotion of economic development entailed a planned and co-ordinated programme, tailored to that objective.

The decision to initiate a comprehensive aid programme was taken in 1960. It was not taken particularly willingly, if only because it was obviously going to be a costly decision to implement. Once the decision had been taken, however, it was implemented with uncompromising thoroughness. Subsequently, direct political and economic interests have begun to play more of a part. The relationships engendered by the aid programme have inevitably thrown up some political friendships which are more useful than others, and Germany's political position in the world as a whole has been affected. New trading interests have arisen in the wake of German enterprise, and these are bound to grow. But these interests remain subsidiary to the main theme of economic development, a theme which has led to the systematic creation of a whole new vocabulary of German foreign policy.

The aid programme gained rapid momentum, and within a year the yearly volume of German Government finance for developing countries was the third largest in the world, after the United States and France. There was a certain crusading zeal about it, the remnants of which still linger after four years. The new Germany, risen from the ruins, would demonstrate the extent of its resources, its skills and its ability to carry responsibility with dignity. The zeal has been cooled by experience, but in the cooling Germany's aid programme has been moulded.

2 The Beginnings of Policy

It has become customary for the Federal Government to trace the origins of the aid programme back to the very first technical training schemes, which were started in 1953. Up to 1960, however, discussion of aid to developing countries revolved rather around the system of guaranteed private export credits. In most western countries, financial assistance was at that time regarded as more obviously important than technical assistance in the spread of prosperity, and Germany was no exception in jumping to this conclusion.

But private export credits turned out to be a very unsatisfactory instrument for promoting economic development. The Federal Government's guarantees for such credits, the so-called Hermes guarantees (see Chapter 10, Section 2), were not originally designed for this purpose. In the post-war years, they were simply a means of helping German export industries back on to their feet. The suggestion that they were primarily intended to help the recipient would have been met with surprise and disapproval.

In the natural course of events, guaranteed export credits came to play an important part in the financing of capital development projects overseas, simply because this was the commercial field in which there seemed to be the biggest element of risk for ordinary private credit-financed transactions. But no particular conclusions were drawn concerning the need to consider special terms of repayment to meet the special conditions of development in backward economies. The Federal Government stopped short of the compromise solution adopted in Britain, of adapting the existing machinery of guaranteed export credits as a means of making Government finance available for selected development projects.

In the late 1950s, the Germans were much criticised by certain other western governments for the harshness of their export credit policy, but in the event their decision has turned out to be the right one. While the British Export Credits Guarantee Department remained awkwardly saddled with the need to serve two masters – trade policy and aid policy – the Federal Government has managed to keep the interests of German exporters and the requirements of the countries to which it gives aid administratively separate. In practice, the two aspects of policy may overlap, but they involve the consideration of differing factors which cannot always be easily reconciled within a single administrative framework.

The growth of German guaranteed private export credits as a means of financing overseas development projects reached its climax in the arrangements for the construction of the Rourkela Iron and Steel Plant, one of the key projects in India's Second Five-Year Plan. In subsequent years, the Rourkela project, together with all the difficulties through which it has passed, has often been put to the public, both in Germany and elsewhere, as the massive and costly symbol of the Federal Government's aid policy. It is particularly important to remember, therefore, that Rourkela started, on the German side at least, as an ordinary commercial operation. The first negotiations, which took place in 1953, were between representatives of the Indian Government

and the private companies of Krupp and Demag. The Federal Government showed little interest. In 1956, some 40 German companies and one Austrian company entered into contract with Hindustan Steel Ltd., a specially established agency of the Indian Government. Each company had its individual contract, and each made its own arrangements with the sub-contractors, which were about 3,000 in number. In some cases, payment was to be made in cash. In others, short-term credits were granted. To the Germans, the symbolic importance of Rourkela lay, not in its nature as an aid project, but in the proof that German industry was back in business again on a world-wide competitive basis.

In 1957, India suffered a foreign exchange crisis which put an end to its hopes of financing its development plans from its own resources. The Indian Finance Minister visited Bonn to discuss the possibility of re-financing the payments due on the Rourkela contracts, as a result of which the Federal Government agreed, in February 1958, to grant consolidation credits¹ to a limit of 660m DM, to cover payments due to German contractors up to 31 March 1961. The credits carried interest at a rate of 6%, and were to be repaid in three years, but it was made clear during the negotiations that these rather stiff terms were to be regarded, in the wording of the final agreement, as only 'a preliminary postponement of payment obligations'. By the beginning of 1964, the Federal Government's direct and indirect commitment to Rourkela had reached approximately 1,800m DM, including re-financing credits.

The first consolidation credit for Rourkela was the forerunner of Germany's true capital aid programme. It led to the inescapable conclusion that overseas development aid could not be financed through existing commercial channels, or anything resembling them. The Federal Government gave itself a three-year breathing space, during which it set out to devise something more appropriate. When the capital aid programme was inaugurated, in the latter half of 1960, it emerged as something quite distinct from other forms of financing, and in its own statistical and administrative presentations the Federal Government has retained the distinction, not only between financial aid to developing countries and financial aid to German exports, but also between direct capital aid and other kinds of financing such as consolidation credits and balance of payments support.

There were further lessons to be learnt from Rourkela. (These lessons are discussed in more detail in Chapter 7.) The size of the German stake in the project, in terms of money and prestige, were sufficient to ensure that its successes and failures would be closely watched by the German Press, and the controversy over some of the mistakes that were made there is still not entirely dead. Rourkela remains an essential point of

¹ There are two kinds of re-financing operation that the Federal Government has carried out for Rourkela: 'consolidation credits', or the settlement of the Indian Government's debts to private German creditors against promissory notes issued for the purpose by the Indian Government and 're-financing credits', or the prolongation of the Federal Government's loans to the Indian Government as they fall due for repayment.

reference in any discussion of the German aid programme, but it is not an integral part of that programme. It should be regarded, rather, as a costly but immensely valuable preliminary exercise, the lessons of which are still being worked out.

The second strand in the fashioning of German aid policy was the technical training programme which began on a very small scale in 1953. In that year, a sum of 500,000 DM was made available in order to send German experts overseas. The allocation was administered by the Ministry for Economics.

At the same time, the first technical trainees from developing countries began to appear in Germany. Many of them came under the auspices of private German firms which had obtained contracts in their countries, and the training courses were commonly considered as part of the ordinary costs of such contracts, for which allowance had to be made in the tender.

Over the next three years, the Government's annual allocation for technical assistance was gradually increased, and by 1956 it had reached 2m DM. But by this time aid to developing countries was attracting more public interest, principally as a potential instrument of foreign policy. The Bundestag (Federal Parliament), without waiting for a request from the Government, authorised the creation of a special technical assistance fund of 50m DM, the administration of which was allocated to the Foreign Ministry. In the same year, the first batches of Government-sponsored technical trainees were brought to Germany.

These were tentative beginnings. Even after 1956, German technical assistance remained unco-ordinated and somewhat haphazard. To the Federal Government, the scope seemed severely limited by the lack of German experts with experience of conditions in developing countries. In these countries, Germany had no special interests to protect, as did the colonial powers, and it had no tradition of service overseas. The countries with which Germany was beginning to become involved seemed dauntingly alien. A group of Africans or Asians walking down the street of some German manufacturing town was a startling sight, still weird enough to provoke stares. Even among Government officials, neither the depth of the problems of development nor the scale of the commitment into which Germany was being drawn had been fully appreciated. In Germany, as in other western countries, technical and financial assistance was seen as a means of giving newly independent nations a start in life, of bridging a temporary gap. The word 'Starthilfe' still recurs frequently in German discussions of aid. Its use has prolonged the life of these initial misunderstandings, for it continues to disguise the length of the commitment into which Germany has entered.

(It is worth pointing out that a similar misunderstanding appears to persist in Britain. By an accident of historical development, the terms on which British aid can be offered to a colony or a country at the moment of independence are not only more generous, but also different in kind, from the terms on which aid is offered an already independent country, even within the Commonwealth.)

Under the hand of the Foreign Ministry, the technical assistance

programme continued to grow. Comprehensive figures are difficult to ascertain, because of the piecemeal character of the assistance offered, but it is estimated that by 1960 the Federal Government and the Länder (provinces) were spending about 30m DM a year on all forms of technical assistance combined. The growth of the technical assistance programme, however, was largely autonomous. The Federal Government did not take a serious look at the basis of its policy until 1960, when the decision to embark upon capital aid on a massive scale compelled the German authorities to consider more carefully the total requirements, in terms of skills, of the countries to which aid was given.

The third important element in German aid before 1960 was the Federal Government's support of multilateral organisations, particularly the International Bank for Reconstruction and Development (World Bank) and the Development Fund of the European Economic Community. During the years when the Federal Government was still casting about for the most effective channel for German aid, multilateral institutions were widely regarded as the most promising outlet. It was assumed that aid through such institutions was in the long run unquestionably the ideal solution to the problems of developing countries, and Germany, without the special commitments of Britain and France, seemed to be in an ideal position to take a lead. That, at least, was the argument put to the Federal Government by the United States, and the Germans were inclined to agree, seeing in multilateral aid, perhaps, the new role in world affairs that Germany was seeking. It was also seen, in the Ministry for Economics, as a constructive response to the pressure exerted by other western nations on the Federal Government to do something to ameliorate the international financial consequences of the massive surplus in Germany's balance of payments.

Before 1960, subscriptions and loans to multilateral financial institutions were by far the largest element in German official expenditure for aid to developing countries. In 1957, 1958 and 1959, according to the figures published by OECD, Germany contributed more to multilateral financial institutions than any other country, including the United States, and these contributions have continued on a scale that only the US has matched (see Chapter 8, Section 1). In the years 1957-1960, in addition to German capital subscriptions, the Federal Bank's net purchases of IBRD bonds amounted to 1,700m DM. In 1959, a loan to the IBRD of 200m DM at 5% was raised on the German capital market. The German contribution to the first Special Development Fund (FEDOM - 1958-1962) of the EEC was fixed at \$US 200m (approximately 840m DM at the 1958 rate of exchange).

Multilateral aid has lost the central position in the German aid programme that it once had. The reason for this is simple. In 1960, the Federal Government accepted the need for a comprehensive policy of aid to developing countries. A policy entails decisions, and if the policy is to be effective the Government must have a reasonably free hand to implement its decisions. Multilateral organisations are not, and should not be, an instrument of national policy.

Up to the end of 1962, the Federal Government continued to channel a very high proportion of its development finance through multilateral institutions. The proportion was far higher than in the case of any of the other three main western donors – the United States, France, and the United Kingdom. It is true that some donors, notably the Scandinavian countries, have made proportionately even greater use of multilateral institutions in their aid programmes, but the sums involved in all these cases are relatively small. The recent decline in the proportion of German aid that passes through multilateral institutions is in part attributable to chance, for it so happened that no payments to the Special Development Fund of the EEC fell due in 1963 and 1964. But there has also been a distinct change of attitude.

This is hardly surprising. In any country in which the volume of aid had risen to the level that it has reached in Germany, one would normally expect to see the aid programme subjected to growing demands for it to be used in ways which produced nationally identifiable results. Aid through multilateral channels does not produce results that the Federal Government can clearly identify, to the German public and to itself, with its own vast contributions.

There are reasons for supposing that the Federal Government will continue to maintain contributions to multilateral institutions at a high level, but these reasons have little to do with aid policy, or with any stated belief that multilateral institutions are especially suited to meet the needs of developing countries. German policy towards the IBRD appears to be much influenced by conditions in the international monetary situation, while the Federal Government's attitude towards the Special Development Fund of the EEC is visibly affected by considerations of the political relationships, within the Common Market, of France and Germany. Although the scale of multilateral contributions remains high, the main objectives of German aid policy are pursued with increasing intensity through bilateral channels, and it is in bilateral relationships with developing countries that the German moral and political commitment lies.

The commitment was formalised in the autumn of 1960, with the establishment of an Inter-Ministerial Committee for Questions of Development Policy. On this Committee were represented, in addition to the Foreign Ministry and the Ministry for Economics, the Ministries of the Interior, of Finance, of Food, of Labour, of Transport, and of Federal Property, the Office of the Federal Chancellor and the Federal Bank. The Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau, commonly known as the KW) participated in the work of the Committee in an advisory capacity. From the outset, the Committee's function was seen as one of co-ordination.

At a lower level, special committees were set up for technical assistance and capital assistance. Technical assistance remained broadly speaking under the control of the Foreign Ministry. Capital assistance was the province of the Ministry for Economics.

The placing of capital assistance in the hands of the Ministry for Economics has had a marked effect on the way in which the German aid programme has developed. The Ministry, under the political

leadership of Dr. Erhard, had played a central part in Germany's post-war economic recovery. It had accumulated power and a high degree of economic expertise. This expertise was now to be applied to the creation of a policy for which the preliminary exercise had been Rourkela; and at Rourkela, as was all too obvious, things had gone very wrong indeed.¹

Rourkela was something of a traumatic experience for the Germans. How was it that German engineers, who had been so brilliantly successful in their own country, could become exposed to such embarrassing abuse when they attempted to repeat that success overseas? It was obvious that the contractors had failed to take the very different circumstances of India into account. If this mistake was not to be repeated, either the capital assistance programme would have to be adapted to the unfamiliar circumstances, or the circumstances would have to be adapted to fit the proven formula of the German 'economic miracle'. The instinctive reaction of the Ministry for Economics, on the basis of past success, was to try to bend the circumstances. Before the capital assistance had got under way, it was already overburdened with conditions, criteria, principles and priorities, all of which were laid down with the aim of injecting into the aid programme the faith of the Germans in their own particular mode of economic progress, and of imposing on the recipients of German aid the logic of German practice.

The profusion of criteria is still one of the most characteristic features of the German aid programme. In the light of experience, some of the early principles have been modified, or quietly dropped, but the removal of capital assistance from the other aspects of aid has meant that the lessons of experience have not always been as quickly learnt as they might have been. For the Ministry of Economics, capital aid is only a subsidiary activity, occupying a part of one of the Ministry's half-dozen sections. The Ministry has little responsibility for other forms of aid. This does not only mean that capital assistance is to some extent divorced from the rest of the aid programme. It also means, paradoxically, that capital assistance is divorced from wider considerations of German policy, because the surplus in the balance of payments has destroyed the Ministry's potential interest in the aid programme as a disguised means of promoting exports. Guaranteed export credits, which were Germany's first approach towards capital assistance, now play a rapidly diminishing role in the flow of resources from Germany to developing countries. There is no obvious reason why the Ministry for Economics should regard the aid programme with any sense of urgency.

In September 1961, a general election deprived the ruling Christian Democrats of their absolute majority in the Bundestag, and after some rather uneasy negotiation a coalition with the Free Democrats was formed. The long reign of Dr. Konrad Adenauer was approaching its end. There was a break in the old cabinet order. Changes had to be made to accommodate the Government's new partners.

¹ The unexpected rise in the Federal Government's financial commitment to Rourkela has already been mentioned. The technical difficulties are discussed in detail in Chapter 7.

One of the changes which followed the election in the autumn of 1961 was the creation of a Federal Ministry for Economic Co-operation (Bundesministerium für Wirtschaftliche Zusammenarbeit—commonly known as the BMZ). The new Minister was Walter Scheel, a Free Democrat.

The functions of the new Ministry were not clearly defined. Allocations for aid to developing countries, with a few small but significant exceptions, were brought together in the new Ministry's budget, but the BMZ was not given outright control of the administration of these funds. Its function, like that of the inter-ministerial committee which had preceded it, seemed to be one of co-ordination. Ultimate responsibility for the aid programme remained more or less where it had been.

German aid has been to a large extent conditioned by the shape of the administrative structure within which it has evolved. From the end of 1961 onwards, there is hardly any important aspect of policy that can be fully explained without at least partial reference to the relationship between the various Government authorities involved.

In any government machine, the relationship between different departments is important. In Germany, the importance of this relationship can, on occasion, override other considerations. The German bureaucracy is not anonymous. Its internal debates are fought out in the open, and are a conspicuous element in the public formulation of policy. By an accident of political evolution, German aid has been exposed to the full force of this kind of debate. An explanation of the administrative structure of aid must therefore come early in any explanation of Germany's relations with developing countries. Here the explanation is given immediately following a cursory preliminary survey of the volume of aid.

2 — The Volume of Aid

I The Leap in Commitments

The German decision to accept vastly increased commitments as an aid-giving nation was well advertised, and its effect was immediately and dramatically visible. Within a few months, the Federal Government was making funds available on a greatly increased scale and for a far greater range of projects. In 1961, according to the OECD figures, German official grants and loans to developing countries and multilateral agencies increased by 80%.

In 1960, the West as a whole had become more deeply involved in aid to developing countries than ever before, and in 1961 total official grants and loans from the members of OECD to developing countries and multilateral agencies increased by about 25%, but in no country was the increase so sharp as in Germany. Germany's entry into the aid field, indeed, was one of the most important factors in the West's recognition of aid as a continuing and long-term multi-national operation. The first attempts by the West to achieve co-ordination of the separate national aid programmes revolved around the need to incorporate this sudden new source of funds, and German participation has continued to be a conspicuous element in various subsequent combined efforts.

As soon as the developing countries woke up to Germany's potential as a provider, requests poured in. Throughout 1960 and 1961, a succession of visitors from countries with which Germany had few traditional ties passed through Bonn.

It was obvious that many of these requests were put in without proper preparation, but the German administrative machine was not yet equipped to process them properly, or to sort out the most promising lines of development. Until more experience had been acquired, the Federal Government's directives were bound to be imprecise. It laid down at the start, for instance, that Germany, being free of special commitments to former dependencies, should endeavour to distribute its aid over as wide a range of countries as possible.

The Government was aware of the danger of getting too deeply involved in commitments to projects which further experience might show to be inappropriate to the needs of the country concerned, but it wanted to make a bold start. A few months after the formation of the Inter-Ministerial Committee for Development Assistance, the Government devised the instrument of the general advance commitment, which specified neither the projects to be financed nor the length of time over which aid was to be given, but merely expressed a willingness on the part of Germany to provide aid to a particular country up to a stated limit, provided that suitable projects could be found. General advance commitments were applied retroactively to a number of loose agreements that had already been concluded.

Bilateral commitments piled up. In 1960, the Federal Government entered into new bilateral commitments worth 533m DM. In the

following year, new bilateral commitments amounted to nearly 5,000m DM. Only about a quarter of the commitments entered into had been covered by firm project agreements by the end of 1961. Actual disbursements lagged even further behind, particularly in the capital assistance programme. By the end of 1961, total commitments for bilateral capital assistance were five-and-a-half times as high as actual disbursements already made from the capital assistance budget.

The funds were there, and so was the will, but the administrative machinery was not. The Federal Government had failed to realise how different were the circumstances of developing countries from the circumstances that Germany itself had experienced immediately after the war, and it had underestimated the delays caused by the administrative deficiencies of many of the recipients of German aid, and by the difficulty of finding projects which measured up to the Germans' rather strict requirements. The pipeline rapidly became clogged, as officials struggled to work off the large and widely distributed commitments into which Germany had so hastily entered. In 1960 and 1961, Germany entered into commitments to some 65 countries.

The general advance commitment served a useful function in enabling Germany to expand its aid programme with such astonishing rapidity. In the long run, the benefit of Germany's massive commitment outweighs the mistakes that were inevitably made by officials who found themselves thrown in at the deep end. But it was soon recognised that the level of commitment was in fact too high, and that the procedure that had been adopted was tying down funds which could be more effectively used elsewhere. Good projects in some countries had to be rejected because funds were committed to other countries in which suitable projects had not yet been found. A constant problem for officials administering German aid has been how to persuade the Finance Ministry to accept the need for increased budgetary allocations, when earlier allocations are still lying idle.

In 1963, the Government therefore officially abandoned the general advance commitment, and adopted a more stringent procedure which, it was hoped, would result in a more accurate application of funds. In principle, the Federal Government now commits aid funds for specific projects, on the basis of a rough estimation of costs which is embodied in a government-to-government agreement. This agreement is used as the basis for further negotiations before the final contracts are drawn up.

The general advance commitment is still occasionally used, because of its administrative simplicity. It is regarded as an especially handy instrument for occasions when the Federal Government wants to make a quick political impact. At the beginning of 1964, for instance, a general advance commitment was given to South Vietnam.

The term 'commitment' thus has three meanings in German aid – the general advance commitment, the government-to-government agreement, and the final contract. In general, 'commitment' or 'advance commitment' are used interchangeably to cover the first two, and 'firm commitment' to cover the last.

The level of commitments is now planned on the assumption that five years is the average length of time that a commitment will take to

work itself out. (This is also the view taken by the IBRD.) The massive commitments of 1960–61 were intended primarily as a quick way of getting a full head of steam into the aid programme, and in this they were successful. It is not really surprising, therefore, that there was an initial lag in disbursements, and that the rate of new commitments should gradually have eased off. As can be seen from Figure 1, the gap between disbursements and accumulated commitments has begun to narrow. In other words, the rate of new commitments has fallen below the rate of actual disbursement.

Attempts have been made by critics of German aid policy – the same critics, incidentally, who were once disturbed by the lag in disbursements – to show that this state of affairs could eventually lead to a shrinking of the aid programme. But it must be pointed out that Germany has had a comprehensive aid programme for only about five years, hardly one ‘generation’ of aid finance. It is not really possible at this stage to draw conclusions concerning future commitments and disbursements, since the aid programme has not yet settled down into its long-term pattern.

2 Disbursements

Since 1961, the flow of official and private financial resources from Germany to developing countries and multilateral agencies has been very roughly the same as that from the United Kingdom. Of the members of OECD, only the United States and France surpass the German and British figures.

A more accurate indicator of the size of the Government’s aid programme, however, is the figure given by OECD for the total flow of *official* resources, and in this respect Germany has for the past few years been consistently ahead of the United Kingdom, though still a long way behind the United States and France.

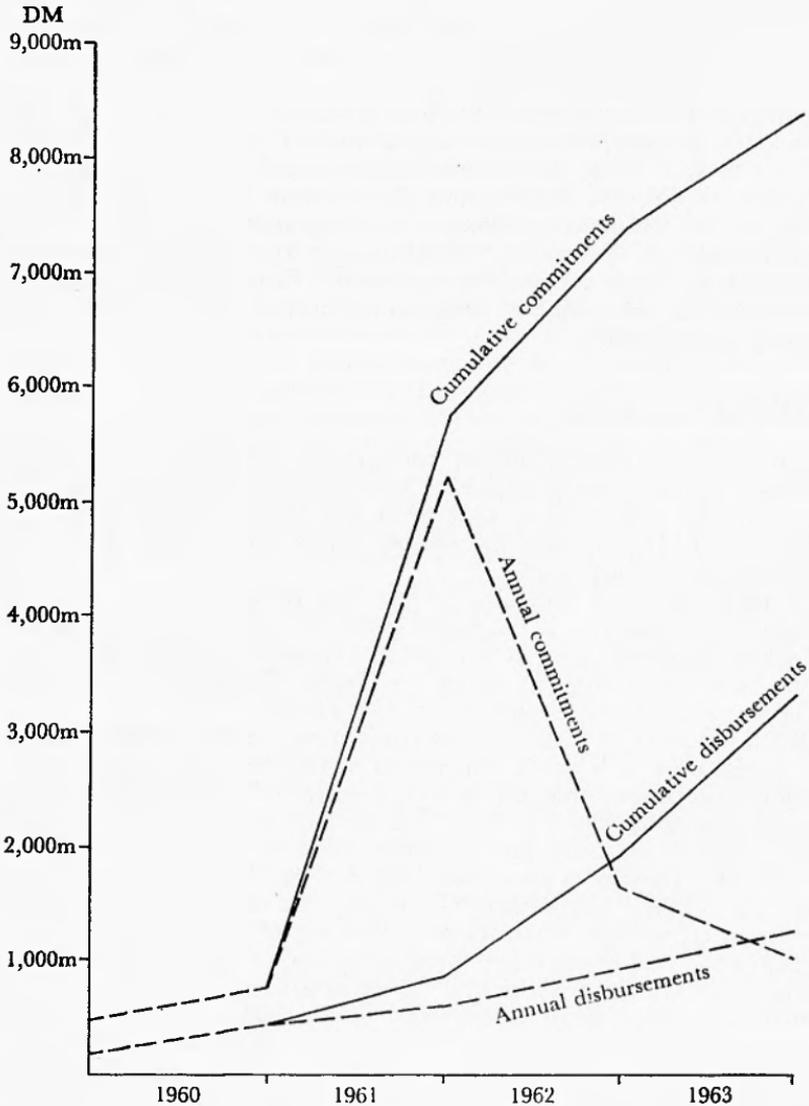
Such exercises in international comparison, it must be emphasised, are useful only as a quick illustration of the relative significance of a nation’s aid programme, not as an assessment of relative merit. For this reason, the comparison is here deliberately *not* expressed in figures. The OECD’s statistics are so comprehensive, include such a wide variety of categories of payments, that they are not really a satisfactory basis for detailed comparison. German grants to developing countries, for instance, include reparations to Israel and Greece, which do not occur in the case of the other three aid-giving countries that have been mentioned. On the other side of the picture, German official credits to developing countries in recent years have consisted predominantly of genuine capital assistance, with a comparatively small sum devoted to the direct financing of German exports, while the so-called capital assistance programmes of some donors consist largely of relatively short-term export credits.

The relevant figures for Germany are shown in Table 1. In 1963, the net flow of official and private resources from Germany to developing countries and multilateral agencies amounted to about 2,500m DM. Of this sum, about 1,700m DM, roughly 70%, came from the Federal

Figure 1

Commitments and Disbursements 1960-63

Bilateral capital assistance and technical assistance, including training, education, and other technical assistance activities in Germany.



Note: 1 The first commitments for capital assistance were made in 1960. Technical assistance commitments and disbursements for that year are approximate. Technical assistance commitments and disbursements before 1960 are not included in the cumulative totals.

Source: Ministry for Economics.

Government and its agencies, and the Länder. But a clearer picture of the Government's aid programme can be obtained by adding up the sums spent under the aid budgets of the Federal Ministry for Economic Co-operation, the Foreign Ministry and other Government departments. These items are shown in Table 1 in bold type. In 1963, they amounted to nearly 1,400m DM. This was about 50% higher than the amount spent on overseas aid two years previously, in 1961. Here again, detailed comparison with other countries is not possible, because different countries draw up their budgets in different ways.

Table 1

The Flow of Resources from the Federal Republic to Developing Countries and Multilateral Agencies (Disbursements) 1950-1963

	1950-1961	<i>million DM</i>	
		1962	1963
I Bilateral Official			
1 Grants	2,909	437	566
of which: Reparations ...	2,693	280	278
Technical Assistance ¹ ...	159	132	254
Grants to development programmes ² ...	—	18	23
Supplies of food and agricultural commodities ...	—	6	9
Others ³	57	1	2
2 Credits (with maturities of more than one year): net ⁴ ...	3,068	953	1,030
of which: Credits, gross ...	3,987	1,159	1,207
Amortization received ...	916	206	177
and of which: Bilateral capital assistance ...	803	853	966
Other credits: ⁵ ...	2,265	100	64
Total Bilateral Official ...	5,977	1,390	1,596
II Multilateral Official			
1 Grants to multilateral organisations ...	600	349	46
of which: Grants to UN technical assistance programme (UNEPTA and Special Fund) ...	48	30	32
Grants to other UN technical assistance activities ...	44	11	14
Grants to EEC Development Fund	508	308	—
			29

TABLE 1 (continued)

2 Capital Subscriptions to Multilateral Organisations	481		72		72
of which: IBRD		374		31	31
IFC		15		—	—
IDA		92		41	41
3 Purchase of IBRD bonds:⁶ (with maturity of more than one year)	2,624		—5		—20
Total Multilateral Official	3,705		416		98
III Private					
1 Net increase in guaranteed export credits	4,282		129		230
2 Exporters' unguaranteed portion of guaranteed export credits (usually 20%)	1,069		32		57
3 Direct Investment and other new lending:⁷	2,827		570		378
of which: direct investment (inc. re-invested earnings)		n.a.		370	356
4 Private lending to IBRD:⁸	265		—		—3
5 Technical assistance programmes of the Churches financed from own resources:⁹	189		69		76
Total Private	8,632		832		738
Grand Total	18,314		2,606		2,432

Sources: Figures given here are in general based on the figures published by OECD, supplemented and amended in accordance with additional figures supplied by the Ministries for Economic Co-operation and for Economics. Figures published by OECD are based on figures supplied by the Ministry for Economics, and these figures are used in cases where there is a conflict between figures from various sources.

Aid to Developing Countries: Disbursements which fall under the general heading of 'Development Aid' in the Federal and Länder budgets, together with the totals and sub-totals, are shown in bold type.

Annual Totals: Before 1962, figures for annual totals which are available are based on varying methods of reckoning, and therefore not strictly comparable. A figure for annual averages would be equally misleading, because of the sharp increase in German aid in 1961.

Notes: 1 Technical Assistance: The figures given for technical assistance in 1962 and 1963 include the supply of experts and equipment to developing countries, other expenditure on training institutes and pilot projects in those countries, technical training and education in Germany of people from developing countries, educational and social assistance, grants to the technical assistance programmes of the Churches, and services provided by the German Foundation for Developing Countries and the German Development Service.

The figure for 1950-61 is an estimate, and does not include training and education in Germany, for which no figure is available.

2 Grants to Development Programmes: Except for 0.8m DM in 1963, grants to development programmes consist solely of Germany's contribution to the Indus Basin Development Fund. Germany's total commitment, under the 1960 treaty and the subsequent supplementary agreement, is 211m DM.

3 Other grants: include payments in respect of government guarantees.

TABLE 1 (*continued*)

- 4 Official bilateral credits, net, are broken down in two ways – first, as gross credits less amortisation received, and secondly as bilateral capital assistance plus other credits. The figures for gross credits and amortisation received, 1950–61, are reached by adding rounded annual totals, which are the only figures published: hence the discrepancy between these figures and the figure for net disbursements.
- 5 Other credits: consolidation and re-financing credits, government export financing, etc. The largest single item in the figure for 1950–61 is the consolidation credit for Rourkela of 1958 (660m DM).
- 6 Purchase of IBRD bonds: Net purchases of IBRD bonds 1957–61 amounted to 2,548m DM.
- 7 Direct investment and other new lendings: Figures for direct investment are to some extent arbitrary, depending on methods of assessment. The figures given here, which do not agree with figures supplied by the Federation of German Industry, are the figures supplied by the Ministry of Economics. Because of the nature of these figures, no total is given for 1950–61. Other new lending includes portfolio investment, etc.
- 8 Private lending to IBRD: In 1959 a loan of 200m DM was made from the private sector to the IBRD, at 5 per cent.
- 9 The Churches: This figure is not normally included in the tables published by the OECD. The Churches are responsible for the larger part of technical assistance by private German organisations. An accurate figure for the total value of the technical assistance programmes of all private organisations is not available.

Where detailed comparison with other countries does become fruitful is in the analysis of these figures. Table 2 is an attempt to make such an analysis.

The table shows, in the top line, the figures given by OECD for the total flow of resources to developing countries and multilateral agencies in 1962 from Germany, France, the United Kingdom and the United States. This is the latest year for which roughly comparable figures are available from all four countries.¹ Since at least four different currencies are involved (plus expenditure in the local currencies of the recipient countries from counterpart funds), the totals are expressed in sterling.

The first fact that appears, from the second line, is that the totals for Germany, France and the United States all contain a higher percentage of official expenditure than the United Kingdom. This is what one would expect. Britain's worldwide industrial and commercial interests entail a comparatively high level of private investment overseas and private export financing.

Secondly, the German total includes an exceptionally high proportion of multilateral aid, which in 1962 consisted principally of Germany's contribution to the first Development Fund of the EEC. Reference was made to the high level of German multilateral contributions in Chapter 1. These contributions tend, by their nature, to be more sporadic than bilateral aid, but Germany's massive support for multilateral organisations is likely to continue. Between 1957 and 1961, there were large purchases of IBRD bonds. In 1962, there was the final large payment to the EEC Development Fund, completing

¹ Since this was written, the OECD has published figures for 1963.

Germany's fixed quota. In 1963 and 1964, there has been a sharp reduction in multilateral contributions, but they will increase again when payments fall due for the second Development Fund of the EEC, in which Germany's contribution is fixed at \$246.5m (986m DM).

A conspicuous feature of the composition of German aid finance is the low level of grants in relation to loans. Even if reparations are included, German official bilateral disbursements in 1962 contained a smaller grant element than did the payments made by France, the United Kingdom, or the United States. The Federal Government is absolutely set against making grants available to finance capital development projects. Apart from reparations, the principal application of German official bilateral grants is in various forms of technical assistance. In 1962, grants for bilateral technical assistance in the widest sense amounted to 132m DM, while other grants, excluding reparations, amounted to only 25m DM. In the past two years however, the Federal Government has begun to put more emphasis on technical assistance, with the result that a higher proportion of German aid is now available in the form of grants. Expenditure on technical assistance nearly doubled in 1963, and the total of bilateral grants, excluding reparations, rose from 157m DM to 288m DM, or 18% of total official bilateral disbursements.

The last two lines of Table 2 show official disbursements to developing countries and multilateral agencies in relation to national income and population. By these criteria, which are admittedly only a very rough indication, Germany's contribution in 1962 was very slightly higher than that of the United Kingdom, but the difference is so slight as to be insignificant.

Table 2

Comparison of flow of financial resources to developing countries from the Federal Republic and other donors—1962

	<i>Germany</i>	<i>France</i>	<i>UK</i>	<i>US</i>
Total flow of resources, official and private, net ¹	£226m	£473m	£241m	£1,614m
Official disbursements, net, as % of total flow of resources	71	75	62	78
Multilateral aid as % of net official disbursements	23	12	10	6
Bilateral grants (excl. reparations) as % of net official bilateral disbursements	11 ²	88	56	40
Official disbursements, net, as % of national income	0.66	1.8	0.65	0.79
Official disbursements, net, per head of population	£2.82 ³	£7.56	£2.81	£6.78

- Notes:**
- 1 For valid comparison, the official OECD figures are used in this table, for Germany as well as other donors, and not the amended figures given in Table 1.
 - 2 Including reparations as grants the ratio of German grants to total German official disbursements was 31%.
 - 3 Including West Berlin.

Sources: The Flow of Financial Resources to Developing Countries – OECD. UN Statistical Yearbook, 1963.

In this chapter, an attempt has been made to show the growth in volume of German aid, and to give some sort of comparison in statistical terms between Germany and other donors. All that this has demonstrated is the rapid growth of German aid to a level which gives the Federal Republic an unquestionable place among the four or five most generous aid-giving countries of the world. It is hoped that the more detailed comparison between Germany and other donors has been sufficient to show the limitations of such an exercise. It is a useful way of illustrating the financial composition of German aid, but it certainly does not lead to any absolute conclusion that Germany is in some sense doing worse or better than other donors, and it is not meant to do so. Conclusions of that kind are not helpful.

The OECD figures present only a part of the picture. They offer an analysis of the financial composition of each donor's contributions on behalf of developing countries, but they do not give, and are not intended to give, a classification by categories of aid – that is, technical assistance, capital assistance, export credits, etc.

For this reason, the Federal Government is reluctant to present its aid programme in the statistical terms employed by OECD. For one thing, the inflated total that such statistics produce is domestically embarrassing, giving the public the false impression that the Federal Government is 'giving away' 2,500m DM of the taxpayers' money each year. For another, the categories used are thought to be too broad. Some officials have been heard to describe it as 'shameful' that figures which are commonly taken to represent Germany's aid programme should include reparations and export credits.

The financial composition of the aid programme is in part a reflection of the form that German aid has taken. But this is a two-way relationship. The budgetary and economic circumstances within which the German aid programme has to operate are an important conditioning factor. In Chapter 4, therefore, an examination will be made of the sources of German aid funds.

3—Administrative Structure

I The Ministries

The principles and guidelines of German aid policy are in theory laid down by the Ministry for Economic Co-operation (BMZ), which is also responsible for co-ordinating the work of other Government departments concerned with the administration of aid, and for distributing the necessary budgetary funds.

That may seem a peculiar way to describe the functions of an independent ministry, but the BMZ is in a very peculiar position. The need to bring unity to Germany's increasingly complex aid programme was only one of the reasons, and probably not the most important reason, for setting up a separate ministry. In the autumn of 1961, the Christian Democrats had to find places in the Cabinet for the Free Democrats, their prospective coalition partners, and they were anxious, naturally enough, not to give away too many of the key positions. To the public, at least, the creation of the BMZ appeared as little more than a piece of coalition juggling, and the fact that it is in the hands of a Free Democrat continues to be mentioned as an indication of the low priority attached to development aid by the largest of the political parties, since in other spheres the Christian Democrats have fought hard to keep departments which they regard as important in their own hands.

This is of course an over-simplified view of the BMZ's position. There are members of the Christian Democratic Union who are deeply and honestly concerned with aid to developing countries, and in general the BMZ has their support for reasons which have nothing to do with coalition politics. But the fact remains that the BMZ is politically vulnerable, and the state of the coalition is one of the principal factors in this state of affairs. According to press reports which seem all too convincing, there are occasions in the Cabinet when the Christian Democratic Ministers for Foreign Affairs and Economics find themselves ganging up on the Minister for Economic Co-operation. With an election due in 1965, increased expenditure on aid and increased authority for the BMZ are unlikely to arouse much enthusiasm in a political party which is fighting to recover its former position as the sole tenant of power.

The squabbles at the top are reflected in the bureaucracy. As has been indicated, there are now three ministries directly concerned with the administration of the aid programme. The Ministries for Economics and Foreign Affairs maintain special sections to cover their respective responsibilities. It is in the nature of the dispute that these sections should devote a large part of their effort to the jealous protection of their rights against encroachment from the BMZ.

In the Foreign Ministry, only a small number of officials – a dozen or so – are fully employed in the administration of aid. Their most specific responsibility is the control of the larger part of the training and education programmes in Germany for people from developing

countries. But the Foreign Ministry has a more effective hold on the aid programme through Germany's embassies overseas, on which devolves most of the responsibility for the initial selection of possible aid projects. It is thus in a position of strategic control over the general distribution of German aid.

Naturally enough, the Foreign Ministry is disinclined to look upon aid in isolation from other aspects of German foreign policy, and it is content to leave the aid programme in the hands of ordinary political officers. It has fought consistently against a transference of the overseas administration of aid or general control of the programme to specialists in the problems of development.

The Ministry for Economics has specialists in plenty. This Ministry has two principal responsibilities in the aid programme – the administration of capital assistance and the representation of the Federal Government in negotiations with other aid-giving countries particularly in OECD. The Ministry for Economics is thus, if anything, in an even stronger position than the Foreign Ministry. Its responsibility for capital assistance gives it control of the largest item in the budgetary allocations for aid, and its position in OECD means that, of the three ministries involved, it is most closely in touch with international developments. The Germany Foreign Ministry has a better understanding of commerce and industry than most diplomatic services, but it still lacks the expertise of the Ministry for Economics.

In Section V¹ of the Ministry for Economics – Overseas Economy and Development Assistance – the capital assistance programme is handled by experts who have at their disposal some of the most able economists, the most complete information on German and international economic trends, and, by no means an unimportant factor, the most refined statistics that are available anywhere in the German administration.

The problems of the Ministry for Economics are internal. First, Section V is not the only section responsible for capital assistance, since negotiations within the EEC, or with multilateral institutions such as the IBRD, are outside its province. Secondly, and more fundamentally, there is a degree of uncertainty, of lack of faith in the purposes to which these vast resources are being applied. There is also a constant conflict of interest between Section V and Section VI – Money and Credit – which views the aid programme in the light of its own specialised concerns. The doubts of the monetary specialists in the Ministry for Economics are reinforced by the Finance Ministry. As a purely budgetary authority, lacking the wider economic responsibilities of a treasury, the Finance Ministry's influence is inevitably almost entirely negative, and neither the Ministry for Economics nor the Foreign Ministry have a sufficiently uncompromising interest in the aid programme to stand up to the Finance Ministry's admonitions.

Where does this leave the BMZ? The responsibilities of the BMZ are so ill-defined that they have been lumped together in two sections: the Section for Financial and Economic Questions, and the Section for

¹ A section, or *Abteilung*, is a division within a ministry. Any one ministry is likely to have some half a dozen sections.

Principles of Development Policy. Approximately, the first section handles capital assistance policy and the second section handles technical assistance in the broadest sense, but the lack of clearly defined responsibilities for the Ministry as a whole has meant that the division of responsibility within the Ministry is also somewhat confused. Above all, the divorcing of general capital assistance policy, which is the responsibility of the BMZ, from the implementation of that policy, carried out by the Ministry for Economics, gives to the deliberations of the BMZ an air of ineffectual abstraction.

When the Ministry was created, it had to be staffed in a hurry, and it now contains an interesting mixture of career civil servants transferred from other ministries and non-governmental specialists from outside the administration – from the Churches, the universities, and other non-governmental organisations. The mixture is impressive. It has brought to the German aid programme a wide range of human experience which has immensely enriched the more inhibited workings of the Government machine. The distinction between career and temporary civil servants has rapidly been blurred, and the Ministry has taken on a corporate entity which is the repository of a particularly clear conception of what an aid programme is for, and how its objectives may be achieved.

But the mixture has had its disadvantages also. Some of the non-career staff of the Ministry, brought up against the more finicky aspects of bureaucratic practice, have had their patience sorely tried, and have shown a growing sense of frustration. The career civil servants have in some cases suffered from being regarded as “traitors” by the ministries from which they were transferred. One distinguished official was, for a while, openly declared *persona non grata* by his former colleagues, and this ostracism was a subject for amused gossip in the drawing-rooms of Bonn.

None of this makes for happy co-operation. The activities of the ministries are co-ordinated through a series of committees, of which the most important are the three original ones which were established in 1960. On the Inter-Ministerial Committee for Development Assistance, the ministries are represented by directors, the highest grade of German permanent civil servant. On the committees for capital assistance and technical assistance, the ministries are represented by officials one level lower than the directors. The BMZ provides the chairman of the highest committee, but the committees for capital assistance and technical assistance have remained respectively under the chairmanship of the Ministry for Economics and the Foreign Ministry. It was originally proposed that the BMZ should provide the chairmen of all three committees, but the proposal was rejected.

In addition to the dozen or so Government departments which are more or less permanently represented on these committees, any authority which has a special interest in some particular project has a right to be seated.

The division of function and of responsibility has led to a situation in which the highest committee is not so much a policy-making body

as an arbitration tribunal for the resolution of disputes which cannot be settled at a lower level. There is a tendency for it to have the depressing function of repairing the damage when things have gone wrong, rather than of giving positive directives for the aid programme as a whole. If it cannot reach agreement, the matter is referred to the Cabinet, where the view of the BMZ is unlikely to prevail.

For the first three years of the BMZ's life, until the system was modified, there was total confusion. The BMZ, far from acting as a co-ordinating body, had in practice turned out to be merely another contestant in the battle for control. It made repeated attempts to have the areas of responsibility defined by the Cabinet, but these attempts were resisted doggedly by the other ministries concerned.

So-called *Kompetenzfragen* (questions of authority) cropped up at every turn. At the beginning of 1964, the federal auditors produced a confidential report which drew attention, according to summaries in *Der Spiegel*, the *Frankfurter Allgemeine* and elsewhere, to the existence of 231 offices in 15 different ministries which had some kind of direct concern with the aid programme. Of these, there were 44 offices which were almost exclusively concerned with aid. Altogether, nearly 1,000 officials were involved. In addition to the 15 ministries involved, there were 17 federal agencies and eight institutions, such as the Federal Bank, that maintained at least some interest in the aid programme.

It will perhaps be argued that the grinding of one ministry against another is the normal process by which new policies are milled out in any well ordered administration. In the case of German aid policy, there were three reasons why this process was bound to be unproductive.

First, no single department was responsible for initiating policy proposals which could then be submitted to the process of inter-ministerial negotiation. The result was that different ministries, each with its own policy proposals, were often talking at cross purposes.

Secondly, the implementation of policy was divided between the three ministries principally concerned, a situation which meant that policy tended to be a matter of re-inforcing separate administrative empires rather than an attempt to achieve a consensus.

Thirdly, each ministry represented in the inter-ministerial committees, including any ministry that was temporarily represented because of some special interest in a project, had a power of veto, a provision which made it immensely more difficult to reach clear-cut positive decisions.

The last of these ills was remedied in October 1964, when the Cabinet issued a directive laying down areas of responsibility. The extent to which the first and second ills will also be cured by the new distribution of functions is still uncertain. Since officials in different ministries appear to put varying interpretations on the Cabinet's allocations, and since the outcome of this argument remains one of the crucial elements in the future structure of German aid, the document is worth quoting in full. The following is the text of the statement published in the Bulletin of the Federal Government (No. 155/1964):¹

¹ Author's translation.

1. The BMZ is responsible for the principles, the programme, and the co-ordination of development policy. Without prejudice to the provision concerning the AA (Foreign Ministry) (Para. 4), the participation of the departments concerned—especially the BMWi (Ministry for Economics) – is to be secured.
2. The task of the BMWi is the planning and implementation of capital assistance projects, making use of the technical knowledge of the remaining departments. The principles and programme of capital assistance are to be worked out by the BMZ and the BMWi together.
3. The BMZ shall be responsible for technical assistance (in the broad sense) in the manner laid down in the first sentence of Para. 2.
4. The AA has responsibility for all political questions. The principles and the programme of development policy are therefore to be worked out by the BMZ and the AA together. Decisions concerning individual assistance measures require its assent. In respect of these measures, it has a right of proposal.
5. For the rest, the departments' participation in international co-operation shall correspond to their participation in development policy.
6. The co-ordination of development assistance lies with the Steering Committee. To this end, it makes use of the sub-committees (Referentenausschüsse) for capital assistance and technical assistance. Departmental participation in these committees is determined by the technical responsibilities of the departments concerned.

The oddities of this statement cannot be explained solely in terms of the normal ambiguities of bureaucratic language. The Minister for Economic Co-operation professed himself delighted with the arrangement. Others were more cautious. A detailed and thoughtful commentary in the *Franfurter Allgemeine*¹ welcomed the abolition of the veto right in the inter-ministerial committees, the simplification of committee procedure, the clarification of responsibilities and the general strengthening of the BMZ's position – but the writer expressed concern at the decision to leave capital assistance in the hands of the Ministry for Economics, and at the ambiguity inherent in the decision to give the Foreign Ministry the first say in 'political questions'. The commentator concluded: 'All in all, it is difficult to get past the fact that our aid machinery remains clumsy and unwieldy. There may be some improvement in the hitherto frankly grotesque redundancy of authorities. The areas of responsibility are more clearly demarcated. But development aid is not the example of rational administrative activity that one ought to expect of an authority established in the year 1961.'

The doubts expressed in that commentary had still not been resolved by the end of the year. It therefore remains to be seen whether the Federal Government has in fact succeeded in laying the basis for a more efficient aid administration. What is clear is that the BMZ, in

¹ *Franfurter Allgemeine Zeitung*, 27 October 1964.

the form in which it has existed during its first few years, is of questionable value as an instrument of aid policy, though the claim that its existence has actually hampered the administration of aid (a claim which one hears in both of the other ministries directly concerned) is harder to justify. In addition to the administrative consequences, the undignified spectacle of squabbling and confusion between ministries has undoubtedly contributed to the public's present attitude of disillusionment and scepticism towards the value of the aid programme.

In suggesting solutions, each of the three ministries takes a predictable position.

The Ministry for Economics, with little hope of gaining greater control than it already has in any redistribution of responsibility, argues in favour of leaving things as they are, or, better still, of returning to the old system of co-ordination solely through committees, without the intervention of a separate ministry for aid. The flaw in this argument is the proven inadequacy of such methods of co-ordination.

The Foreign Ministry argues in favour of a semi-autonomous federal agency under its own wing, an argument which would be stronger if the Ministry were prepared to make use of the services of officials with a more specialised knowledge of the problems of development than that possessed by most working diplomatists, and if it were less subject to considerations of short-term policy.

The BMZ argues in favour of a strong aid ministry, with effective responsibility for all aspects of the aid programme.

The dispute has such an important bearing on the German aid programme as a whole that some attempt must be made here to arrive at a conclusion concerning the relative merits of these arguments, though the attempt is made in full knowledge of the delicacy of the issue. Besides, the dispute is of direct interest to other aid-giving countries, such as Britain and France, in which methods of improving the aid administration are also being discussed.

On the face of it, there is logic in the argument of the BMZ. Certainly the lesson of the present situation is that there is no point in setting up a separate ministry for aid unless it is to be given effective power. The sympathies of anybody specialising in aid to developing countries and related subjects lie naturally with the specialist ministry, rather than with other ministries which have wider responsibilities to consider.

But the argument of the BMZ ignores the political realities of the situation – realities which in this respect are not dissimilar from those of other aid-giving countries. It is unrealistic to expect any political party with less than an absolutely assured majority in the legislature to give unfettered power to a ministry the principal task of which is to spend large sums of money on projects which do not directly benefit the electorate, particularly when there are urgent and electorally far more significant demands on the budget in domestic policy. It is equally unrealistic to expect any politician with enough standing to put him in the running for the party leadership to want to be saddled with responsibility for such a ministry. To divorce aid totally from

other political interests by making it the responsibility of a strong and independent ministry would probably result, not in a strengthening of the aid programme, but in a collapse of political support for it.

The Federal Government has achieved a reasonable compromise in trying to reconcile the requirements of its aid programme with other political interests. It is to be doubted whether more is politically possible under present circumstances.

Non-governmental aid specialists in Germany appear to be coming round to the view that an agency under the Foreign Ministry is the only practical solution, but this conclusion is put forward with hesitation and a mass of qualifications. Two of these qualifications are particularly significant. First, it is suggested that the agency should have as much independence of day-to-day foreign policy as possible, perhaps by making the head of the agency directly responsible to the Minister, not to the State Secretary. He might even have to be given access to the Federal Chancellor. Secondly, it is suggested that the agency should draw most of its staff from the body of specialists in problems of development which is gradually being built up, not from the ordinary diplomatic service. It remains to be seen whether the Foreign Ministry would tolerate such an incursion, and whether other ministries would tolerate the loss of some of their most able people.

2 Agencies of the Ministry for Economic Co-operation

The BMZ has four executive agencies, which occupy a special position in the German aid programme. They are listed here, in order to show their place in the administrative structure. Their functions are discussed more fully in the chapters indicated at the end of each paragraph.

(a) **The German Foundation for Developing Countries (Deutsche Stiftung für Entwicklungsländer)**

The German Foundation is the oldest and perhaps the most publicised of the BMZ's agencies. It was founded in 1959 and came into operation in 1960, being brought under the BMZ's authority when the latter was set up. It has a council consisting principally of politicians and officials. Its principal tasks are the organisation of seminars and meetings, and the co-ordination and documentation of research, but it also fulfils a number of wider functions. It has specialised centres concerned with problems of public administration, industrial training, agriculture and public relations.

(See Chapter 12, Section 4)

(b) **The German Development Company (Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit)**

The German Development Company is a limited company with objectives similar to those of the British Commonwealth Development Corporation. It provides funds for investment in partnership with small and medium-sized enterprises in developing countries, usually with a German private company as third partner, and

with a view to selling its own holding as soon as the enterprise is operating commercially. It was founded in 1962.

(See Chapter 9, Section 5)

- (c) The German Development Service (Deutscher Entwicklungsdienst).

The Development Service was modelled on the American Peace Corps. It was inaugurated in the presence of the late President Kennedy when he visited Bonn in 1963, but did not come into operation until the second half of 1964. It recruits young volunteers for service overseas, and it has a strong bias in favour of volunteers with some kind of craft or technical qualifications. It has the legal status of a limited company.

(See Chapter 12, Section 5).

- (d) German Institute for Development Policy (Deutsches Institut für Entwicklungspolitik).

The Development Institute, as it is usually known, was founded in 1964, and had not come into operation at the time of writing. The Institute proposes to provide one-year courses in problems of development for a small number of carefully selected German postgraduates. It is hoped that these will then form an elite of development specialists who can be placed in key positions.

(See Chapter 12, Section 6)

Only the German Foundation and the Development Company have been functioning long enough to have established working rules. One disadvantage from which the German Foundation in particular has suffered is that the BMZ is widely suspected of using it as a means of extending its own sphere of influence, and is regarded with cool reservations both by other Government authorities and by private organisations engaged in similar activities. There are signs already that both the Development Service and the Development Institute are also in danger of being dragged into the inter-ministerial dispute, which will have the effect, among other things, of making it difficult to obtain budgetary allocations for their necessary administrative costs.

The progress of the Development Institute is something that will be watched with particular interest, since it is meant to fill a serious gap in the German aid programme, the lack of development experts with a high degree of specialised knowledge of the conditions in the countries to which German aid is given. The Foreign Ministry has been asked to accept two or three recruits from the Institute each year. It is not clear, however, whether entry into the diplomatic service by this route would lead to an ordinary Foreign Office career, or to a specialist appointment in the section responsible for aid.

3 Other Executive Agencies

A characteristic of the German aid programme is the extent to which responsibility for the execution of projects is delegated to a large number of semi-autonomous bodies, which receive budgetary funds for this purpose. The reason for so much delegation appears to be the awareness of Germany's lack of experience in the field, and a desire to

draw upon such experience as exists among specialist organisations. The following are among the most important autonomous or semi-autonomous organisations involved in administering German official aid:

Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau – or KW).

The KW is responsible for administering all German bilateral capital assistance. It was established in 1948 as a credit institution for financing projects which would contribute to Germany's economic recovery, and for granting loans to German exporters. In 1959, it made its first departure in the direction of capital assistance to developing countries, with a loan to the Sudan that was not tied to the purchase of German goods and services. In 1961, as overseas aid came to form a larger part of its business, the law governing its activities was amended to give it new terms of reference. By 1963, bilateral capital assistance accounted for more than half of its business.

The KW's funds are derived from the issue of bearer bonds, and from loans granted by the Federal Government, Federal special funds, the Federal Bank and other sources. It is administered by a board of management which is responsible to a board of directors on which are represented the Federal Government, the Federal Bank, the commercial banks and other sectors of the German economy. Its head office is in Frankfurt.

German Company for the Furtherance of Developing Countries (Deutsche Förderungsgesellschaft für Entwicklungsländer – GAWI) and the Federal Office for Manufacturing Industry (Bundesamt für Gewerbliche Wirtschaft – BAW).

These two organisations are responsible for the selection and appointment of German experts going overseas under the technical assistance programme. GAWI (the initials are an abbreviation of the Company's original name) is a limited company financed by the Federal Government. It was founded in 1932 as a technical agency in the field of domestic technological development. BAW is a Government agency under the authority of the Ministry for Economics. The difference in legal status has a bearing on the degree of independence that each possesses. In theory, GAWI is responsible for the execution of technical assistance projects except for those which are financed from the ERP Fund (see Chapter 4, Section 2). In practice, the Ministry for Economics favours the use of BAW because it is under the Ministry's direct control, and the division of responsibility between the two organisations is under dispute.

Carl-Duisberg-Gesellschaft (CDG).

The CDG is an independent organisation entrusted with the task of supervising extension training for foreigners in Germany and with responsibilities for German trainees overseas. Its work as an agency of aid to developing countries consists of looking after the needs of technical trainees in Germany, both those sponsored by the Federal Government and those who come under industrial

programmes or on their own initiative. It receives Government grants for this purpose.

Its head office is in Cologne, but it maintains offices in all the most important German towns. It also has offices in Athens and Cairo for follow-up programmes.

Central Labour Exchange (Zentralstelle für Arbeitsvermittlung).

The Central Labour Exchange is a department of the Federal Office for Labour and Unemployment Insurance. It is responsible for finding suitable training places for Government-sponsored technical trainees.

German Academic Exchange Service (Deutscher Akademischer Austauschdienst – DAAD).

The DAAD is an association which both invites foreign students to Germany and provides scholarships for Germans to study overseas. It is financed mainly from Government funds, and it is responsible, among other things, for placing and assisting students from developing countries selected by the German embassies.

Alexander von Humboldt Foundation.

The Foundation's principal function is to provide research fellowships for people of exceptional ability from foreign universities. It is concerned with individuals selected on the basis of their academic standing, rather than with groups of students selected as part of the general educational assistance programme. The Foundation is financed by the Foreign Ministry.

These seven organisations between them cover virtually the whole range of German official aid. To summarise their theoretical functions, the KW handles capital assistance, GAWI and BAW are responsible for the staffing of technical assistance projects in developing countries, while the training and education in Germany of people from developing countries is supervised by the CDG, the Central Labour Exchange, the Academic Exchange Service, and the Alexander von Humboldt Foundation. But the functions of each of these organisations are entirely executive. Relations with the Federal Government in Bonn are not always easy, and the system is complicated by the existence of a host of other official, semi-official and private organisations with access to funds from the overseas aid budget. But in general the system has proved itself as efficient as any other that might have been devised.

4 The Länder

The *Länder*, or Federal provinces, have small individual technical assistance programmes, which they finance largely from their own resources. The *Länder* are most active in sponsoring technical training courses for people from developing countries, but one or two of them have ventured further afield. The Government of Baden-Württemberg, in particular, has the reputation of being an enthusiastic experimenter.

A development of possible future significance is the encouragement of close relationships between the *Länder* and individual developing countries. Baden-Württemberg, for instance, has sent technical experts to Libya, as well as receiving trainees from that country.

The general lines for the technical assistance programme of the *Länder*, and their relationship to the Federal Government's activities, are discussed in a commission which was set up in 1960 by the standing committee of the *Land* premiers. There is also a co-ordinating body, the standing committee of the *Land* ministers of culture, which has special responsibilities for technical training. The Federal Government keeps in touch through the BMZ.

The *Länder* administer their programmes through their existing administrative machinery, but Baden-Württemberg, Berlin, Hamburg and the Saarland have, in addition, set up inter-ministerial committees or working groups for development assistance.

The participation of the *Länder* has introduced one rather awkward complication into the aid programme. In 1960, when the threads of future aid policy were being drawn together, it was envisaged that the *Länder* would participate more or less on equal terms with the Federal Government. In addition to maintaining their own subsidiary technical assistance programmes, the *Länder* were persuaded to provide a loan of 500m DM for the financing of the general programme.

In general, the *Länder* governments appear to have been not entirely happy at providing a sum of this size from their limited resources. Their anxieties were to some extent allayed by the argument that the loan would constitute a revolving fund, with new disbursements for aid being financed out of repayments on earlier credits. This argument broke down when it became apparent both that the aid programme was expanding much more rapidly than expected and that longer repayment periods were going to have to be conceded. As a result of these developments, the Federal Government has had to take over the main burden of the aid programme, while at the same time it has been faced with an obligation to see that the initial loan from the *Länder* is repaid. The implications of this situation, which has given rise to an added sense of strain, had still not been fully worked out by the end of 1964.

5 Selection of Projects

The method, or rather the lack of method, by which German aid projects are selected is one of the most controversial features of the Federal Government's aid programme. It has been criticised severely by non-governmental experts in Germany, and it has caused suspicious comment both among the recipients of aid and in international bodies in which German aid comes up for discussion.

The procedures for the selection of capital assistance and technical assistance projects will be described in detail in the relevant chapters. There are certain features, however, which are common to both sides of the aid programme, and they are features which appear to be the direct result of the way in which the programme is administered. Since the criticisms that have been laid against German methods of project-selection are part of the wider controversy over the administrative structure, this is the appropriate place to discuss them.

The Federal Government has stated repeatedly that it is not prepared to take an initiative in suggesting possible projects to the governments of developing countries. It is argued that this would constitute interference in the domestic affairs of the recipient country, and that the policy and planning of development must remain the recipient's responsibility. The Federal Government, while claiming that it gives priority to projects which fit into a coherent development plan, is most reluctant to participate in basic planning.

In principle, therefore, the recipient government, on its own initiative, has to put in a request to Germany for aid for a specific project of its own choosing. This request is submitted first to the German embassy, which conducts a rough preliminary examination. In the cases of both capital assistance and technical assistance, the embassy must provisionally endorse the request before passing it to the Foreign Ministry in Bonn, which passes it in turn to the appropriate inter-ministerial committee. From that stage onwards, the procedure varies according to the type of assistance that is being considered.

In practice, as is generally admitted, this system has failed, and adherence to it is largely a formality. There have been tentative moves in the direction of assistance for general planning, but the Federal Government's reluctance to expose itself to accusations of interference is still a cause of inhibition.

There are at least four reasons for the failure of the system. First, the Germans have found, like other donors, that only a very few developing countries have development plans which are more than a list of superficially attractive projects. Carefully phased programmes, with calculated targets, of the kind produced by the Indian Government, are a rarity. Even as shopping lists, most developing countries' plans have turned out to be inadequate, and the relationship of specific projects to planned development has all too often been largely a matter of political mythology.

Secondly, recipients in general lack the commercial and industrial experience to assess the market potential of a specific project. Even viewed in isolation from the rest of the aided country's economy, a very large number of the requests received by the Federal Government have, on examination, turned out to be ill-conceived. Some attempt is made to exercise a negative influence by thorough checking of requests, and by rejection of the more obviously bad ones, but a negative influence can, under certain circumstances, be politically even more difficult to exercise than a positive influence, because it can create an impression of unsympathetic heavy-handedness. The Germans have not yet found an adequate substitute for the direct and positive stimulation of requests which is the normal practice, for instance, of the French Government.

Thirdly, the very strict theoretical criteria applied to aid projects by the Federal Government are often difficult to reconcile with the aims of the recipient. A number of recipients of German aid have found difficulty in formulating acceptable requests, not so much because of a lack of potentially good projects as because of the difficulty of presenting them in a way which conforms to the German requirements. Developing countries are now becoming more skilful at phrasing their requests

with a particular aid-giver in mind, but the formalities involved have, in the past, been a source of much frustration.

Fourthly, the lack of qualified development experts in the German embassies has meant that the present channels of communication do not allow much room even for informal exploration of the possibilities before a formal request is put in. Officials in other Government departments and agencies have begun to recognise the need of developing countries for assistance in finding suitable projects. Their more vocal complaints are frequently directed at the lack of economic expertise shown by Germany's own diplomatic representatives.

The Federal Government is in principle prepared to offer help in the formulation of requests, on an advisory basis, but the administrative difficulties of providing such advice have meant that it is only available in exceptional cases. One of the exceptions has been Tanganyika (now Tanzania), where a well-placed German economic adviser to the Tanganyika Government, with good direct contacts of his own in Germany, had a noticeable influence on the selection of aid projects.

In the BMZ, the view is advanced that the ideal solution would be separate overseas aid missions accredited to the governments of the principal recipients of German aid. Failing acceptance of this proposal, which would seem on the face of it to be out of proportion to the size of the German aid programme, and which has in any case no hope of acceptance, the BMZ would probably welcome the appointment of specialists as aid attachés in the German embassies. The suggestion has widespread support among non-governmental aid organisations, but the Foreign Ministry is fiercely opposed to it, and it has succeeded in making its opposition stick.

In this difficult situation, the various agencies of German aid rub along as best they can, each using such private contacts as it has. The Carl-Duisberg-Gesellschaft, for instance, has tried, through its follow-up offices in Greece and the UAR, to influence the choice of technical trainees, and to ensure that trainees are given adequate information concerning possible training programmes before they come to Germany. The CDG would probably be glad to establish similar offices in other parts of the world. The BMZ pays particular attention to the views of German experts already overseas under the technical assistance programme. The hope has been expressed that the Development Service, or peace corps, will be a useful source of information when it is in full operation.

But in all the confusion the most influential overseas representatives of German aid are bound to be the non-governmental specialists appointed by the German regional trade associations and the big firms with important overseas interests. Such organisations as the Near and Middle East Association, the East Asia Association, the Africa Association, and the Latin America Association are well represented in their respective areas, and maintain a reasonably efficient commercial information network, largely by keeping in close touch with German overseas chambers of commerce. The overseas representatives of individual firms often have an even more detailed knowledge of the economies of the countries in which they work.

The principal task of a company's representative is to gain contracts for his employers. Since many of the big contracts in developing countries have to be financed out of aid funds, all available means are used to persuade the governments of these countries to ask for aid for projects which the companies concerned are well placed to carry out, and some of the means used, while acceptable in ordinary commercial practice, would be regarded with suspicion if used in government-to-government negotiations. The formal request to the Federal Government for aid is often the last step in a long process of private negotiation over which the Federal Government itself has exercised little control, and the contract is more or less promised before the granting of aid has been officially approved.

It is this state of affairs that has gained for German aid a certain reputation for self-interest and the misdirection of funds. The reputation arises from a confusion in the minds of the public between the functions of a private businessman and the functions of an official. Once an aid project has been absorbed into the official administrative machinery, the possibility of a misuse of funds is negligible, and the Government's rebuttal of the accusation frequently made by the Press that a large proportion of German official aid funds goes astray is justified. It is over the preliminary phase of project-selection that the awkward questions arise.

Oddly enough, the people who seem most unhappy over this state of affairs are the private companies whom the system supposedly enriches. The typical German industrialist is no more ruthless, contrary to the common caricature of him, than any other efficient businessman. In some ways, he is more conservative, more profoundly attached to tradition and convention, than his competitors in other countries. He may be cynical about the uses of money, or about the motives of his own or other governments, but there is one thing which he tends to regard with uncompromising protectiveness – his own professional standing. It is astonishing how freely German industrialists with interests in developing countries will reveal what they consider to be malpractices, and rail against waste and mismanagement in projects for which they are themselves the contractors, simply in order to absolve themselves of responsibility for some of the more obvious blunders. One records with interest the views of a German engineer who protested violently against what he considered to be an imprudent expansion of a steel plant in which he was involved. His protests went unheard, which brought him considerable benefit, but he continues to grumble.

Clearly, German industry would be strongly opposed to any measure which put it at a disadvantage in obtaining aid-financed contracts. Still, there appears to be no significant opposition outside one sector of the Government administration to a more forthcoming and positive attitude in the selection of projects. The present system introduces into the German aid programme a confusion of standards, which is probably not deliberate, and which is certainly not the intention of the makers of German aid policy.

4 — Sources of Funds

I The Current Budget

The Federal Government's estimates of expenditure are divided into an ordinary and an extraordinary budget. By far the larger part of the German official aid programme is financed from these two budgets. In addition to the Federal Government's Ordinary Budget, there are the budgets of the Länder.

To supplement the Extraordinary Budget, the Federal Government also has at its disposal a number of special sources of finance (see Section 2).

In the Federal Ordinary Budget for 1964, a sum of 455·7m DM was allocated for aid to developing countries, of which 362·3m DM was allocated under the budget of the BMZ. The Länder budgets contained allocations of a further 28·7m DM. Neither of these sums includes estimates for the administrative costs of the departments concerned.

In the Extraordinary Budget, estimates for aid to developing countries amounted to 350·8m DM. An additional sum of 400·1m DM was to be made available from special funds.

As a general rule, all loans are financed from the Extraordinary Budget and the special funds, whether they are loans to the governments of developing countries, to government agencies or private firms in those countries, or to German investors or exporters. Capital subscriptions to the financial institutions of the United Nations are also financed in this way. Virtually all other official aid expenditure is in the form of grants from the Ordinary Budget. One small exception is the Federal Government's capital subscriptions to the Development Company (see Chapter 3, Section 2), which were transferred to the Extraordinary Budget in 1964.

The annual budget runs from 1 January to 31 December. It contains two categories of authorisation – cash authorisations, which determine expenditure, and commitment authorisations (*Bindungsermächtigungen*). A commitment authorisation empowers the Federal Government to enter into commitments in the course of the current year which will involve expenditure in subsequent years. So long as new commitments do not exceed the authorised limit, the Federal Government is not required to obtain parliamentary sanction.

In the case of the Ordinary Budget for overseas aid, the level of cash authorisations is to some extent determined by the progress of projects which have been initiated under previous commitment authorisations. The instrument of the commitment authorisation is more significant, however, in the long-term planning of capital assistance, which is financed from the Extraordinary Budget. In practice, the level of *cash* authorisation in the Extraordinary Budget is determined by other budgetary considerations. If the financial demands of capital assistance projects in progress exceed the budgetary authorisation, the extra cash needed is made available from special funds.

Table 3
Budget Estimates for Aid to Developing Countries: 1962-1964
(Ordinary Budget)

000,000 DM

<i>Title</i> ¹	<i>Purpose</i>	1964	1963	1962 (<i>Expenditure</i>)	<i>Commitment Authorisation</i> 1964
2302/Federal Ministry for Ec. Co-op.					
300	Bilateral Technical Assistance (in the narrow sense) ...	115.0	90.5	54.1	140.0
301 } 304 } 302 }	Social and Educational Assistance ...	25.5	8.1	1.2	21.0
303	Research and Planning	1.9	3.0	0.2	—
	Technical Trainees from Developing Countries	19.9	14.7	8.7	5.0
310	German Development Service: Project costs	3.9	1.4	—	—
	Admin. costs	1.9	—	—	—
330	Delegations and Visitors to Germany ...	0.1	0.1	—	—
331	Assessment of Projects in Progress ...	2.0	2.0	0.1	—
332	Public Relations ...	3.0	6.0	3.0	—
350	Social Insurance of German Experts ...	0.4	—	—	—
570 ²	Guarantees and other expenses in connection with capital assistance	26.5	—	—	—
572	Supplies of Food ...	12.0	25.0	24.5	—
573	Supplies of Agricultural Equipment ...	11.0	—	—	—
574	Agricultural Aid from counterpart funds ...	3.0	—	—	—
575	Developing Countries' participation in German trade fairs ...	0.5	—	—	—
600	German Foundation for Developing Countries	8.5	10.1	6.2	—
610	Subsidies to projects of the Churches ...	54.0	54.0	34.4	30.0
620	German Institute for Development Policy	0.8	—	—	—
640	German contribution to the Indus Basin Development Fund ...	39.0	17.9 (+4.2)	17.9	—
641	UN Expanded Programme of Technical Assistance	10.6	} 32.0	30.0	—
	UN Special Fund ...	21.4			
	UN Regional Organisations ...	1.0			
642	EEC Development Fund	—	—	308.0	—
643	Payments in connection with EEC loan to Greece ...	0.4	0.2	—	—
Total—2302 ...	... ..	362.3	269.2	488.3	

000,000 DM

<i>Title</i> ¹	<i>Purpose</i>	1964	1963	1962 (Expenditure)	Committee Authorisation: 1964
0502/ Foreign Ministry					
302	Cultural Co-operation (estimated part of total allocation) ...	37.0	37.0	—	—
303	Educational Co-operation (estimated part of total allocation) ...	27.3	27.3	—	—
668	Assistance programme of:				
	UNICEF	6.0	6.0	—	—
674a	UNREF	1.2	1.2	—	—
674b	UNRWA	1.6	2.5	—	—
Total - 0502 ...		73.1	74.0	—	—
1502/ Ministry for Health					
675b	WHO Anti-Malaria Programme	0.25	0.25	—	—
Total - 1502 ...		0.25	0.25	—	—
3208/ Federal Debt					
525 ³	Possible claims in respect of government guarantees: inc. consolidation and re-financing agree- ments, but excl. guarantees in connection with bilateral capital assistance	20.0	45.0	—	—
Total - 3208 ...		20.0	45.0	—	—
The Länder ...		28.7	20.9	—	6.0
Total - Länder ...		28.7	20.9	—	—
Grand Total⁴ ...		484.4	409.3	—	—

Notes: 1 The titles given are those of the 1964 Budget. For ease of comparison, figures for 1962 and 1963 are given under the relevant 1964 titles, irrespective of where they actually appeared in the 1962 and 1963 budgets. For this reason, only the 1964 column accords with the Federal Government's official presentation.

2 Authorisation was proposed for funds allocated under Title 2302/570 to be re-allocated as required under Titles 2302/300, 301, 303 and 304. 2302/570 provides funds for guaranteeing loans made under the

bilateral capital assistance programme. Capital assistance funds are allocated under Title A 2302/570 of the Extraordinary Budget (see Table 4).

- 3 Guarantees in connection with bilateral capital assistance loans fall under Title 2302/570. See Note 2.
- 4 Discrepancies are due to rounding.

The budgetary estimates of the ministries are submitted to the Budget Committee of the Bundestag before they come up for debate. The Budget Committee's official contacts are naturally with the Finance Ministry rather than the BMZ, but it seems also to listen with some sympathy to the recommendations of the Bundestag's Development Committee, which is the committee in which aid policy is discussed. This is borne out by the Budget Committee's reports to the Bundestag on the estimates for the BMZ, in which proposed amendments are frequently supported with references to the Development Committee's views.

Since the BMZ was established, all but a few items of aid expenditure have been brought together in this ministry's budget. Apart from the Länder, other ministries which have direct budgetary allocations for aid to developing countries are the Foreign Ministry, the Federal Ministry for Health, and the Ministry for Federal Property. Table 3 shows the composition of allocations for aid in the Ordinary Budgets for the three years 1962-64.

The administrative benefits which might be expected from a consolidation of resources within a single ministry's budget have to some extent been negated by the fact that the BMZ does not have effective control over the funds that it administers. Its task is in many cases limited to a mere transmission of the necessary funds to the Government department responsible for the project in question.

This has had a noticeable effect on the system of budgetary classification, which lays emphasis on the nature of the administering authority rather than on the type of aid that is intended. It will be noticed in Table 3, for instance, that technical training in Germany has to be kept separate from technical assistance projects in developing countries, while educational and cultural co-operation come under the budget of an entirely different ministry. Allocations to specific organisations, such as the German Foundation for Developing Countries, also have to be kept in separate compartments, although their activities in most cases are not clearly distinct from other parts of the aid programme. As a method of keeping the Government's accounts, this is undoubtedly the right way to draw up the estimates. Unfortunately, it is also an excellent method of encouraging jealous rivalries and administrative empire-building, tendencies which have impeded effective co-ordination.

Another source of confusion in the budgetary allocations is the ambiguity of some of the terms used. Aid is as vulnerable to the absurdities of jargon as any other technical subject. In English, the technical jargon has been rendered still more obscure by the courtesies of politics. 'Aid' has become 'economic co-operation', and 'backward countries' have passed through a phase as 'underdeveloped countries' to become 'developing countries', which they are all too often not.

This is the language that German officials took over when aid first came to be widely discussed. Phrases which had acquired a more or less fixed meaning in English through usage were translated literally into a language in which their unfamiliarity was a frequent cause of misunderstanding. As the structure of German aid has developed, so has German usage become clearer and more precise, but the process of adapting old terms and devising new ones is not yet by any means complete.

In Chapter 6, an attempt will be made to sort out the main elements in the language of German aid – an important guide to the underlying concepts of policy. For the purpose of explaining the Budget, all that is needed is an elucidation of some of the budgetary titles:

- 300: 'Bilateral Technical Assistance' covers only technical training centres, pilot projects and the services of German planners, advisers and consultants in developing countries.
- 301: 'Educational Assistance' covers only measures to promote development of the educational systems of recipient countries. It excludes scholarship courses taken in the Federal Republic by students from developing countries.
- 302: 'Research and Planning' covers research projects undertaken at the instigation of the BMZ, which is chiefly concerned with research as a basis for planned development. There are many other sources from which the ingenious academic may obtain budgetary funds for research into general development problems.
- 303: 'Technical Trainees' is the term usually used for technicians who come to Germany for training courses. The budgetary allocation covers a wide variety of costs incurred on their behalf.
- 331: 'Assessment of Projects in Progress' covers periodic evaluation of the progress of the German aid programme by special missions dispatched from the BMZ. The assessment of the progress of work on specific aid projects, particularly capital assistance projects, is regarded as part of the ordinary administrative costs of the responsible authority.
- 570: 'Guarantees and other expenses in connection with capital assistance' covers payments from the Federal Government to the KW for the servicing of non-governmental loans raised by the KW to finance capital assistance. It also covers payments in respect of guarantees against breach of contract or exchange controls. If the allocation under this title is not fully taken up, it can under certain circumstances be used to supplement other allocations.
- 610: 'Subsidies to projects of the Churches' – see Chapter 13, Section 1.

2 The Capital Budget and Special Funds

The Extraordinary Budget, or capital budget, contains the largest single budgetary allocation in the German aid programme, the allocation for bilateral capital assistance. In 1964, budgetary pressures caused a sharp drop in the estimate for capital assistance, from 500m

DM to 325m DM, although there was no reason to believe that actual expenditure on capital assistance could or would be reduced. The Bundestag imposed a further cut of 25m DM.

Other allocations under the Federal Extraordinary Budget are more or less fixed by circumstances. The capital subscriptions to the financial

Table 4
Budgetary Estimates for Aid to Developing Countries, 1962-1964
(Extraordinary Budgets)

000,000 DM

<i>Title</i>	1964	1963	1962 (Expenditure)	<i>Commitment Authorisation: 1964</i>
A2302/ Ministry for Ec. Co-op.				
570 Bilateral Capital Assistance—Loans ...	300.0	500.0	132.5	750.0
571 ¹ German Company for Economic Co-operation ...	10.0	25.0	25.0	—
892 Capital Subscription to IBRD ...	—	31.2	31.2	—
893 Capital Subscription to IDA ...	40.8	40.7	40.8	—
Total – A2302 ...	350.8	596.9	—	—
ERP Special Fund				
Payments due on credits taken up through the ERP Fund ...	30.1	30.1	—	—
Credits for financial assistance to developing countries	50.0	55.0	—	—
Credits for deliveries to developing countries	100.0	100.0	—	—
Credits for German investors in developing countries	20.0	20.0	—	—
Total – ERP ...	200.1	205.1	—	—
Kreditanstalt für Wiederaufbau				
Capital market borrowing and KW's own resources ...	200.0	300.0	—	—
Total – KW ...	200.0	300.0	—	—
Grand Total ...	750.9	1,102.0	—	—

Note: ¹ In the 1963 Budget, A2302/571 was actually included in the Ordinary Budget, see Table 3, Note 1.

institutions of the United Nations are determined in accordance with allotted quotas, and the allocation of 10m DM to the German Company for Economic Co-operation (Development Company) in 1964 represents the Company's estimate of the extent to which it wanted to call upon its written down capital in the current year.

It is stated explicitly in the text of the Budget that the allocation for capital assistance is to be made available in the form of loans for financing specific projects, particularly projects which will improve the infrastructure of developing countries. The reason for specifying infrastructure projects is that the terms of German loans are fixed in accordance with the nature of the projects. Loans for infrastructure projects bear a much lower rate of interest than loans for revenue-earning projects, and therefore have to be financed from the Budget, since the other sources of funds for German capital assistance are more costly.

It can be seen from Table 4 that the allocation for bilateral capital assistance in the Federal Budget represents less than half of the funds available for various forms of bilateral financial aid. The Federal Government has a number of other important sources of finance at its disposal. It was the existence of these additional sources which made it possible for the Federal Government to expand the aid programme so rapidly in 1960 and 1961.

The principal additional source of finance for capital development is the ERP (European Recovery Programme) Fund, from which some 200m DM was allocated to various forms of financial assistance to developing countries in 1964.

The ERP Fund was established at the beginning of 1950 as the result of an agreement between Germany and the United States. It consisted of funds deposited by the German authorities as a counterpart to the value of American assistance given under the Marshall Plan and GARIOA (Government and Relief in Occupied Areas). At the outset, the Fund stood at 6,156m DM.

The original purpose of the Fund was the promotion of Germany's own economic recovery from the effects of the Second World War. In 1950, the German capital market had not yet re-established itself, and the ERP Fund was the only large source of investment finance. Its operations were so successful that it was soon financing most of its business out of its own income from outstanding loans. By 1961, it stood at well over 7,000m DM, although gross disbursements in the previous ten years had amounted to 13,613m DM.

After ten years, indeed, the Fund's financial success had become something of an embarrassment, and the Federal Government began to look around for new uses to which these growing resources could be put. Capital assistance to developing countries presented a particularly conspicuous demand for long-term Government finance.

The ERP Fund had already been used for a number of operations connected with aid to developing countries. Since 1953, it had borne the cost of technical missions sent to developing countries and of experts from those countries invited to Germany. It had borne a part of the cost of the Federal Republic's capital subscription to the IFC

(International Finance Corporation). It had provided funds for suppliers' credits granted by the KW, in which it has a large holding, and from 1959 to 1961 it bore a large part of the costs of the German Foundation for Developing Countries.

These activities, however, had to conform to the provisions of the law governing the Fund's administration, which stated: "The Special Fund serves exclusively the reconstruction and promotion of the German economy in accordance with the provisions of the Economic Co-operation Agreement between the United States of America and the Federal Republic of Germany of 15 December, 1949". In order to make it possible to use the Fund more directly as a source of aid to developing countries, a new law was passed in June 1961, which provided a legal basis for the granting of ERP loans, up to a limit of 1,500m DM 'for the promotion of co-operation with other countries, in particular developing countries'. In the Fund's plan for 1963, its contribution to the overseas aid programme was fixed at 205m DM, plus an unused allocation of 230m DM carried forward from the previous year. This represented about one-third of the Fund's proposed business for that year, the remainder being divided between West Germany and West Berlin, in very roughly equal shares.

The resources of the ERP fund are such that it is likely to remain an important source of aid long enough for its income from interest and amortization of earlier loans to reach a level at which its operations in this field will become self-supporting, as happened some years ago in the case of its operations in West Germany, and as seems to be happening in the case of the IBRD.

For the first few years of the aid programme, however, the Federal Government had to find additional finance from other sources, and it was fortunate in having such sources in the form of the Volkswagen Foundation and of what is generally referred to as the Industrial Loan.

The Volkswagen Foundation is a fund consisting of the proceeds from the denationalisation of the Volkswagen motor company in 1961. A sum of 500m DM was made available from this source for overseas aid.

The Industrial Loan, which amounted to more than 1,000m DM, was the result of an appeal by the Federal Government to the commercial banks and other large private companies. It consists, in fact, of a series of credit agreements between the Federal Republic and the lenders. There is reason to believe that the loan was subscribed under fairly strong pressure from the Federal Government. The general opinion in the German banks appears to be that attempts to raise another loan in the same form would be less successful, although private German finance continues to be attracted by loans to the IBRD and other bond issues at market rates of interest.

The Federal Government also had an additional *budgetary* source of finance in the form of a loan of 500m DM from the Länder. In subsequent years, attempts have been made to persuade the Länder to increase their support for federal overseas aid, as well as expanding their own aid programmes. Additional participation by the Länder,

however, is unlikely to be obtained until the terms on which they are to contribute have been clarified (see Chapter 3, Section 4).

The Federal Government is now in a difficult position. Its supplementary sources of finance are exhausted, while its existing commitments would entail increasing expenditure over the next few years even if the rate of new commitments were to remain steady.

Apart from the ERP Fund, the only lasting non-budgetary source of finance for capital assistance is the KW itself, together with whatever it can raise on the German capital market. There is no promise of expansion here. For the foreseeable future, a heavy domestic demand for capital is likely to remain a built-in feature of the German economy, and it will continue to be extremely difficult to attract private finance except on very stiff terms. The housing programme alone, under which some 600,000 dwellings are built each year, is enough to put a severe strain on existing resources, yet this is only one aspect of a general tendency among German public authorities to become more and more dependent on funds raised on the capital market. At the same time, private industry is committed to a very high rate of investment. (The long-term implications of this situation are examined in Section 4 of this Chapter.)

In recent years, there has been an increasing propensity to save on the part of private households. In 1963, the savings ratio reached a peak of 9.6%, which represented an increase in saving equal to one-quarter of the increase in disposable income. Much of this increased saving went into savings deposits and similar holdings. The continuing tightness of the capital market is illustrated by the fact that the increase in the propensity to save on the part of private households has not led to a corresponding increase in private acquisitions of securities. In short, the increasing propensity to save, a reflection of Germany's growing prosperity, has not brought about any change in the relation of supply and demand in the capital market.

The KW, as the administering authority for capital assistance, is additionally handicapped by its obligation to regard each operation as an isolated commercial transaction. So far, the rule has been to finance each project from an identifiable source, and to fix the terms of the loan in the light of the terms on which the necessary finance was raised. The KW has therefore been forced to finance infrastructure projects almost entirely from the Federal Budget, thereby avoiding the necessity of charging a high rate of interest on loans for projects which earn no revenue. Funds which it acquires from other sources can in practice only be used for projects which will rapidly become revenue-earning, and which can therefore be financed at rates of interest high enough to cover the cost of raising money on the capital market. This circumstance appears to have given German capital assistance an involuntary bias in favour of what are known as 'commercial' (i.e. revenue-earning) projects.

One solution that has been proposed is that the KW should be permitted to consolidate all its resources for capital aid in a single fund, which it could then lend at rates of interest appropriate to the project, rather than choosing projects appropriate to imposed rates of interest.

The difference between the mean rate of interest on its lendings and the mean rate of interest on its borrowings would have to be made good by a grant from the Federal Government. In this way, it is hoped that the KW would be in a better position to borrow on the capital market, while acquiring greater freedom of action in its choice of aid projects. The proposal has had a poor reception from the Federal Government's financial experts.

3 Budgetary Pressures

The difficulty of raising further funds for aid from non-budgetary sources presents the Federal Government with an awkward choice. Some time during 1965 or 1966 it is going to be compelled to propose either a drastic reduction in the aid programme or a very large increase indeed in the budgetary allocation. Administrators of capital assistance suggest that the allocation for their part of the aid programme may well have to be doubled, to 700m-800m DM.

Additional significance is given to the proportion of budgetary funds in aid finance by the recent trend in German aid policy towards a greater emphasis on technical assistance, which entails an increase in grants, and infrastructure projects, which entail an increase in low-interest loans.

With a general election due to be held in the autumn of 1965, the decision is likely to be delayed. Even the most ardent advocate of greatly increased budgetary allocation for aid admits that it will be impossible to announce such an increase until after the election.

Table 5

**Budgetary Estimates Consolidated Totals: 1963-1964
(All Budgets)**

	<i>000,000 DM</i>	
	1964	1963
Bilateral loans and connected expenditure		
2302/570, 3208/525, A2302/570, ERP, KW	746.6	1,050.1
Multilateral Financial Assistance		
2302/640, 642, 643, A2302/892, 893	80.2	94.3
Bilateral Technical Assistance (excl. higher education in Germany)		
2302/300, 301, 303, 304, 610	214.4	167.3
Educational Co-operation		
0502/303	27.3	27.3
Cultural Co-operation		
0502/302	37.0	37.0
German institutions established for the benefit of developing countries		
2302/310, 600, 620, A2302/571	25.1	36.4
Supplies of food and agricultural assistance		
2302/572, 573, 574	26.0	25.0
Multilateral Technical Assistance and related programmes		
2302/641, 0502/668, 674, 1502/675b	42.1	42.0
Other Federal Government allocations for development aid		
2302/302, 330, 331, 332, 350, 575	7.9	11.1
Programmes of the Länder...	28.7	20.9
Grand Total	1,235.3	1,511.4

Note: Discrepancies are due to rounding.

Estimates for aid in the 1964 federal budgets were roughly handled in the Budget Committee of the Bundestag, and the estimates submitted, which had amounted to 1,265.3m DM, were eventually cut by nearly 60m DM. The distribution of the cuts shows signs of fierce lobbying. Allocations for capital assistance and technical assistance, the core of the aid programme, were cut, while allocations for subsidiary activities, in which special interests were involved, were in some cases increased. Most mysteriously, the allocation for technical training in Germany was slightly increased, although the Federal Government professes to have diminishing faith in this form of aid.

The budgets for 1963 and 1964 are shown in simplified form in Table 5. In 1964, the combined allocations for overseas aid from all governmental and quasi-governmental sources fell by 276m DM, a decrease which is more than accounted for by a drop of about 300m DM in the allocations for bilateral capital assistance. The rate of new commitments had already fallen back from the peak reached in 1961, and in 1963, as has been pointed out in the commentary on Figure 1, new bilateral commitments were less than actual disbursements. Total disbursements to developing countries and multilateral agencies also declined in 1963, but this was more than accounted for by a large reduction in Germany's multilateral contributions, which will increase again as soon as payments to the second Special Development Fund of the EEC fall due: bilateral aid maintained its steady rate of increase.

These trends attracted the anxious attention of one or two other aid-giving countries. They pointed out, in discussion with German representatives, that the upward trend in German disbursements for aid was apparently threatened by a downward trend in budgetary allocations, and in particular by a downward trend in commitment authorisations. Since most German aid is given to countries in which other western aid-givers are also heavily involved, a reduction in Germany's contributions would have had awkward implications for western aid as a whole.

German officials did their best to show that such fears were unfounded, and indeed there are good reasons for supposing that nothing short of a really violent political reaction against aid could now bring about a long-term reduction in the German aid programme.

To take the special case of the 1964 Budget first, the apparent fall in allocations disguises the fact that the ERP Fund has been able to carry over unused allocations from previous years. Apart from that, the fall in new commitments in 1962 and 1963 was something that was to be expected once the German aid programme had begun to function coherently. The rate of new commitments still looks high enough to ensure a high level of disbursements for the next two or three years at least. For reasons which were explained in Chapter 2, it is not yet possible to project current trends farther than that.

It remains true – and this much is admitted by German aid officials – that the Federal Government has not yet found any satisfactory answer to the problem of how to finance the aid programme during the current interim period, in which some of the burden borne until now by temporary additional sources of finance will have to be shifted gradually

over to the Budget, and in which the Federal Government is expected to try to find new ways of attracting private finance.

The Budget is already under extreme pressure. In recent years there have been a number of calls for increased domestic expenditure which were bound to have political priority over aid to developing countries. Increased defence commitments, the very large building and social security programmes, and above all the operation of maintaining Berlin as a western showpiece, especially since the Berlin crisis of 1961, are inescapable obligations. During 1965 and 1966, the Federal Government's problem is how to maintain the aid programme without vastly increased budgetary allocations, and without imposing cuts which would inflict permanent damage on the status of aid to developing countries as a policy.

4 Long-Term Trends

The pressure on the German capital market has already been mentioned. Its effect as a limiting factor in the present availability of resources was discussed in Section 2 of this chapter.

Trends in the capital market are likely to have a continuing effect on the aid programme, but the form of this effect is beginning to change. In view of the Federal Government's stated desire to transfer a large part of the aid burden to the private sector, an understanding of the condition of the capital market is essential to any reasonable guess concerning the direction in which Germany's relationship with developing countries is likely to move.

Under open market conditions, Germany would be a net importer of capital. The reconstruction of German industry took place in the 1950s, before the capital market had fully resumed normal operations. This gap has still not been closed, largely because of the demands of a vast building programme.

More recently, an intense labour shortage, coupled with stiffening competition in some sectors from the other members of the Common Market, has put a premium on rationalisation measures and necessitated a shift of resources away from those industries which are least favourably placed. This has generated a new wave of investment, which is putting further pressure on the capital market.

The Federal Government, faced with a continuing export surplus (2,200m DM in the first quarter of 1964), has taken a number of measures to reverse the capital flow – raising minimum reserve ratios on foreign-owned deposits, imposing withholding taxes, abolishing the 2% tax on the nominal value of fixed interest stock in respect of foreign flotations in Germany, excluding foreign subscriptions from Federal bond issues, making large purchases of IBRD and United States Government stock, and so on.

These measures have been only partially successful. The cost of raising capital in Germany remains high, too high for the German capital market to be a significant source of finance for developing countries. Whatever measures the Federal Government takes, it is unlikely to achieve more than small purchases of IBRD bonds and similar safe assets.

There is, in fact, little that the Federal Government can do. Any suggestion that it might try, for instance, to raise another development loan similar to the one that it obtained in 1961 is strongly resisted in banking circles. Such a measure, it is argued, would merely involve the costly diversion of resources, forcing the Federal Government to offer higher rates of interest in order to raise the funds that it needs for other purposes, and thereby putting further strains on the already overstretched capital market.

The true significance of this situation, as regards aid to developing countries, is indirect. Quite apart from the fact that private capital is unlikely to become available for overseas development, the strain on the capital market is an additional factor in the general inflationary pressures that became dangerously apparent in 1964. The possibility of inflation is perhaps the central factor to be taken into account in any long-term assessment of future trends in Germany's relationship with developing countries.

High Government and consumer spending, the pressure of the labour shortage on wages, an export boom, a new wave of investment – these are all factors in a potentially inflationary situation which is becoming harder and harder to keep under control. Partly because of bitter past experience, the Germans regard inflation with even greater distrust than most people. Even the notion that limited inflation can be tolerated as a concomitant of economic expansion is totally rejected.

But Germany is committed to the Common Market, and the general inflationary trend of the Common Market seems bound to be reflected in the German economy. The Federal Government is in an awkward position. Fiscal deflationary measures would provoke an outcry. They are, in any case, more or less ruled out because a deflationary trend in Germany would cause bad blood between Germany and its Common Market trading partners. To try to improve the situation by tightening credit would have equally unacceptable results, for it would immediately cause foreign capital to flow in.

In spite of the emotional resistance to any such conclusion, it seems probable that the Federal Government will come under increasing pressure to accept a certain degree of inflation. At the same time, the general inflationary trend of the Common Market is likely to remain stronger than the trend in Germany.

Various forecasts have been made concerning the possible effect on exports. It is generally assumed that Germany will continue to have a cost advantage over its Common Market partners, and that its export trade within the Common Market will therefore remain strong. At the same time, continuing expansion in the Common Market will presumably mean that it remains the most promising field for German investment. But an inflationary trend in Germany, even if it is not strong enough to put Germany at a disadvantage in relation to its Common Market partners, could deprive German manufacturers of their cost advantage in relation to their rivals *outside* the Common Market. If this happened, private industry might well begin to put pressure on the Federal Government to increase its overseas aid programme, specifically as a means of promoting exports. This would, of

course, be a new element in the aid programme. Private industry has consistently argued that the aid programme should not be allowed to conflict with German economic interests. It has seldom argued, as a body, that the aid programme should actually be expanded, in order to promote German economic interests.

There remains the question of what would happen to those sectors of German industry for which the developing countries are already the main sphere of interest. There are the groups of small enterprises, for instance, which have had to give way to increasing competition within the Common Market, principally from France, and who have kept themselves alive by exporting to other parts of the world. Firms in this category are particularly vulnerable to any inflationary trend. If such a trend became an established feature of the German market, they would have to choose between going into liquidation and moving overseas to their markets. In certain limited sectors, therefore, an inflationary trend in Germany might be expected to lead to an increase in German investment in developing countries. The Federal Government has already addressed itself to firms which seem to have little future in the European market, in an attempt to persuade them to move overseas now.

These are only speculations, but they are speculations of a kind that frequently arise in discussions of the balance between official aid and private finance. The essential truth is that Germany's main economic interest is, and will continue to be, in the Common Market. Any change in Germany's position in the Common Market is bound to have an effect on the flow of German resources to developing countries.

5 — General Policy

I The Tone of Policy

At the time when Germany was making its first moves towards a comprehensive policy of aid to developing countries, there was still a general tendency in the West to underestimate the obstacles that these countries had to surmount. In the eyes of many German officials, the problems of development were equated with Germany's post-war experience. If the developing countries could only be persuaded to adopt the same highly successful solutions, they would surely obtain similar results.

The inclination to look at aid in this light was strengthened by the need to find attractive ways of presenting the aid programme to the German public. One such way was to emphasise the role of Marshall aid in Germany's economic recovery, and to suggest that Germany should now be proud at being able to pass on the benefit of this experience to others.

The analogy between Germany's post-war situation and the needs of developing countries is clearly false. It ignores, among other things, the existence in 1945, amid the ruins of German cities, of vast reserves of skill and experience: and it ignores the vital element in Germany's record — the character of the German people. Although subsequent experience has forced those closely concerned with the German aid programme to abandon the analogy, its falsity is still not universally perceived. There is a lingering habit among the general public, and in Government departments such as the Finance Ministry, to raise the bewildered question, 'Why can't they do what we did?'

This is a partial explanation of the didactic tone of German policy statements. If one took these statements at their face value, one would have the impression that the Federal Government, having solved the problem of development, was now applying itself with all possible vigour to the task of persuading, even compelling, the recipients of aid to adopt the German solution as their own.

The train of thought seems to run something like this:

Germany has proved that outside assistance can make rapid development possible. The conspicuous failure of aid to developing countries to make a measurable and immediate impact must therefore be due to failings on the part of the recipients. No aid programme has any chance of success unless these failings are eradicated. Therefore, the terms on which aid is given must be of a kind that will force the recipients themselves to create the necessary conditions for success.

The argument has been formulated here in a way designed to underline its dependence on half-truths. As it emerges in policy documents, it is both more attractive and more convincing. In any case, what is important about it is not so much the substance as the manner. The last step is the operative one, representing a conclusion which is reflected in the way in which German aid is given. German aid policy is characterised by a profusion of stated criteria by which the selection of

aid projects is theoretically governed, and by an equal profusion of stated conditions which the recipient is expected to fulfil. In the official picture, each category of aid is applied strictly in accordance with tabulated principles, most of which entail the acceptance of obligations by the recipient. These principles are the expression of the imperatives in which German aid policy is grounded, such as that aid should be 'help towards self-help' (a phrase with far more restrictive implications than the equivalent British policy directive that aid should help developing countries 'to achieve self-sustained economic growth'), that aid must not consist of support for mere current expenditure, that it must be given in a way that will discourage prodigality.

The evolution of such sentiments has been distorted by two circumstances. First, it is a basic article of faith that aid should not be accompanied by interference in the domestic affairs of the recipient country, which has meant in practice that the Germans have been most reluctant to help recipient countries to fulfil the fairly stiff conditions which German aid policy assumes. Secondly, the earliest sets of criteria, drawn up in 1960 or thereabouts, were not based on practical experience of the conditions in developing countries, and are in many cases at odds with real needs and real resources. The short-term effect of such uncompromisingly articulated criteria, therefore, has not been to stimulate better administration in the recipient countries, but merely to make the application of German aid needlessly inflexible.

Little account seems to be taken of the differences between one recipient and another. In countries with comparatively high administrative standards and advanced development plans, such as India, the complaint is heard that Germany has failed to appreciate the nature of the new needs that are generated in the course of development, and one detects a certain resentment against alleged attempts by German representatives to impose their own preconceptions. In other countries, with a less finely developed sense of priorities, the extent to which projects can be found which conform to German requirements is largely determined by the extent to which the recipient government or the German Foreign Ministry is prepared to do the necessary window-dressing. There is a widespread impression that the Germans do not willingly absorb other people's ideas.

This is unjust. The administrators of German aid are sharply, even painfully, aware of their lack of practical experience of conditions in developing countries. The French or British visitor to Bonn may find himself regarded as an expert for no better reason than the status of his country as a former colonial power. Every scrap of experience that comes to hand is seized upon and fed into the administrative machine.

German aid policy is by no means so rigid a thing as its form would suggest. Although there is little flexibility in the *application* of policy, the policy itself is constantly being re-examined. In the four or five years during which Germany has been giving aid on a large scale, there have been several important shifts of emphasis. More interesting, new categories of aid have been introduced to meet new problems as they appear.

One of the side-effects of this systematic and formalised approach

to aid policy has been a bewildering proliferation of technical terms. Whether it is a characteristic of the German mind, or merely a reaction to the feeling of being on unfamiliar ground, there appears to be a compulsion to fix every innovation by naming it and defining it, and the definition is maintained until another innovation supersedes it.

The vocabulary of German aid has now become so involved that German officials themselves lose their way in it. There are terms that have two or three different meanings; there are categories of aid to which two or three different terms are indiscriminately applied; and there are criteria which are becoming increasingly difficult to apply, because the passage of time has made them ambiguous.

But order is gradually being restored. In 1964, the BMZ initiated attempts to rationalise the terminology of German aid, and new definitive classifications were issued. In the process, some of the basic assumptions of German aid were bared to critical scrutiny. The first result of this exercise seemed to be signs of a greater flexibility towards the application of aid policy.

The long-term effect of adherence to stated policy, therefore, is likely to be a conscious and continuous attempt to eradicate the anomalies which the policy contains. This is more remarkable than it may seem. The aid programmes of all donors have frequently run into difficulties simply because of anomalies in the tacit assumptions on which aid policy is based. There is very little in German aid policy that is tacitly assumed. Most of it is down in black and white. Its anomalies are no more numerous than the anomalies of other donors' policies; but articulation makes them more obvious.

2 General Aims

For the West Germans, whose eastern boundary is not the frontier of Germany but the dividing line between Capitalism and Communism, a line which divides Germany itself, Capitalism is much more than an economic system. It is a way of life and a political faith. The importance of free enterprise as the mainspring of healthy economic activity is overriding. The role of Government is to create the conditions under which free enterprise can work with greatest efficiency.

Aid to developing countries is regarded in the same light. The kind of economic development which German aid is designed to promote is the growth of free market economies. This is emphasised in all basic policy documents. The purpose of German aid is to enable the recipients, which still lack the resources to maintain a satisfactory rate of growth without assistance, to take their place in a world 'characterised by division of labour and governed by market principles'.

All that such phrases represent is the myth of development in Germany's image. What is meant by 'a free market economy' in the context of Africa or Asia is not stated. It does not have to be, because the growth of such an economy is assumed to be the automatic and desirable result of a properly ordered aid programme.

Any attempt to give a precise meaning to the phrase would undoubtedly give rise to a definition that very few developing countries

would accept as appropriate to their own view of economic development. This is widely recognised by German officials. General aims, general views of the final picture, have in practice given way to the more urgent question of what will work best in the circumstances as they are.

The original label is retained, for two reasons. First, by portraying German aid as the promotion of free market economies, the Federal Government gives it a purpose that is more readily comprehensible to the German public. Even in the crudest terms, of suggesting that the growth of free enterprise will somehow make the recipients of aid more pro-western, the image is not without its domestic political value.

Secondly, and more significantly, the faith in the value of free enterprise does still have, and will continue to have, a powerful effect on the forms and mechanisms of German aid. The aid programme is coming to be governed, not by any general conception of the nature of economic growth in developing countries, but by a very hard and specific conception of the extent to which aid from another country can contribute to that process, and it is a conception which is rooted in the belief that free enterprise is the best that Germany has to offer.

Whatever doubts there may be concerning the appropriateness of this or that economic system to the situation of developing countries, there appears to be little or no doubt in the minds of German aid administrators that the contribution which aid from outside can make is strictly limited, and fundamentally only a stop-gap. It is the Federal Government's policy to do everything possible to encourage the private sector to take over as much as it can of the burden of the aid programme.

In the field of capital assistance, a sharp and perhaps unreal distinction is made between so-called 'commercial' and 'infrastructure' projects. In the Federal Government's view, the use of aid finance for commercial projects is slightly improper, and at best a regrettable necessity. Such projects are regarded as the province of the private sector. In theory, they should not be financed from Government aid funds unless it has been proved that no alternative resources are available.

The distinction between commercial and infrastructure projects is, roughly speaking, a distinction between the revenue-earning and non-revenue-earning sectors. The KW puts agriculture, mining and manufacturing under the first heading, and public utilities, irrigation and communications under the second. When it comes to the allocation of aid funds, however, the dividing line is less precisely drawn. In practice, any project which is unlikely to produce a commercially attractive return on the capital invested is treated as an infrastructure project. As a basis for classification, this is obviously a distinction that varies from country to country. As a basis for policy, the distinction is largely of symbolic significance as a sign of the Federal Government's pre-occupation with the role of the private sector.

In the field of technical assistance, there is a similar emphasis on the limitations of government-to-government aid. The activities of private German organisations are regarded as being complementary to the Government's technical assistance programme, and this relationship is

specifically acknowledged in the provision of budgetary funds for approved projects carried out by a large number of non-governmental bodies, of which the Churches are the most conspicuous.

The Germans have devoted much thought and effort to the co-ordination of governmental and non-governmental technical assistance in a single planned programme. Attempts have been made to define areas of responsibility. The Federal Government does less than it might in South America and the Far East, because the Catholic and Evangelical Churches of Germany are particularly active in those regions. It relies to a large extent on the German trade unions and related organisations to implement measures connected with the growth of trade unionism in developing countries. Above all, it relies on private organisations to make effective use of Government funds in situations in which it might be politically embarrassing for the Federal Government to become directly involved.

The attempt to mobilise all kinds of non-governmental resources in support of, and in conjunction with, the Government's aid programme, to create a relationship which is more subtle and diverse than the stilted colloquy of donor and recipient governments, is perhaps the most important new element that Germany has brought to the general concept of aid to developing countries. Of the categories of German aid which will be described in the following chapters, measures to promote private commercial activity and measures in support of non-governmental technical assistance projects may, in the long run, turn out to be the most significant.

So far, only the first tentative moves have been made, and it is not yet clear whether the Federal Government will be able to do what it has set out to do. What it is trying to do is to move away from a formal aid programme – something that most donor countries have never even had – towards a broader involvement in the well-being of the countries to which aid is given.

The relevant policy documents give a large number of reasons in favour of shifting as much as possible of the aid programme to the private sector. These can be boiled down to three assumptions, the central significance of which is not immediately obvious. They are:

1. as a long-term political operation, the encouragement of the private sector will promote social patterns favourable to the West, rather than to the Communist bloc;
2. other things being equal, most jobs will be done better by a private organisation than by a government;
3. the burden of aid is something that the Federal Government cannot be expected to carry indefinitely, since there are other, more urgent, claims on its resources.

These are assumptions with which few Germans would quarrel, but they are an odd framework for a fundamental statement of policy. What is odd about them is that they are out of keeping with the rather weighty tone of most German aid policy. The first, after all, merely states a political objective of questionable attainability; the second is little more than a piece of flummery designed for domestic consumption;

and the third is a plaint which is by no means confined to Germany among aid-giving countries. These are a number of good reasons for promoting private investment in developing countries. The three reasons named above are not the most profound, even among those that the Germans themselves would probably give after more careful thought.

Underlying these somewhat unremarkable proclamations, however, one detects among German officials a very deep-seated feeling that aid to developing countries is in some important sense an unnatural activity, and that the relationship between donor and recipient is fundamentally unstable. This is perhaps the real urgency behind the attempts to anchor the aid programme to something more solid than a political decision taken during a passing phase in international relations.

If this is a correct interpretation, then the reasons formally given in favour of the private sector must be looked upon as revealing asides, which hint at a suppressed uncertainty concerning the real value of aid. It is not cynicism. The thought that aid to developing countries may turn out to be a lost cause is a matter of intense and often personal concern.

3 Criteria and Principles

All German bilateral aid agreements emphasise the Federal Government's expectation that the recipient will 'participate' in the projects which are to be undertaken with the help of German aid funds. With painful memories of the exposed position in which German representatives found themselves when things began to go wrong at Rourkela, the Federal Government insists most strongly that the recipient government must share political, administrative and financial responsibility for German aid projects, and must demonstrate its ability to absorb the proposed projects by contributing on a basis of equal partnership.

One obvious reason for this insistence is the Germans' desire to preserve themselves from the kind of ill-feeling to which the giving and receiving of charity can all too easily give rise. The view is fervently maintained that charity is not what the recipients of aid really want, that to distribute aid without exacting a price is to invite inflated demands which are divorced from reality and which will rapidly poison relationships so badly that the giving of aid will itself be seriously impeded.

But the Germans also argue that a project in which the recipient government does not have any important stake, quite apart from being a probable source of political embarrassment, is almost certainly a bad project, with little chance of making a significant impact on economic development. By insisting that the recipient government should make its own contribution to each project, the Germans hope to ensure that the selection of projects will be governed by a more realistic assessment of what is appropriate and feasible in relation to the recipient's economy. They insist that aid can only be regarded as an initial boost,

the purpose of which must be to enable the recipient to shed the need for further assistance as soon as possible. The Federal Government reacts with strong antipathy to any suggestion which seems to involve an indefinitely prolonged commitment, on the ground that a project which the recipient will not be able to take over fully within a fairly short space of time is *ipso facto* inappropriate to the stage of development that the recipient has reached. If aid is to keep in step with the general rate of economic development in a country, the recipient government must be asked at the outset of each project to demonstrate its ability and its determination to make the most effective possible use of the assistance which it is seeking. The insistence on 'participation' is virtually a request for proof that Germany is not throwing its money down the drain.

The policy lines laid down by the Federal Government stipulate three kinds of participation. First, it is presumed that ultimate responsibility for the project rests with the recipient rather than with the Federal Republic. This means, in effect, that the Federal Government, while maintaining a very close watch on the use to which aid funds are put, is chary of establishing permanent missions in the field, or any other machinery of direct control which would give the impression that German aid consisted of package deals for which the Federal Republic bore sole or even primary responsibility. The administration of aid is conducted from Bonn – or, in the case of capital assistance, from Frankfurt – on the basis of continuing negotiations with the recipient government or its representatives.

Secondly, the recipient government is required to accept specific and carefully delineated responsibility in relation to each project. The nature of this requirement varies with different types of aid. It nearly always includes an undertaking on the part of the recipient to bear the local costs, or some stated proportion of the local costs. It usually includes an undertaking to provide counterparts who can be trained as replacements for German personnel. It may include an undertaking to provide certain necessary services, or to put into effect such administrative measures as are deemed essential for the success of the projects.

Thirdly, the recipient government is expected to show that its general policies are of a kind to encourage well ordered economic development. In this respect, the Federal Government states that it has a preference for countries which:

1. take steps to prevent inflationary developments;
2. introduce measures to combat the flight of capital;
3. encourage domestic capital formation;
4. produce properly prepared long-term economic plans;
5. maintain a sound taxation system;
6. act in accordance with the principles of sound administration;
7. devote special attention to education and technical training;
8. encourage the development of small and medium-sized enterprises.

There is probably no developing country that lives up to all of these requirements, and there are a good many that live up to none of them. If the Federal Government distributed its aid strictly in accordance with such criteria, it would have to cut its aid programme drastically. Indeed, they are not really criteria at all, but a succinct portrayal of the kind of ideal state in which – or so the Germans believe – the need for concerted outside assistance would already have been much reduced. They represent primary objectives which the Germans hope will be reached in the course of development, not points of departure from which development programmes will spring. They are a creed for the administrators of German aid, rather than for its recipients. In short, they are a modified re-statement of what the Germans once meant by the promotion of free market economies.

German officials have come to recognise, regretfully, that few recipients of aid share this view of priorities, but the list of criteria is still of importance in the effect that it has on the aid programme. Measures have been introduced into German aid to encourage domestic capital formation in developing countries. There is an increasing emphasis on educational assistance and technical training. Special provisions have been made for assisting small and medium-sized enterprises. In the administrative field, there are greater difficulties, in particular the difficulty of language, but the Germans are slowly overcoming their initial reluctance to become involved in any way in administration, and they have in principle recognised the need at least to provide assistance in long-term planning.

In addition to basic criteria, both capital assistance and technical assistance are governed by a number of principles, which determine the forms in which German aid may be given. The following are the most important:

1. aid funds should be tied to the foreign exchange content of specific projects, which should for preference be projects in which the foreign exchange content is higher than average;
2. as a general rule, capital assistance is offered in the form of credits, the terms of which should be determined in accordance with the nature of the individual project. Technical assistance is offered in the form of grants, but these grants should cover only the cost of men and materials: technical assistance is not offered in the form of cash for the general costs of a project;
3. apart from a proviso that funds will not be spent on goods or services from the Communist bloc, there is in principle no limitation on procurement. Except when special circumstances so dictate, German aid is not tied to goods and services from the Federal Republic;
4. since Germany has no special relationships with developing countries, and in particular no relationships arising from former colonial links, there is no political or geographical limitation on the distribution of German aid outside the Communist bloc, the one exception being that aid is not given to countries which

recognise the Government of the German Democratic Republic (East Germany);

5. the Federal Government's aid is offered within the framework of government-to-government agreements. Projects undertaken by private German organisations with help from Government funds must have at least the unofficial approval of the recipient Government.

Like the criteria by which the allocation of German aid is allegedly determined, these principles have in practice turned out to be rather too restrictive, and all except the last have been significantly, though tacitly, modified.

In 1963, the Federal Government began to take a much more liberal attitude towards requests for finance to cover local costs. Specifically, the Germans have accepted the force of the argument that economic development may generate a general demand for additional imports, which increases the recipient's need for foreign exchange. Since the extent of this additional import demand cannot be precisely measured, acceptance of the argument in principle is bound to lead to a less and less rigid limitation of German aid to stated foreign exchange costs. The Federal Government remains unsympathetic, however, towards requests for aid to cover local costs on grounds of general balance of payments difficulties.

The fixing of terms strictly in accordance with the nature of the project has proved difficult to apply, because of the arbitrary nature of most methods of classification. The terms of German credits as a whole have eased considerably since the aid programme was introduced, and in this process the insistence on stiff terms for so-called commercial projects has been to some extent relaxed. The terms of technical assistance, also, seem likely to become more flexible. There is a greater willingness to cover local costs, and there has been much discussion of the possibility of expanding the technical assistance programme by introducing credits.

The principle that procurement should not be tied to German goods and services has given rise to sharp political controversy. In 1963, the Federal Government found itself compelled to tie a very large proportion of its aid formally to German procurement, though it is unlikely that this imposition had any significant impact on the way in which German aid funds were spent, since the proportion spent on German goods and services is already far higher than the proportion that is formally tied. The question of the extent to which German aid is effectively linked with the supply of German goods and services, without formal tying, is complicated by a variety of factors which require detailed examination. This examination is made in Chapter 7.

The political and geographical conditions of German aid are also controversial. In 1960 and 1961, the Federal Government lived up to its stated intention of distributing its aid commitments over as wide an area as possible. As a result, aid resources and the administrative machinery of aid became over-extended. In the course of time, the need to initiate follow-up projects in countries in which the Federal Republic had already made a particular effort brought about a more

or less autonomous tendency for aid allocations to become concentrated among a limited number of specially favoured recipients. In the process of aid-giving, the Germans have gradually acquired preferences for particular countries or particular situations. These preferences have not yet been codified in the form of a policy statement, but they have, in a number of contexts, been stated clearly enough for the chosen direction of German aid to be reasonably clear. The basis on which countries are selected for aid commitments can therefore be examined in the next section of this chapter.

The one principle which the Germans have retained, with uncompromising belief in its validity, is the principle that aid allocations should be tied to specific projects. After one or two not very happy experiments with general support for development programmes, the Germans are now more convinced than ever that project-tying provides the only effective assurance that aid funds will be used to good purpose. In 1963, *all* German official aid was tied to projects. The term 'project', however, is in this context given a fairly wide meaning. It covers, for instance, maintenance credits for the purchase of specified spare parts and replacements of completed capital assistance projects. What it is meant to exclude is support for general and unspecified foreign exchange requirements. It is yet another expression of the fundamental German dislike of open-ended commitments, and as such it is likely to remain as one of the principal girders of policy.

4 The Selection of Recipients

The Federal Government has tried very hard to make a positive virtue out of its constantly re-emphasised lack of traditional ties with any developing country. From the outset of the aid programme, this freedom from special commitments has been demonstrated by the distribution of German aid to a wide variety of countries. In principle, any country outside the Communist bloc is eligible for German aid, with the one important political proviso already mentioned, that the recipient is required to refrain from formal recognition of East Germany. This requirement is usually expressed as an expectation that the recipient will behave 'in a manner friendly to the Federal Republic', a phrase the meaning of which is always precisely explained in formal aid agreements.

The German attitude towards the political aspect of aid was explained in the following terms by Walter Scheel, the Minister for Economic Co-operation, in a broadcast which he gave at the beginning of 1961. He said:

'We have no kind of political condition in the giving of development assistance. That is a principle which will not be abandoned. Naturally I believe that the taxpayer, who is the person who actually provides the resources, can expect that the Federal Republic will only give assistance to such countries as for their part recognise our interest and above all our right to self-determination. Isn't it the case that one prefers to co-operate with and to support people who represent one's interest and who are in sympathy?

Certainly the pre-condition is at least recognition of our own right to self-determination, something of such elementary significance, particularly for Germany, and moreover something which arises in practice from the way in which co-operation works, in that one can co-operate better with countries that are well disposed towards one than with other countries. But political conditions in the real sense do not exist. We have also given development assistance to countries which – if you like – pursue a policy of non-alignment.’

This is an accurate reflection of the German view. To most West Germans, the propriety of withholding aid from countries which offer formal recognition to East Germany is self-evident. To suggest any alternative is inconceivable. If the Federal Government were to abandon this requirement, it would produce a public outcry which would in all probability deal a most damaging blow to the aid programme as a whole. Any suggestion that the Federal Government’s attitude towards recognition of East Germany constitutes political interference – on a par with, say, offering aid as a price for military base facilities – is to the West Germans merely puzzling.

Occasionally other short-term political factors make a brief appearance – in the granting of increased aid to South Vietnam, for instance, at the instigation of the United States – but such factors have little effect on the general distribution of aid. There is a widespread impression, particularly in Africa, that German aid carries a very strong political bias. The figures show otherwise. The reason why the impression has gained such currency is probably that aid is represented in the field by the diplomatic service, which is trained to a political habit of thought. It is natural that the Foreign Ministry should attempt to impose its own stamp on aid commitments as they arise, and this is the tendency that recipients see most clearly, but the Foreign Ministry seems to have little impact on the way in which the distribution of aid is actually planned.

The constant struggle to keep East Germany off the map is more evident as a burden that German aid has to carry than as a mainspring in the machinery of selection. The struggle has had some successes, in dissuading Guinea, for instance, from overstepping the line in 1960. But it has also had failures. The Federal Government must regard the fact that it was forced to run down aid to Ceylon as a defeat and an embarrassment.

The doctrine has indeed become increasingly embarrassing, and its observance more and more of a formality. The Federal Government made every effort to handle the situation which arose when Tanganyika and Zanzibar federated in 1964, the Federal Republic’s heavy commitment to Tanganyika being threatened by Zanzibar’s reluctance to abandon recognition of East Germany, with a degree of tact and patience which would have been unthinkable four years previously. In Cairo, Accra, and many other capitals, the West Germans tolerate East German consulates which are embassies in all but name, some of them being larger than the embassies of the Federal Republic. In the more aggressively neutralist capitals, such as Cairo and Accra, the West Germans appear to have decided to swallow almost anything short of

formal recognition. The formality, with all its anomalies, is inescapable. The West Germans have learnt to rest content with that.

So far, the Federal Government has succeeded in ducking the question of what happens when the policy of the so-called Hallstein doctrine collapses, as it seems bound eventually to do. But it is a question that cannot be evaded much longer. The faerie image of the Federal Government as the sole representative of all Germany is already badly cracked, in practice if not in law. The need to keep up the pretence has become a hobble for Germany as a donor, rather than a string tied round the recipients of German aid. At the beginning of 1965, Herr Ulbricht, the head of the East German regime, was invited to visit Cairo. The reaction of the Federal Government was to reveal itself as being prepared to go to almost any lengths to be able to avoid the logical consequence of its own policy, and to pay almost any price for an empty statement from President Nasser that the invitation did not constitute recognition of East Germany. The result, inevitably, was that the Federal Government was humiliated. The Hallstein doctrine was President Nasser's trump card, not the Federal Government's.

So long as the Federal Government has to remain in such a vulnerable position, incidents of this kind are bound to multiply, and to attract attention, but what the Cairo incident really underlined was what had been obvious for some time, that the West Germans had got themselves into a position in which their aid programme could no longer be used effectively as a lever for shutting the door in the East Germans' faces.

The factors which materially affect the actual distribution of German aid are far less political, far more a part of the aid programme itself.

It has already been pointed out that, in 1960 and 1961, the Federal Government entered into greatly increased commitments to a very large number of countries. This produced an awkward situation in which resources were committed to countries in which no use could be found for them, while other countries had to be kept short. The general level of commitments also rose at a pace which was far too rapid for the capacity of the administrative machine.

Having rejected any clear geographical criterion for distribution, the Germans tried initially to concentrate on particular types of aid. It was stated that the Federal Republic should specialise in those lines in which there was most obviously a gap to be filled. In the event, this turned out to be impractical. The Federal Government produced various criteria for differentiating between categories of effective and ineffective aid, but it could find no way of selecting from the general range of what were considered to be effective forms of aid those forms which might be especially suitable for the Federal Republic. Like other donors, it has found that one form of aid brings another in its train. To take one obvious example, the creation of an industrial complex at Rourkela entails a number of assistance measures in the field of social welfare, to prevent the kind of social strain from which newly established industrial populations tend to suffer.

Within a year or two, however, the problem gave rise automatically to its own solution. Factors inherent in the aid programme brought

about the natural evolution of a certain degree of selectiveness. German aid started, as did other donors' aid programmes, with an emphasis on large capital projects. These have led to follow-up projects in the countries in which the Germans made their first big efforts. In addition, one may distinguish three factors which have worked in favour of concentration on certain countries.

First, there is the pressure on Germany to make a large contribution to development programmes supported by international consortia. Lacking special bilateral relationships, Germany is a natural candidate for the position of mainstay, in conjunction with the United States, of the big multi-national efforts. German aid goes in significant quantities to India, Pakistan and Turkey.

Secondly, the Federal Government invented for itself a role as backer of the so-called 'orphan' countries, former colonies which had taken positive steps to escape from economic dependence on their former rulers. Ghana and Guinea attract particular German interest.

Thirdly, the Germans have found, in a world in which they feel themselves handicapped by comparison with other donors, with more firmly established overseas interests, that there are one or two countries in which German aid is regarded with especial favour. An interesting example is Afghanistan, where the German language is widely understood. A simple and quite understandable delight in being able to talk their own language seems to be the most important single factor which has led the Germans in Afghanistan to abandon almost completely their requirement that the recipient should bear local costs, to offer a wider range of technical assistance than in most countries, including schoolteachers, to set up one of the first three projects of the German Development Service, and to co-operate particularly closely with German private investors.

From these various elements, a more coherent pattern is emerging. In the natural course of events, aid is tending to become concentrated on those countries in which it is thought likely to produce the best economic results. The early interest in Tanganyika, for instance, has led to a wider and more purposeful interest in the whole of East Africa. There are probably several reasons for this – reasonably efficient machinery for the use of aid, a certain diversity of production, and, above all, the area's potential as a viable economic unit – but what all these reasons add up to is a view of East Africa as one of the crucial growth points in the economic and political development of the continent.

That German aid policy would take this turn was not initially as predictable as it may now seem. Like several of the really operative factors governing the choices that have to be made in the German aid programme, it has never, so far as can be ascertained, been incorporated formally into any of the numerous policy documents, though it is perhaps implicit in the basic principles set out in Section 3 of this Chapter.

In other aid-giving countries, the selection of countries for aid is often presented in terms of a choice between aiding those countries most likely to succeed and those countries most desperately in need of help,

a choice between countries which with a little extra push might rapidly achieve self-sustaining growth and countries which are so poor that they are likely to be dependent on aid almost indefinitely. Aid to the latter kind of country is sometimes called 'dole' aid, to distinguish it from 'development' aid. In Germany, the choice has seldom, if ever, been presented in these terms. It is assumed that aid is 'development aid' (which is the meaning of the term 'Entwicklungshilfe'), and this assumption appears to be leading naturally to a concentration on those countries best capable of development. The interest in this for other donors is that it appears to represent a conclusion reached almost automatically by a donor that is not bound by the commitments of special relationships, either of politics or of a former empire.

The distribution of German aid is shown in Tables 5 and 6. Taken together, these two tables show the way in which German aid has shifted. Asia has taken the bulk of German disbursements, though the proportion has declined slightly from the peak reached in 1961. Africa has taken an increasing proportion, while the share of the developing countries in Europe has declined. Of the principal recipients of German *official* resources, India is by far the most important. Even if one subtracts the consolidation credits for Rourkela, which are in any case counterbalanced by an equivalent reduction in outstanding guaranteed private export credits, official German disbursements to India from 1960 to 1963 were more than one-and-a-half times as high as to any other developing country, the next most important recipient being Turkey.

The following comments may be made on the ten principal recipients listed in Table 7:

Brazil:

The flow of resources to Brazil is determined almost entirely by private trade and investment. The Federal Government stepped in principally in order to help Brazil to meet outstanding debts.

India:

This is where the largest German official commitment lies. The striking thing about the Indian figures is the comparative smallness of the German private involvement, now that the Federal Government has taken over the private German commitment to Rourkela.

Turkey:

In Turkey, also, the extent of private involvement is surprisingly small. The Federal Republic is one of the principal donors in the Turkish consortium.

Argentina, Chile and Peru:

All three of these countries show a pattern that is roughly similar to that of Brazil, though the fact that they have suffered less than Brazil from inflation has meant a lesser dependence on re-financing credits. Germany's largest stake in these countries, as in Brazil, is one of private trade and investment.

Liberia:

Liberia has been the recipient of large German credits, which have been allocated primarily to projects for increasing the production of raw materials required by German industry. Only a very small proportion of the credits to Liberia come out of the capital assistance budget.

Pakistan:

In Pakistan, as in India, German participation in a consortium seems to have been a factor in raising the level of German capital assistance. It is interesting, however, that Germany also appears to have a significant commercial interest in Pakistan. There is evidence that this commercial interest has been stimulated by the capital assistance programme, whereas in South America, to some extent, it is the capital assistance programme that has been stimulated by existing commercial interests.

Iran:

Iran is a traditional sphere of German commercial interest.

Spain:

German commercial and political interest in Spain goes back to the 1930s.

Tables 6 and 7 become more interesting when compared with the analyses of German development assistance, private investment and trade given in Table 1, Table 8, and Tables 16-18. A comparison with Tables 1 and 8 shows a direct correlation between the relative increase in disbursements to Africa and the increasing emphasis on technical assistance. A comparison with Tables 16-18 shows that there is only a slight connection between the distribution of German official aid to developing countries and German trade and investment interests.

The weight of German investment in developing countries is in South America, a continent which receives only a small proportion of German official aid. In export trade, the distribution appears to approximate more closely to that of German official aid, but a close examination, country by country, of the principal recipients of German official resources and of Germany's principal trading partners among developing countries reveals significant differences.

In recent years, however, there has been a tendency for both trade and investment to shift away from South America towards the areas in which German official aid is concentrated. This is a consequence of the aid programme which appears to be desired by the Federal Government, on the ground that it is proof that the aid programme is bringing about the kind of structural changes which are intended. What it does not prove is that German aid is in any important sense dominated by considerations of short-term commercial gain.

There is one further element in the selection of countries for aid which is perhaps worth mentioning. It is the very peculiar relationship between Germany and those countries with which, before 1918, it had colonial links, notably Tanganyika and Togo. (For obvious reasons, little attention is paid to South West Africa, while in Rwanda, Burundi

and what used to be Kamerun, there are other special factors which have rendered the Germans disinclined to become too involved.)

Much is made of these links in the German Press, and it is certainly true that they exist. Indeed, it is rather eerie to find oneself talking to some old, old chief in Tanganyika about the good old days under the Germans. Often one hears it said, 'They were hard masters, but one knew where one stood with them'. Such is the judgment of history on the savagery of the Maji-Maji rebellion, and on similar risings in Togo or German South-West Africa.

The relationship has been given added publicity by the special interest of two leading members of the Christian Democratic Union, one of whom was born in Tanganyika, but it is doubtful whether the interest is more than one of sentiment. Both Togo and Tanganyika were the recipients of large German commitments in 1964 (about

Table 6
Distribution of Official Bilateral Disbursements and Commitments 1960-1963

(all bilateral grants and bilateral loans with maturity of more than one year)

	<i>million DM</i>					
	<i>Europe</i>	<i>Africa</i>	<i>Latin America</i>	<i>Asia</i>	<i>Not allocated geographically</i>	Total
1960						
<i>Disbursements</i>						
Value	226	14	98	619	58	1,015
% of total	22	1	10	61	6	100
<i>Commitments</i>						
Value						
% of total			not available			
1961						
<i>Disbursements</i>						
Value	228	35	122	829	103	1,317
% of total	17	3	9	63	8	100
<i>Commitments</i>						
Value						
% of total			not available			
1962						
<i>Disbursements</i>						
Value	112	256	150	633	238	1,390
% of total	8	18	11	46	17	100
<i>Commitments</i>						
Value	297	276	146	1,071	85	1,875
% of total	16	15	8	57	5	100
1963						
<i>Disbursements</i>						
Value	162	266	146	773	250	1,597
% of total	10	17	9	48	16	100
<i>Commitments</i>						
Value	342	484	100	1,602	194	2,722
% of total	13	18	4	59	7	100

Source: The Flow of Financial Resources to Developing Countries - OECD, supplemented by the Federal Ministry for Economics.

Table 7

Principal Recipients of German Resources among Developing Countries 1960-1963

Country	million DM						Net increase in guaranteed Export Credits	Investment and other Capital Transfers	Total Private	Grand Total
	Official			Private						
	Technical Assistance	Other Grants ¹	Long-term Capital Assistance ²	Other Official Credits ³	Total Official	Total Private				
Brazil	9.6	106.9	36.7	153.1	346.9	250.4	597.3	750.5	
India	26.3	1,378.6	21.7	1,426.6	-884.4	34.9	-849.5	577.1	
Turkey	3.1	462.2	6.5	472.0	-33.2	9.6	-23.6	448.4	
Argentina	1.6	73.3	9.2	84.1	151.3	203.1	354.4	438.5	
Chile	5.0	116.3	26.9	148.2	226.8	30.7	257.6	405.8	
Liberia	2.9	304.8	—	307.7	10.9	72.0	82.9	390.6	
Peru	1.2	—	0.8	2.0	369.9	9.8	379.7	381.7	
Pakistan	6.1	126.3	89.2	266.2	57.8	12.2	69.9	336.1	
Iran	7.9	6.3	—	15.4	285.7	21.4	307.1	322.5	
Spain	1.0	24.8	34.3	60.1	40.7	199.8	240.6	300.7	

Notes: 1 Agricultural assistance and the Indus Basin Development Fund.

2 Credits with a maturity of more than five years for financing capital development (i.e., a much wider definition than the German Government's budgetary definition of capital assistance). This column includes consolidation and refinancing credits, which are particularly significant in the cases of Brazil (106.9m DM) and India (633.0m DM).

3 Principally export/import credits.

Source: Federal Ministry of Economics.

25m DM committed in grants and loans to Tanganyika, and about 58m DM to Togo), but both countries have a long way to go before they catch up with German aid received by Ghana, Guinea or Liberia.

Both the terms and the forms of aid offered to these countries seem broadly similar to those offered to other African countries. Even the special forms of assistance offered in Tanganyika, such as the commitment to train an air force (a form of assistance which is outside the scope of this survey) are not unique. Military assistance goes also to Nigeria and the Sudan.

Domestically, the Federal Government has every reason for publicising aid to Tanganyika as widely as it can. In gaining public support for aid, the Federal Government's biggest difficulty is the general ignorance of conditions in developing countries. Tanganyika is one country about which most Germans have read something at one time or another. By publicising aid to Tanganyika, therefore, the Federal Government gives the public something definite to hold on to; but it is very doubtful whether the significance of Germany's relationship with its long-lost colonies amounts to more than that.

5 Evaluation

In 1963 and 1964, the Germans found themselves in the peculiar position of having a vast aid programme under way, with not a single important project yet completed. Taking five years as the average time needed for the completion of large projects, it may well be that the Germans will have to wait until 1966 or 1967 before they can really see how the planning and implementation of their aid programme has worked out in practice.

But the size of the aid programme made some kind of interim assessment absolutely vital, and the BMZ was commissioned at the end of 1962 to prepare the necessary commentary.

The results were unsatisfactory. The BMZ began by preparing a standardised list of questions, which were handed to special missions as a guide for assessing German aid in eight different countries. The number was later increased.

The missions had a very wide brief, too wide for discriminating judgment to be possible. Some of the members of the missions were specialists in their particular fields, but they were asked to comment on the whole range of German aid projects in the countries to which they were assigned. This was beyond their competence. Their reports seem to have vanished into oblivion.

In 1964, the BMZ dispatched a larger number of missions, with far more precise terms of reference. Each mission was entrusted with the task of examining a particular class of German aid projects over a fairly wide region. In most cases, the missions' responsibilities covered several countries. At the same time, a number of semi-official visits to developing countries were made by private individuals who had close contacts with the BMZ. The outcome was a mass of material which had not been fully correlated by the end of 1964, but preliminary conclusions seem to show that these missions have been far more

effective, have been able to offer a far more penetrating analysis of the functioning of German aid, than the rather formal supervisory missions of 1963. By the nature of their qualifications and their terms of reference, their conclusions were detailed and specific, and cannot easily be summarised in the form of a general commentary on German aid. Some of these conclusions are incorporated as comments in the following chapters. If they were all adopted by the Federal Government, they would cumulatively amount to a significant but unstated shift of policy.

6 — Classification and Terminology

1 Principal Categories

Several references have already been made to the confusion that exists in the vocabulary of German development assistance. The difficulties created by this confusion are fundamental, but they are gradually being resolved by systematic definition.

A good example of the kind of confusion that has arisen is the phrase 'Technische Hilfe' (Technical Assistance). In the English language, the phrase is used broadly to cover the transfer of resources in the form of personnel (technical assistance experts), skills (technical training and education), and related equipment. In other words, it covers almost everything except direct financial aid.

To the Germans, who took the phrase over, it conveys a far narrower meaning, signifying little more than the loan of technical equipment for some specific purpose. In the context of the aid programme, the meaning of the phrase has been expanded, but it is still narrower than in English. It covers the establishment of technical training centres in developing countries, the implementation of pilot projects, and the provision of German experts and advisers.

The Germans are thus saddled with the clumsy device of referring to 'technical assistance (in the broad sense)', (i.e., in the English sense), and 'technical assistance (in the narrow sense)', (i.e., in the German official sense), neither of which phrases has the meaning which the ordinary German would expect it to have.

Further anomalies follow. 'Technical training assistance' (Ausbildungshilfe) is different from 'technical assistance', covering only technical in-service training in Germany. 'Educational assistance' (Bildungshilfe) is not the educational counterpart of 'technical training assistance', but the term used to cover assistance towards the development of the developing countries' educational systems. Higher education in Germany for people from developing countries is covered by the term 'educational co-operation'. All of these terms have alternatives and sub-classifications.

As the German aid programme takes on a form of its own, however, more natural and self-explanatory terms are introduced. The very first of them, the term 'development assistance' itself, is a good example. To some extent it obviates the old argument about the nature of aid, and about the inclusion in, or exclusion from, the aid programme of various marginal kinds of financial transaction. In German statistical presentations of the flow of resources to developing countries, one frequently finds a column in parentheses headed 'of which, Development Assistance', which indicates that portion of the total sum which is derived from the aid budget.

In the classification of German technical assistance (in the broad sense), terms have been introduced which indicate reasonably clearly the immediate objective of each strand in the aid programme.

In 1964, the BMZ, in conjunction with the German Foundation, produced approximate definitions and foreign-language equivalences of all the commonest terms already in use. At the same time, the Ministry for Economics drew up a schema outlining the nature and the limits of the main categories of German aid. The following explanation of these categories is a modified version of the list given by the Ministry for Economics:

(a) Financial Assistance

(i) Bilateral Capital Assistance.

This is the form of financial assistance preferred by the Federal Government. It consists of long-term credits which are made available for the financing of key projects and, to an increasing extent, of local development banks. Support for development banks is designed to encourage the growth of small and medium-sized enterprises, for which direct project finance is unsuitable. The immediate aims which capital assistance projects are expected to fulfil are the acceleration of economic growth, the creation of additional investment incentives in related sectors of the economy, and the relief of pressure on the balance of payments of the recipient country by import substitution or increased exports.

(ii) Other forms of bilateral financial assistance.

In addition to bilateral capital assistance, the Federal Government offers, in special circumstances, credits for current civil import requirements (maintenance and commodity credits), consolidation and re-financing credits, and supplies of agricultural goods against local currency. These forms of assistance are designed primarily to relieve the strain on the balance of payments imposed by the need to maintain full utilization of existing productive capacity, by an excessive debt-servicing burden, or by the necessity of food imports. They are regarded, so to speak, as short-term deck-clearing operations.

(iii) Multilateral Capital Assistance.

This is not so much a category of aid as a blanket term covering all financial contributions to multilateral institutions concerned with development, notably the IBRD and its affiliates and the Development Fund of the European Economic Community. Such pseudo-market operations as the purchase of IBRD bonds are not normally included under this heading except for standardised international surveys of the kind published by OECD.

(b) Promotion of Trade and Investment

(i) Measures to encourage private investment.

The Federal Government lays special and growing emphasis on the contribution that private German investors could make towards the economic growth of developing countries. The measures taken by the Federal Government are of five kinds: investment guarantees, government-to-government bilateral investment protection agreements, tax concessions on new German capital investments in developing countries, investment credits, and financial support and participation through the German Development Company.

(ii) Trade Assistance.

Official long-term credits have been available to German exporters for some time. In the circumstances of an extremely favourable balance of payments position, however, the Federal Government has taken steps to reduce its financial backing of German exports. In principle, the Federal Government recognises the need to encourage trade in the reverse direction, and to open the German market to imports from developing countries; but very little has yet been done to increase the practical opportunities.

(c) **Technical Assistance**

(i) Technical Assistance (in the narrow sense).

The establishment of technical training institutes and pilot projects in developing countries, together with the provision of German experts and advisers, continues to take the larger part of German technical assistance funds. The Federal Government would like to increase its emphasis on this form of technical assistance, but in terms of proportions of the budgetary allocation has so far failed to do so, partly because it is still in the stage of having to introduce more diverse forms of assistance as the inadequacy of the original programme becomes apparent.

(ii) Technical Training in Germany.

This was one of the earliest forms of German technical assistance, and has remained significant. The Federal Government is trying to shift the emphasis away from training in Germany towards training in the country of origin, but has so far made little progress in this direction. Training in Germany takes the form both of practical courses in the employment of a private firm or government agency and of special training courses.

(iii) Educational Co-operation.

Higher education in Germany for students from developing countries, to which the term 'educational co-operation' is usually applied, occupies a peculiar place in the German aid programme, partly because it is administratively quite separate from other forms of aid. In general surveys, figures are usually given for the total number of students from developing countries at institutions of higher education in Germany, with the number of those receiving Government bursaries merely given in parentheses.

(iv) Educational Assistance.

Initially, educational assistance in developing countries formed only a very small part of the German aid programme, partly, again, because of the language difficulty. By 1963, however, the Germans had realised that what they had undertaken was a long-term operation, and educational assistance became more significant. It is still a somewhat loosely defined category, being frequently elided with social assistance (see below), but it appears to cover the provision of teachers at schools and universities in developing countries, the provision of scholarship places in universities in developing countries, educational projects in key sectors such as the trade unions, and so on.

(v) Social Assistance.

This is another category of German aid to which increasing attention is being paid. It covers, principally, measures to promote social welfare and the improvement of the social structure, through pilot projects and social welfare centres, civic education, the provision of social welfare workers and equipment, advice on social welfare legislation, etc. It is regarded as a form of assistance which should, in principle, be made complementary to capital assistance and technical assistance projects, as a means of allaying the less desirable social consequences of development. Conceptually, much of the work of special organisations such as the German Development Service might be included in this category, though for administrative reasons they are kept separate.

It must be emphasised that these categories are neither definitive nor exhaustive. They represent merely the main emphasis of German aid. The inclusion of a particular measure in one category or another is often somewhat arbitrary, depending more on the derivation of funds than on the nature of the measure itself. The demarcations have already been changed frequently, and will doubtless be changed again.

Such exercises in classification, artificial though they may seem, do serve a useful purpose as a stimulus to experiment. Although the verbal confusion is immense, and the veneer of precision largely an illusion, the constant attempt to formulate a schematic presentation of the aid programme is a sign of the extent to which the Germans are aware of the need to keep the objectives of all aid measures immediately in view.

2 The Composition of the Aid Programme

Bilateral capital assistance is by far the largest element, not only in the German official aid programme as such, but also in the total flow of resources from Germany to developing countries and multilateral agencies. In 1963, as is shown in Table 1, bilateral capital assistance accounted for about 80% of total official bilateral credits, gross, and about 40% of the total flow of official *and private* resources. Bilateral capital assistance was immensely more significant, for instance, than private investment or guaranteed private export credits.

The predominance of capital assistance can be seen again in Table 5, which summarises budgetary allocations. Bilateral financial assistance as a whole accounted for more than two-thirds of the budgetary allocation for aid in 1963, and even in 1964, when attempts were made to reduce its relative importance, the proportion was roughly the same.

This situation is regarded with disfavour by the Federal Government. Efforts have, since 1962, been concentrated on expanding the technical assistance programme in relation to capital assistance. In 1963, expenditure on all forms of technical assistance rose by more than 90%, from 132m DM to 254m DM. The budgetary estimates for 1964, however, indicate that this rate of increase is not likely to be maintained.

In the early years of the German aid programme, the Federal Government had a very simple conception of the distribution of various kinds of aid, based on a view of the levels of development that the recipients of aid had already reached. Broadly speaking, it was

thought that Latin America could be left to private investors, if necessary with official encouragement. The principal need of Asia, which was seen as having reached an intermediate level, was thought to be massive doses of official capital assistance. Africa, where the most elementary conditions for development seemed to be lacking, was clearly a continent that was primarily in need of technical assistance.

There were factors in each continent which upset this over-need division of priorities. Economic instability and soaring inflation in Latin America scared private investors off, and by the beginning of 1964 the aggregate value of German investment in that continent had actually begun to fall. Problems of management and control which arose in the implementation of capital assistance projects in Asia underlined the indissoluble connection between development finance and technical skills. The governments of African states, not unnaturally, tended to take umbrage at the suggestion that their countries had not reached the stage of being able to absorb capital development projects, and put in urgent requests for financial as well as technical assistance.

The way in which German aid, trade and investment are distributed among developing countries is shown in Table 8. The most obvious

Table 8

Comparative Distribution of Principal Categories of German Activity in Developing Countries, in percentages

	<i>Bilateral Capital Assistance</i>	<i>Bilateral¹ Technical Assistance</i>	<i>Direct investment (inc. re-invested earnings)</i>	<i>Trade Imports and Exports</i>
	<i>Up to 31.12.63</i>	<i>Up to 31.12.63</i>	<i>1951-1963</i>	<i>1959-1963</i>
Europe	29.9	9.1	10.9	16.2
Africa	7.7	33.4	13.6	18.2
Asia	56.6	46.2	7.7	32.8
Latin America	5.8	11.3	67.8	32.6
Oceania	—	—	—	0.2
	100	100	100	100

Total Value (million DM) **2,278²** **329** **2,179** **108,287**

Sources: Col. 1 Ministry for Economic Co-operation.
 Col. 2 Ministry for Economic Co-operation.
 Col. 3 Arbeitsgemeinschaft Entwicklungsländer.
 Col. 4 Federal Office of Statistics (see Table 17).

Notes: ¹ It is statistically difficult to state the distribution of various categories of official technical assistance on a strictly comparable basis. Categories which can be combined on a single basis, which are the only ones included here:

Technical Assistance in the narrow sense (Training institutes, pilot projects, experts and advisers);

Technical Training in Germany;

Subsidies to technical assistance programmes of the Churches.

² There is a small discrepancy between this figure and the equivalent figure given from a different source in Table 10.

way in which the actual distribution differs from the Federal Government's original conception is the concentration in Asia of technical assistance as well as capital assistance. Asian countries have received 46.2% of German bilateral technical assistance, and 56.6% of bilateral capital assistance. Africa, also, has had a large share of German technical assistance (33.4% of the total), but less than Asia. Africa has had much less capital assistance than Asia, but more than Latin America.

The figures for private investment are slightly misleading. A longer period of years has been taken for this category than for the others, in order to show where the bulk of German private assets in developing countries lies, and on this basis it can be seen that there is a remarkable concentration in Latin America. But figures for net investment since the beginning of 1963 would show a much more even distribution between Africa, Asia and Latin America (see Table 16).

German trading interests are significantly less concentrated than either aid or investment. Asia and Latin America each account for just under a third of Germany's trade with developing countries. There are indications that trade has followed aid,¹ rather than the reverse, with the result that there is a growing diversification in Germany's trading interests. The distribution of trade is shown in more detail in Table 17, from which it can be seen that trade with Africa and Asia is expanding more rapidly than trade with Latin America.

These trends can be summed up as follows. German capital and technical assistance is concentrated on Asia, but in the technical assistance programme there is also a significant degree of attention to Africa. Private investment used to be heavily concentrated on Latin America, but has recently begun to move towards Asia and Africa. Trade, also, is becoming more evenly distributed among the three continents.

The lesson to be drawn from these developments, which is the lesson that appears already to have been drawn by the Federal Government, is that juggling with priorities between one kind of activity and another in the process of economic development is an exercise of strictly limited value. There is a close relationship between different forms of aid, and a less obvious but equally close relationship between aid and the ordinary market operations of trade and investment. The functions of each kind of activity are separate, but they are complementary to each other. Aid is not the same as private investment, and private investment is not the same as trade, but to try to pursue any one of these without regard to the others is to misunderstand the nature of development and to miss the point of the development process.

The lesson has been drawn, but its full implications have not yet been followed through. Although the Federal Government is increasingly aware of the need to maintain a nice balance in its aid programme, it has not yet devised a means of effective co-ordination

¹ One indicator, not normally published, is the level of outstanding private export credits, which has risen sharply *after* a country has received large-scale official capital assistance from the Federal Government.

between the various components of aid. There are many reasons for this – the rigidity of principle, the rifts in the administrative structure, the difficulty of catching up with past commitments – but a point is very soon going to be reached when the iron logic of German aid policy is going to compel the Federal Government to take a rest from inventing new categories of aid and to set about co-ordinating the forms that it already has.

7—Bilateral Financial Assistance

I Theoretical Priorities

The emphasis on bilateral capital assistance for strictly specified projects, as the centrepiece of German financial aid to developing countries, has been a fixed item of policy ever since the introduction of a formal aid programme in 1960. It seems certain that the Federal Government will continue to give project assistance the highest priority, over all other forms of aid.

General programme assistance, financial support for a development programme as a whole, rather than for specific projects within the plan, is regarded with increasing disfavour. It has been more or less excluded from the forms of aid that the Federal Republic is even in principle prepared to offer.

Other forms of bilateral financial assistance, with the one significant exception of credits to local development banks, are offered only under exceptional circumstances, in which it can be proved that to withhold such forms of assistance would have such dire effects on the recipient's balance of payments as to distort or block the whole course of development.

Offers of capital assistance are limited to projects for which private capital is not forthcoming. This provision, which is on the face of it so obvious as hardly to be worth stating, figures with surprising prominence in all policy documents.¹ It stands, not merely as a simple statement about alternative sources of finance, but also as a reflection of the deep-rooted German belief that there is a clear line of demarcation between projects which belong properly to the private sector and projects in which the State has a natural part of play. In theory, the distinction entails a preference for infrastructure projects as the most suitable sector for official aid, but in practice, as has already been pointed out in the chapter on the derivation of German aid funds, the terms on which the Federal Republic feels itself compelled to lend have created a situation in which much of German capital assistance is inevitably applied to revenue-earning projects, for which fairly high rates of interest can more easily be justified (see Chapter 4, Section 2).

The practical impossibility of drawing a clear line of demarcation, however, does not mean that the Germans have tacitly abandoned the attempt to delineate limited sectors for official capital assistance. What has happened is that it has been realised that the capital structure of most developing countries is so weak that any crude distinction between public and private sectors is likely to be meaningless. This is

¹ In January 1964, the Ministry for Economics drew up a list of conditions for capital assistance (see Section 2 of this chapter). At the head of the list, it was stated that the Federal Government would 'primarily support, within the limits of its financial possibilities, the execution of individual projects for which private capital is not available, or at least not on reasonable terms'.

seen, in the light of Germany's economic faith, as one of the most serious defects from which the developing countries suffer. There is a strong, though still inchoate, emphasis on the need to find projects which will give the distinction meaning by stimulating the growth of a sound capitalist structure.

Projects with a high priority in the German capital assistance programme are those which:

1. will accelerate economic growth and be of lasting benefit to the economy of the recipient;
2. contain a large foreign exchange element, which, if financed from the recipient's own resources, would impose a severe strain on the recipient's balance of payments;
3. ease the strain on the recipient's balance of payments by import substitution or by increasing exports. (There is a tendency to lay the greater emphasis on import substitution.);
4. diversify the economy and stimulate further investment.

Special emphasis is placed on diversification of the economy in countries which are excessively dependent on production of a single commodity. In countries in which the immediate problem is one of under-employment among an expanding population, the Federal Government in principle favours projects which significantly increase the number of jobs available. If the problem is the basic one of producing enough food to sustain the population, priority is given to agricultural infrastructure projects.

The earliest German capital assistance projects, like those of other donors, tended to be large prestigious affairs, the completion of which would, it was hoped, open the door to development throughout the economy. Rourkela, the prototype which preceded the introduction of a formal aid programme, still represents the largest single financial commitment of the Federal Republic in any developing country.

The tendency to think in terms of large projects was to some extent stimulated by the feeling, expressed in the first two of the four criteria listed above, that aid should have an identifiable and strikingly visible effect and that it should go to projects for which outside assistance was conspicuously necessary. But experience with such large projects has been discouraging, both in terms of their administrative feasibility and in terms of their economic value in relation to the resources that they absorb. Having made the unhappy discovery that aid is a long-term commitment, involving the painstaking creation of social and economic structures, from the bottom upwards, the Federal Government has come to exhibit a growing preference for small, diversified projects.

The difficulty is that direct bilateral capital assistance is administratively a most unsuitable instrument for financing numerous small projects, especially if, as is the case with the Federal Republic, the donor insists on detailed and precise allocations. It is for this reason that the Germans have turned to development banks as suitable intermediaries in the financing of small and medium-sized enterprises. Support for development banks has the additional advantage, in the German table of priorities, of contributing to the growth of a sound banking system.

The cases in which the Germans are willing to offer other forms of financial assistance are narrowly defined:

An increasingly familiar phenomenon in developing countries is the inability to utilise existing capacity to the full because foreign exchange shortages impose restrictions on the purchase of raw materials, semi-manufactured components and spare parts. The problem is particularly acute in countries with a partially developed manufacturing industry, such as India. The Federal Government takes the view that in such cases the utilisation of existing capacity may well be of higher priority than the establishment of new plant. In exceptional cases, it is prepared to grant loans to finance current import requirements. The principle is maintained, however, that current imports should in general be financed by the developing countries themselves out of export earnings, and that to make a practice of offering maintenance and commodity credits too readily is merely to encourage imprudent and extravagant policies. In practice, steps are taken to ensure that maintenance credits are only granted for specific requirements, usually those the fulfilment of which is necessary to save some past German capital assistance project from grinding to an embarrassing halt. India, for instance, has received large maintenance credits for Rourkela.

There has been much discussion among German officials concerning the degree of sympathy which should be shown towards the general balance of payments problem from which many developing countries suffer. A large factor in this problem, of course, is the heavy burden of external debt-servicing which builds up after countries have been receiving capital assistance or other credits for some time. The problem is acute in Asia and Latin America, and will shortly become so in Africa. In cases in which an unreasonably high proportion of foreign exchange earnings has to be earmarked for immediate debt-servicing, the Federal Government is in principle prepared to extend the period of maturity of its own claims or to consolidate the claims of private German creditors. In practice, such re-financing and consolidation credits have usually been offered in cases in which the debtor's probable only alternative was default. India, Turkey and a number of Latin American countries have all received large consolidation or re-financing credits.

2 Conditions

In the discussions of the basic priorities of German capital assistance, it has already been implicitly suggested that in practice the Federal Government is a good deal more pragmatic than its somewhat austere theoretical position would indicate. This softening of principle is even more evident in the conditions on which German capital assistance is given.

As stated in policy documents, the conditions of German capital assistance are simple and severe. The Ministry for Economics lists seventeen conditions, some of which, admittedly, are largely procedural. It must be emphasised again, as a crucial indication of the trend of

German aid, that these conditions, with only one exception, are subject to *increasingly frequent modulations*. Like a received interpretation of dogma, which is revised and revised until it is so full of holes that a complete new dogma has to be formulated, German aid will eventually reach a point where a thoroughgoing re-examination of the conditions is necessary.

The following conditions are among the most significant:

1. Capital assistance is 'primarily' for individual projects.
2. The Federal Government requires guarantees for 'an orderly management or administration' of the project. All credit agreements now contain management-training clauses.
3. Capital assistance is granted exclusively in the form of loans repayable in German marks.
4. The Federal Government will not finance the entire cost of the project. It assumes that the local cost element will be borne by the recipient. The total financing of the project must be secured before a loan agreement is signed.
5. In principle, the Federal Government does not tie its aid to procurement of German goods and services.
6. Capital assistance is subject to the proviso that the recipient shall not impose any limitations on the choice of means of transport of goods and personnel, or impede in any way the participation of German carriers.
7. Capital assistance loans may not be used for the purchase of goods or services from the Communist bloc, and goods purchased with these loans may not be transported by carriers from the Communist bloc.
8. The KW, as agent for the disbursement of loans, is to be exempted from all taxes and levies of the recipient country.

In its list of conditions, the Federal Government also lays down general lines for determining the rates of interest and repayment periods. These, however, may for the moment be left aside, to be included in a fuller analysis of the terms (see Section 8).

It is interesting, and mildly significant, that the condition on which the Federal Government insists most strongly is the one which is most gently expressed. The condition that capital assistance must be tied to individual projects is enforced with greater strictness than is implied, in the above list of conditions, by the use of the word 'primarily'. On the question of project-tying, there is virtual unanimity of opinion among the ministries and in other official and private organisations concerned with aid. In the loose sense of the phrase, in which even maintenance credits can be regarded as tied if they are granted for specific purposes, *all* German capital assistance in 1963 was tied to projects. In the sense in which the KW uses the phrase, which excludes maintenance and commodity credits, project-tying rose from 70% of capital assistance commitments in 1961, to 81% in 1962, and to 84% in 1963. In the words of the KW's annual report for 1963:

'According to our present experience, the binding of German financial assistance to specific projects has proven successful. In

some cases, the results of the investigations have led to the postponement of certain projects; in other cases, modifications were effected, partly in order to increase the foreign exchange effect, and partly to achieve a better adjustment between the costs and the domestic as well as foreign financing possibilities.⁷

This statement reflects the general German view that project-tying has proved its value. It also exemplifies the way in which the Germans have developed a kind of tunnel vision, regarding each project almost as a self-contained operation, within which the wider economic considerations which are the theoretical basis of policy are often distorted or drowned out.

It should perhaps be explained that this condition applies with equal rigour to credit agreements with development banks, since funds are only released for specific projects undertaken by the banks.

The following comments may be made on the practical application of the other conditions.

The insistence on management-training conditions is a direct result of the experience of Rourkela, where individual contractors initially failed to do all that was necessary to ensure that adequately trained Indian managers would be able to take control. The formal inclusion of a clause stating this condition in the loan agreement came later, and its practical implementation has not yet been fully worked out. In theory, management-training is the responsibility of the contractor, and allowance must be made for it in his tender. Funds are not available for this purpose from the technical assistance budget. The Federal Government regard this state of affairs as still unsatisfactory, and is trying to devise ways of ensuring a smoother transference of managerial responsibility.

Although all capital assistance continues to be in the form of loans, the deficiencies of management-training procedures is one factor which may bring about a closer integration of technical assistance and capital assistance, in which case the training side of capital assistance projects will presumably contain an element of grant finance. There has also been some not very enthusiastic discussion of the possibility of experimenting with counterpart funds.

The limitation of German capital assistance to the foreign exchange element of projects is weakening rapidly. The proportion of capital assistance credits used to cover local costs rose from 1% in 1962 to 12% in 1963. The principal recipients of credits for local costs were countries with infant manufacturing industries which could be encouraged to produce some of the capital goods needed for further development – e.g., India, Malaysia, Brazil. Other recipients of credits for local costs have been exceptionally poor countries in which the Federal Government has found itself acquiring a particular interest. Of German aid to Afghanistan in 1962, 75% was for local cost finance.

The avoidance of currency-tying is something that the Federal Government continues in principle to uphold; but the domestic pressure in favour of an increase in tying is very strong. The pressure became irresistible in 1963, and the Federal Government introduced procurement conditions in 55% of its capital assistance. By 1964, however, formal currency-tying had been sharply reduced again. In the first half

of 1964, a little more than a third of German capital assistance commitments were currency-tied.

The Federal Government now states cautiously that the case for currency-tying is considered in the context of each project individually. There are two unannounced criteria by which the need is judged. First, currency-tying may be imposed if the Foreign Ministry suggests that there is particular value in ensuring that the contractors will hoist the German flag over the project to be undertaken. Secondly, currency-tying may be imposed if the project is in a sector in which Germany industry is *non-competitive*, and would therefore be at a disadvantage. The second of these criteria is not quite so damaging as it sounds. The Federal Government is slowly developing a useful knack of not picking projects in sectors in which German industry is non-competitive.

The important thing about the German attitude to currency-tying is the coolness with which the Federal Government, in considering what is after all a highly controversial question, has recognised how inefficient currency-tying is, even as an instrument for protecting one's own interests. Granted that there may be a political case for giving one's own industries a bite at the aid budget, there are better ways of doing this than formal currency-tying. The ways employed by the Federal Government are examined in Section 7 of this chapter.

The exclusion of goods from the Communist bloc, and of Communist carriers, has been eroded by circumstances. If the obvious route lies over Communist territory, for instance in the case of Turkey, the condition is dropped. Although no case is known in which the Federal Government has deliberately financed the purchase of Communist goods, there are certainly cases in which Communist, even East German, equipment is used in projects which have been largely financed by the Federal Republic.

3 Volume and Apportionment

The volume of German capital assistance disbursements has risen steadily, as the large commitments undertaken by the Federal Government have come into effect. In 1961, a year in which new commitments reached a peak from which they have since been declining, disbursements for bilateral capital assistance amounted to about 400m DM. In 1963, disbursements had risen to nearly 1,000m DM, and the total for 1964 will almost certainly turn out to have been much higher again.

At the same time, the rate of new commitments, which fell dramatically in 1962 and 1963, now seems to have steadied at something over 700m DM a year – that is, significantly less than the rate of disbursements. This development was to be expected. In 1961, new commitments for bilateral capital assistance amounted to nearly 5,000m DM, and since then the Federal Government has tried to fend off new commitments while it works off this backlog. By the end of 1963, according to figures published by the Ministry for Economics, a cumulative total of 2,622m DM had been disbursed in bilateral capital assistance. This was still a long way short of cumulative commitments, which amounted to 7,407m DM. (The figures are given in more detail

in Table 10.) If the Federal Government keeps to its stated intention of maintaining disbursements at least at their present level, it should be expected that new commitments will begin to rise again towards the end of 1965.

More than half of German capital assistance goes to countries in Asia, among which India takes by far the largest share. The regional distribution of general advance commitments and firm commitments is shown in Table 9, from which it can be seen that nearly three-fifths of general advance commitments have been to countries in Asia, while Africa has had less than one-fifth of the total of commitments, as have developing countries in Europe. The table also shows the very small part that Latin America plays in the German capital assistance programme.

The disparity becomes even more striking when expressed in terms of firm commitments, that is to say, the proportion of the Federal Government's general commitments which has been covered by specific agreements drawn up by the KW. The ratio of firm commitments to general advance commitments is in part an indication of the degree of difficulty that the Federal Government has had in finding projects which conform to German criteria. In the light of what has already been said about these criteria, it is only to be expected that the Germans should have been able to reach agreement concerning specific projects fairly rapidly with countries in Europe, less rapidly with countries in Asia, and only after prolonged negotiations with countries in Africa. What is surprising is the extreme sluggishness in the implementation of general commitments to countries in Latin America.

Table 9
Regional Distribution of Commitments for Bilateral Capital Assistance: up to 31.12.63

	General advance commitments and government-to-government agreements		of which: ¹ firm commitments	Firm ² commitments as % of general advance commitments and gouv. to gouv. agreements		
	Value in millions DM				%	million DM
	Continents	Regions				
Europe	1,218	1,218	17.3	889	73.0	
Africa	1,276	—	18.2	560	43.9	
North of Sahara	—	440	—	—	—	
South of Sahara	—	836	—	—	—	
Asia	3,963	—	56.5	2,223	56.1	
Middle East	—	600	—	—	—	
Southern Asia	—	2,856	—	—	—	
Far East	—	507	—	—	—	
Latin America	559	—	8.0	130	23.3	
Central America	—	13	—	—	—	
South America	—	546	—	—	—	
	7,016³	—	100	3,802	54.2	

Sources: Government statements,
Ministry for Economic Co-operation.
Kreditanstalt für Wiederaufbau.

- Notes:**
- 1 In 1962 the Kreditanstalt für Wiederaufbau altered its definition of capital aid. This creates a certain ambiguity in the distribution figures in the 1961 Report. In this table, the following items have been subtracted from the published total of 1,235.3m DM committed in 1961:
 - I. re-financing loans to India amounting to 328.4m DM;
 - II. a loan of 100m DM to Argentina to cover accumulating foreign exchange liability;
 - III. a stand-by credit to Brazil of 128.1m DM.
 Other minor adjustments, for which figures are not available would have to be made if the figures given in this column were to be strictly comparable with other figures for capital assistance.
 - 2 Percentages are based on the figures given (see Note 1). The Kreditanstalt gives the following percentage figures for advance commitments covered by firm commitments at the end of 1963:

Europe	67%	Asia	63%
Africa	42%	Latin America	30%
 - 3 There is a small discrepancy between this figure and the equivalent figure in Table 10, from a different source.

The figures given in Table 9 have to be regarded as only an approximate indication of the ratio of firm commitments to general commitments, because the two halves of the table are taken from different sources. The figures for general commitments are based on information supplied by the BMZ. The figures for firm commitments are abstracted from information published in the annual reports of the KW. The reason for adopting this somewhat unsatisfactory statistical procedure is that each set of figures is of use for valid comparison with other figures from the same sources used elsewhere in this survey.

The general conclusions to be drawn from Table 9, however, are confirmed by more strictly comparable figures supplied by the Ministry for Economics, which give the distribution by continents. According to these figures, the distribution of cumulative general commitments, as of 31 August 1964, was:

to 4 countries in Europe:	1,218m DM, or 15%	of the total;
to 34 „ „ Africa:	1,489m DM, or 19%	„ „ „ ;
to 8 „ „ Latin America:	578m DM, or 7%	„ „ „ ;
to 19 „ „ Asia:	4,723m DM, or 59%	„ „ „ ;

amounting altogether to commitments worth 8,008m DM, distributed among 65 countries.

Again the disparity is even more marked if looked at in terms of firm commitments, the distribution of which was as follows:

Europe	22.8%
Africa	12.6%
Latin America	2.7%
Asia	61.9%

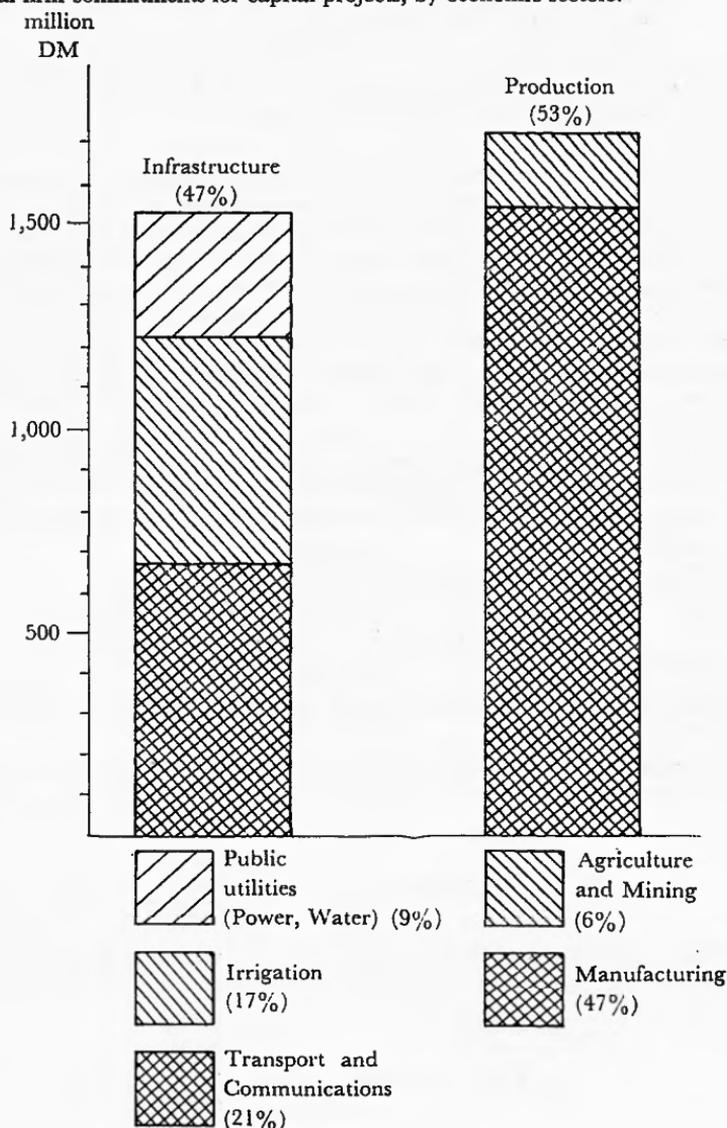
On the basis of these figures, the extent to which general commitments were covered by firm commitments was:

in Europe	98%
in Africa	44%
in Latin America	24%
in Asia	68%

Somewhat surprisingly, there is no definitive analysis of the distribution of German capital assistance commitments by industrial sectors. By 31 August 1964, the KW had concluded 120 credit agreements, which were more or less evenly divided in value between infrastructure projects and so-called commercial projects. Any attempt to reach a more accurate analysis than this runs immediately into a rather curious statistical difficulty. Because the Finance Ministry has a tendency to put up a strong resistance against the granting of credits on soft terms for

Figure 2 Capital Aid for Projects, 1961-1963 (cumulative)

Total firm commitments for capital projects, by economic sectors.



revenue-earning projects, the ministerial planners of German aid have adopted a very elastic definition of the term 'infrastructure'. In spite of the growing emphasis on infrastructure projects, however, a high proportion of German capital assistance continues to be given on hard terms, which can only be justified to the recipient by the contention that the project is a revenue-earning one. It appears to be as a result of this that the ministries and the KW, without any conscious conflict of interpretation, are often at variance in their emphases. Figures published by the BMZ or the Ministry for Economics, both of which have to keep an eye on the Finance Ministry, tend to exaggerate the extent to which German capital assistance is given to infrastructure projects, while figures published by the KW, which has to keep an eye on the foreign governments with which it is negotiating, tend to exaggerate the proportion of productive or revenue-earning projects.

Figure 2, which is taken from the KW's annual report for 1963, shows less than half of the KW's commitments for projects as being aimed at development of the infrastructure. The Federal Government, however, officially favours a greater emphasis on capital assistance for infrastructure projects, and a more reserved attitude towards projects in the productive sectors. The following tentative analysis of projected capital assistance, which is in marked contrast to the KW's analysis, is based on official figures covering firm commitments up to 31 August 1964:

Infrastructure projects: 1,936.13m DM, or 58% of the total.

Social infrastructure: 3 projects	12.05m DM
Roads and bridges: 11 projects	370.3 m DM
Shipping: 5 projects	93.0 m DM
Harbours and airports: 9 projects	126.92m DM
Press and information: 5 projects	101.78m DM
Water supply: 3 projects	43.4 m DM
Irrigation: 9 projects	460.05m DM
Electricity: 11 projects	435.55m DM
Railways: 6 projects	275.78m DM
Other infrastructure projects	17.3 m DM

Commercial projects (including loans to development banks): 1,428.25m DM, or 42% of the total.

Heavy industry: 3 projects	929.64m DM
Construction: 2 projects	54.0 m DM
Textiles: 1 project	30.0 m DM
Agriculture: 8 projects	95.63m DM
Chemicals: 1 project	2.5 m DM
Development banks (small and medium-sized enterprises)	316.5 m DM

These figures show a distribution of capital assistance over a wide variety of sectors, the apparent predominance of 'heavy industry' being partially explained, of course, by the Federal Republic's continuing involvement in Rourkela. The size of the German commitment to development banks, equal to 6.1% of all project commitments, is particularly striking. What is even more remarkable is that this figure

represents about 85% of the Federal Government's advance commitments to development banks, which seems to indicate either that the recipients have been particularly forceful in taking advantage of this form of assistance, or that the Germans themselves have devoted special attention to it. By 30 June 1964, the Federal Government had entered into advance commitments amounting to 367m DM, distributed among 14 development banks in 11 countries. (This figure does not include commitments of the German Development Company: see Chapter 9, Section 5.)

A less precise, but perhaps more indicative picture of the direction of German capital assistance can be obtained from a look at some of the specific agreements concluded by the KW. The following were among the most important agreements listed in the KW's 1963 report:

To Greece: 200m DM for the exploitation of a lignite deposit and the establishment of a thermo-electric power station;

To Turkey: 83.9m DM, principally for the continuation and completion of projects in the iron and steel industry, the sugar and cotton industries, and the hotel business;

To India: 517.4m DM, including 452m DM for the first stage of extension of the Rourkela steelworks. Part of this loan was allocated to the procurement of workshop equipment, spare parts, and rolling stock;

To Pakistan: 69.9m DM, principally for the purchase of passenger cars, parts for railway carriages, coastal ships and motor boats, the last two of these being intended to improve access to the islands facing the Ganges Delta and the coast of East Pakistan;

To Iran: 73m DM for irrigation projects on the Sefid-Rud River, on which the Germans had already participated in financing the construction of a dam;

To Indonesia: 70m DM, principally for improvement of the railway system and for a power and irrigation project;

To South Vietnam: 50m DM for an electrochemical industrial project, for which the French Government also is providing assistance;

To the UAR: 64.9m DM, principally for a 220-kilovolt grid connecting the most important power stations in Lower Egypt to a linked supply system;

To Togo: 53m DM for the construction of a deep-water harbour near Lome.

The picture that emerges from detailed study of reports such as those of the KW, which talk in terms of specific operations rather than categories, is one that cannot easily be analysed in terms of classes of projects. The dividing line between infrastructure and commercial projects is not always immediately clear, and in many cases it can only be drawn after reference back to the official German definitions, which are thus seen to contain a certain prescriptive element. Even then, there are a number of mixed projects which lie across the division between infrastructure and production.

What does emerge from such reports, and from discussion with the administrators of German capital assistance, is an undefined but quite

clear impression of the general character of German capital assistance, and of the importance attached by the Germans to certain aspects of economic development. There is a unity in the German view of capital assistance, which is to some extent obscured by arbitrary systems of classification which produce such anomalies as the labelling of steel production as 'commercial' and of the purchase of rolling stock as 'infrastructure'.

This is a difficulty of which the administrators of capital assistance seem to be well aware, particularly those who are closest to the actual implementation of the programme. It is in the process of negotiation and implementation that the difficulties created by the straitjacket of German classification are clearest, and it is here that pressure for a gradual change of emphasis is most likely to arise.

4 Procedure

The Federal Government asserts that it does not itself initiate proposals for the new capital assistance projects. It maintains the view that the formulation of plans, and of specific proposals within those plans, is primarily the responsibility of the recipient. In theory, therefore, the only power of choice that the Federal Government leaves itself is the power to say 'No' to requests of which it does not approve.

This self-imposed restraint is based on the conviction that any overt initiative by the donor is bound to be resented as interference in the recipient's domestic affairs. It pre-supposes the recipient government's ability to draw up development plans and to arrive at complex and nicely balanced decisions concerning the allocation of limited resources.

The experience of all donors has underlined the dangers of pre-supposing any such thing. German experience is no exception, and it is recognised that in practice the Federal Government has to play a more positive role in the selection of projects, but there has as yet been no formal departure from the principle that requests for assistance are the responsibility of the recipient.

According to the theoretical rules of procedure, the very first step which must precede consideration of any capital assistance project is the submission of a formal request by the recipient government to the Federal Government. This request is subjected to a preliminary examination on the spot by the German embassy. If endorsed by the embassy and the Foreign Ministry, the request goes to the inter-ministerial Committee for Capital Assistance, which is under the chairmanship of the Ministry for Economics and on which the KW has observer status.

If the request is endorsed by the Committee, the Federal Government concludes an agreement with the recipient. This agreement specifies the upper limit of the amount that the Federal Government is prepared to lend, and outlines the projects for which the loan is intended. It also lays down the general conditions governing the loan (see Section 9).

The KW is then commissioned to conduct a further examination of the project. The KW always demands a feasibility study. German technical assistance funds may be made available for this purpose, but

in general it is expected that the cost of the feasibility study will be borne by the recipient.

If the feasibility study is satisfactory, the KW sends out its own mission to examine the proposals in more detail, and enters into negotiations for the conclusion of a credit agreement. The credit agreement constitutes a firm commitment of the Federal Government.

The KW *may* put the project up for tender, but frequently makes its own arrangements with a German contractor. For projects which are thought to have special risks attached to them, the KW merely acts as trustee for the Federal Government, in order to keep this kind of operation separate from its regular banking business. If the KW decides to administer the credit agreement in its own name, it borrows the necessary funds from the Federal Government, and at the same time obtains a guarantee from the Federal Government to cover its commitment.

In theory, the KW maintains a close watch over the progress of the project. It disburses funds as they are required, either in the form of a direct payment to the supplier, or to the recipient government against production of the supplier's receipt for payment already made. The Federal Government is extremely sensitive to the allegation, which has occasionally appeared in the German Press, that the capital assistance programme has suffered from misappropriation of funds in the recipient country. It is claimed that the measures of control enforced by the KW make it virtually impossible for funds provided by the Federal Government to get into the wrong hands.

The KW maintains rather less strict surveillance of work on the projects themselves. Essentially, it insists only on written progress reports at regular intervals, usually about twice a year. For large projects, the KW prefers to send out visiting missions, to inspect work on the site, but there are administrative problems which make it difficult for the KW to exercise this degree of physical control except under special circumstances.

The KW does not yet have a body of completed projects on which to base a re-examination of its procedure. The deficiencies of the present system are recognised, and some steps have been taken to remedy them, but a thoroughgoing revision of the formal rules is unlikely to take place until the KW has enough evidence to prove its point.

The most striking difference between theory and practice is in the methods of project selection. The Federal Government's attempt to confine itself to a passive role was doomed from the start, for reasons which have already been discussed in the context of the administrative structure of German aid (see Chapter 3, Section 5). It is widely admitted that the expedients which the KW has adopted to ensure more discriminating project selection are unsatisfactory.

In the absence of any positive attempt by the Federal Government to stimulate suitable requests, the initiative falls, not to the recipient government, but to favourably placed private German representatives, who are usually directly or indirectly the representatives of the principal German contractors. To some extent, this situation is inevitable. There is a natural tendency in all donor's programmes to allow the donor's

own industries to gain a specially favoured position, if not by formal currency-tying, then by other equally effective means. But it is a situation in which the Federal Government is served an ill turn by its own scruples. The reluctance of the Federal Government to show its hand officially until a formal request has been received, which is often the climax of months of unofficial negotiation, deprives it of the ability to guide the initiative of private German contractors into channels more directly related to the objectives of economic development. In other words, by refusing to give official recognition to private German interests, the Federal Government loses the chance of reconciling those interests with the official aid programme. German capital assistance has probably had its fair share of ill-chosen projects – bridges which carry only a trickle of traffic, factories with inadequate markets to support them, equipment that was inappropriate to local conditions and materials, and so on. In the case of at least one donor, such mistakes are often the product of excessive enthusiasm. In the case of Germany, they are the product of excessive reticence.

The Federal Government's self-denying ordinance in the field of project selection is none the less significant for being merely a formality. In practice, German diplomatic representatives are quite active in the search for suitable projects. What is significant is that this search lacks any official vehicle, because of an extreme reluctance to risk offending the recipient. The double-talk that this anomaly necessitates is productive of misunderstanding.

So long as the instrument of the general advance commitment existed, the KW had some room to manoeuvre, in that it had some sort of a framework within which it could quietly promote ideas of its own. It is claimed that the removal of this instrument, in order to streamline the commitment procedure, has had the unfortunate side-effect of depriving the KW of its foothold in project selection.

In principle, the Federal Government is prepared to offer advice in the drawing up of plans and tables of priorities, but there are a number of reasons why very little assistance of this kind has actually been given. First, Germany suffers from a severe lack of qualified experts with experience of the conditions in developing countries (see under Technical Assistance, Chapter 11, Section 6). Secondly, the principle that Germany does not stimulate requests continues to have an inhibiting effect. Thirdly, there is a lack of practical co-ordination between the technical assistance programme, under which requests for help in project selection would have to come, and capital assistance. Fourthly, the obvious body to undertake such work, the KW, is reluctant to do so, because it would conflict with the KW's subsequent responsibility for processing requests after they have been received, and because the KW is in any case not a technical assistance agency.

Labouring under such difficulties, it is natural that the Federal Government should have a strong preference for countries with fully prepared development plans, which the Germans can study and from which they can select projects for assistance. Indian officials have commented on the remarkably detailed study of their development planning made by the Germans, though this is a comment which should be

regarded with caution, since the Indians have developed a pleasing habit of complimenting each member of the Aid-India Consortium privately on its familiarity with India's development plans.

Regardless of India's case, the fact is that for some time to come very few developing countries are going to be able to produce development plans which have been worked out beyond the setting down of lists of projects which look attractive and of sums of money which it would be pleasant to receive. This puts the Federal Government in a quandary. Its growing insistence on project agreements has given a number of recipients of German aid the impression that a German view of priorities is being imposed without prior study of the needs of the recipient's economy.

A number of solutions have been suggested. One of them is the establishment of permanent overseas aid missions, a proposal which has been frustrated by inter-ministerial rivalries. Another is a greater use of consultants. The Federal Government has available to it a card index of consultants, with several thousand entries, giving enough information concerning their special fields and their commercial relationships for a discriminating use of their services to be possible. This information is used in the technical assistance programme, but not in relation to capital assistance.

Project selection is not the only weakness in the KW's official procedure. The system of written reports covering work on projects in progress has proved inadequate. One of the reasons why the KW has not been able to exercise more effective control, as with project selection, is the shortage of experts. For a time, the KW had only two qualified engineers on its staff, and there were large areas for which it had no specialist at all. There have been occasions when the KW, wanting to send out an investigating mission and having no experts available, has had to make use of ordinary administrative staff, whose knowledge of the bridge or the steel plant that they may be inspecting does not extend much beyond an estimate of its cost. As a matter of policy, the KW keeps its technical staff small, preferring to hire specialist consultants on contract as required. In practice, this system appears to have functioned badly, and to have intensified the German capital assistance programme's vulnerability to error.

The KW appears to be largely the victim of external circumstances, but to some extent its difficulties stem from its own position. The KW is very conscious of its status as a bank. In personal conversation, the view is advanced that one reason for the lack of co-ordination between the KW's operations and the technical assistance programme is a reluctance on the part of the KW's staff 'to get mixed up in that side of the business'.

5 Rourkela, and Management Training

By the beginning of 1964, the Federal Government's commitments to Rourkela, including maintenance credits and allocations from general credits, had reached a cumulative total of some 1,400m DM. In addition, the Federal Government had provided three re-financing credits,

amounting to more than 400m DM, as repayment of earlier credits became due. It is estimated that the Federal Republic is financing about half the total cost of the project, and perhaps three-quarters of the foreign exchange requirements.

It is difficult to relate this sum to the Federal Republic's total commitment for capital assistance, because a large proportion of the credits for Rourkela fall outside the capital assistance programme. Still, it is worth recalling that by the beginning of 1964 the Federal Republic's commitments for capital assistance had reached a cumulative total of just under 7,500m DM. The commitment to Rourkela alone is roughly comparable with the total of all capital assistance commitments to Africa.

Any project of such size is worth separate study. Indeed, the sheer size of Rourkela has been the cause of one of the Federal Republic's principal problems, the problem of keeping its commitment within controlled limits. But Rourkela was also the context within which the Germans learnt the first rough lessons of capital assistance. It has particular significance as an explanation of the Federal Government's preoccupation with the problem of management, and with the need to develop a middle class of technicians and administrators.

German involvement in the Rourkela iron and steel plant began in 1954, when two West German steel firms were engaged as consultants for a 500,000-ton plant, in which it was planned that they should both eventually have an equity holding. In 1955, the consultants were asked to prepare a revised project, for a million-ton plant, to meet increased estimates of India's steel requirements. A plan was produced for an iron and steel plant which was expected to cost just over 1,000m DM.

At the beginning of 1956, the Indian Government decided to put the future development of the steel industry under exclusive state control. The German firms were relegated from the status of equal partners with a stake in the project to that of hired contractors. The project was to be administered by Hindustan Steel Ltd., an agency set up for this purpose by the Indian Government. At the express wish of the Indian Government, the plant was planned primarily for the manufacture of flat steel products, which require a particularly sophisticated process.

Hindustan Steel concluded separate contracts with forty German firms and an Austrian one, which in turn engaged some 3,000 sub-contractors. The purpose of this arrangement was presumably to keep control in the hands of Hindustan Steel, but its more conspicuous effect was to remove the individual contractors' interest in the success of the project as a whole. During the first few years, each section of the project was handed over to Hindustan Steel as soon as the contractor had completed it and had demonstrated that it fulfilled its specifications.

Not surprisingly, production dropped sharply. Extraordinary stories began to circulate. The Germans were said to have failed to make any allowance for the climatic conditions. Relations between the contractors and the officials of Hindustan Steel were said to have reached an appalling level of mutual enmity. Stocks of equipment were lost under slag heaps. There were hold-ups in deliveries from the Calcutta docks, because of administrative delays or the inadequacy of the

transport system. Some of the goods supplied were found not to be up to specification. Labour conditions were bad.

As a result, the target dates for completion had to be put back, and costs rose. Between 1956 and 1962, the estimated cost nearly doubled.

The Federal Government was approached after the Indian foreign exchange crisis of 1957. The original arrangements with the German contractors had provided for payment in cash and short-term private export credits. In February 1958, the Federal Government agreed to grant consolidation credits to a limit of 660m DM, to cover payments to the contractors as they became due. The Federal Government's credits were for three years at 6% plus a 0.3% service charge.

It was made clear at the time that this was to be regarded only as a preliminary postponement, pending further negotiations. Over the next four years, the Federal Government granted India three re-financing credits, the end result of which was to extend the repayment period of at least a part of the original consolidation credit to more than fifteen years, and to reduce the interest rate to 5.25%. The Federal Government's commitment continued to increase as new needs appeared, and in 1962, after some hesitation, it agreed to finance the extension of the capacity of the plant to 1.8m tons a year.

The Federal Government had not appreciated the full implications of its involvement. Things had already begun to go wrong when the first official credit was granted. By 1961, production in some sections of the plant had dropped to approximately 50% of capacity. There were mutual recriminations, which appear to have been fostered to some extent by the Russians. In the Indian Press, Rourkela was unfavourably compared with the Russian-built steel plant at Bhilai.

The Germans were hurt and puzzled. Eventually, a mission from the Ministry of Economics was sent to investigate. Its findings, embodied in the Solveen Report, amounted to a bitter condemnation of the whole way in which the project had been managed. The report was especially strong in its condemnation of the officials of Hindustan Steel.

But Rourkela was already on the mend. By the autumn of 1961, a special team of 200 German managerial and maintenance specialists had been assembled to run the plant under a two-year contract. This was an interim measure designed to give the Germans enough time to train more Indian managers. Administrative changes were put into effect on the Indian side also. By the autumn of 1962, production was nearly back to full capacity.

One of the commonest allegations made against the Germans at Rourkela was that they had merely reproduced the latest kind of German steel plant, without making any allowance for Indian circumstances and limitations. Comparisons with Bhilai drew attention to the simpler and more robust systems installed by the Russians.

Events have proved the allegation to be misconceived. Bhilai was designed, at the wish of the Indian Government, to manufacture the comparatively crude products required by the already existing Indian construction industry. The flat steel products for which Rourkela was designed were intended for the ship-building and engineering industries, which had still to be developed under the Second Five-Year Plan. In

the early years, one of the more depressing features of Rourkela was the accumulation of surplus stocks. As other industries have developed, so has Rourkela's value to the Indian economy increased. The decision to incorporate the most advanced processes available, which was the cause of so much friction initially, is now generally thought by both Indian and German officials to have been proved right.

Rourkela has certainly not turned out to be the disaster that it once seemed likely to become. In retrospect, the Germans regard their most serious mistake as having been to overlook the special management and labour problems of capital projects in developing countries. The German managers and technicians on the site were experts in their own field, who had no inkling of the social and political sensitivities that were involved. One of the most resented features of the Germans' attitude at Rourkela was their attempt to re-create, as nearly as possible, a German community which was effectively cut off from its surroundings. The sheer number of the Germans at Rourkela made the establishment of a self-contained community more or less inevitable, which is an additional reason for the Federal Government's present distrust of over-large projects. But the effects of this segregation could have been mitigated if the German staff had been more fully prepared for the unfamiliar conditions that they were to meet, if a more comprehensive training programme for Indian counterparts had been organised from the start, and if steps had been taken earlier to ameliorate the social problems created by the sudden growth of a large industrial labour force.

These lessons are now firmly fixed in German aid policy. A significant number of the new forms of technical assistance that have been introduced are designed specifically with the lessons of Rourkela in mind. The biggest outstanding problem is that of management-training. It is not yet clear how effective the Federal Government's insistence on management-training clauses in all contracts will turn out to be. One continuing obstacle to a solution appears to be the Federal Government's reluctance to combine capital assistance and technical assistance proposals in a single comprehensive agreement.

6 The Pipeline

Several references have been made to the big lag between commitments and disbursements in German capital assistance. As has been shown in Table 9, the lag is particularly noticeable in Africa and Latin America. The causes of this situation may now be summarised.

First, in order to get the aid programme rapidly established, the Federal Government entered into extremely large general advance commitments, particularly in 1961. The size of this commitment put a heavy burden on a hastily prepared administrative machine. By the end of 1963, the level of firm commitments had still not reached the level of general advance commitments reached in 1961. In other words, there remained some general advance commitments entered into in 1961 which had not yet been translated into specific project agreements two years later.

Secondly, credit agreements have to go through a complex administrative procedure which is subject to delays. This procedure, which has been described, can be recapitulated in the form of a brief description of the steps from budgetary allocation to final disbursement. The budget provides for new commitments in the current year up to a stated limit. On the basis of these *commitment authorisations*, the Federal Government enters into advance commitments. Up to 1963, the Federal Government entered into *general advance commitments*, which constituted an offer of assistance for projects as yet unspecified, up to a stated limit. Recently, the more usual instrument has been a *government-to-government agreement*, which is an offer of assistance for a specific project. After detailed examination of the proposals, the KW concludes a *credit agreement*, which lays down the precise specifications of the project and the purposes to which German assistance will be put. This constitutes a firm commitment. The *cash authorisations* in the Federal and special budgets are intended to cover payments that the KW is expected to make in the current year in fulfilment of its credit agreements. The KW makes *disbursements* as funds are required for the progress of the project.

Thirdly, the strictness of German criteria has created difficulties in finding suitable projects for assistance. The questionnaires sent to the recipient government by the KW before it sends its own mission are extremely detailed, and have frequently led to prolonged negotiations over subsidiary aspects of projects which have delayed signing of the credit agreement. It is suspected by some recipients that the Germans have in some cases raised objections as an indirect means of easing the pressure on the Federal Budget.

Fourthly, the Federal Republic's lack of traditional ties and a common language with developing countries has intensified the difficulties of communication experienced by most donors. This is confirmed by the additional lag in disbursements to Africa, which seems to be common to most donors' capital assistance programmes.

The biggest delays have been between the general advance commitment or government-to-government agreement and the KW's credit agreement. The introduction of government-to-government agreements seems to have speeded the process, and the gap between advance commitments and firm commitments is now narrowing rapidly, but the implementation of credit agreements is also taking longer than the Federal Government originally expected. It was assumed that a project of moderate size could normally be completed in about two years. In practice, projects are on average taking about five years to complete.

The Finance Ministry is reluctant to approve of new commitment authorisations while large earlier commitments are still outstanding. Commitment authorisations dropped sharply in 1964. As a result, recipients are beginning to find it difficult to plan the long-term utilisation of German aid, although the existence of the instrument of commitment authorisation has rendered this problem less acute in the case of Germany than in the case of donors, notably the United States, who can only accept formal commitments on an annual basis.

Table 10 shows in detail the lag between the different steps in the financing of capital assistance. Figure 3 is simply a graphic presentation of the cumulative totals given in Table 10. It can be seen that cash authorisations for 1961 far exceeded firm commitments, let alone actual disbursements, which is an indication of the extent to which negotiation and implementation of projects fell short of the Federal Government's expectations.

The gap between firm commitments and general advance commitments was even larger, and did not begin to close until 1963, by which time cash authorisations had been brought into line with the level of firm commitments. Commitment authorisations, including a retroactive authorisation in 1962, have been approximately covered by advance commitments from the beginning.

The Federal Government is now in the position of having firm commitments in excess of cash authorisations, while the gap between firm commitments and actual disbursements is rapidly narrowing. This situation has obvious implications, the awkwardness of which was pointed out in Chapter 4, for future budgetary allocations. The Federal Government has not yet cited budgetary pressures as a reason for turning down specific requests. For the next year or two, it will be difficult for it to continue not to do so. Any new widening of the now diminishing gap between advance commitments and firm commitments will be taken as a sign that the Federal Government has chosen to reduce the budgetary demands of its aid programme by indirect means.

7 Is German Aid Tied?

It is widely assumed, both among recipients and among other donors, that the main motive force behind the German aid programme is the desire for economic expansion, and that the shape of the aid programme is determined by Germany's own commercial interests. Yet it is a fundamental principle of German capital assistance that the KW's credits should not be tied to the procurement of German goods and services, except 'for particular reasons'. This is a paradox which has given rise to controversy both within Germany and in the Federal Government's relations with other donors.

It is certainly true that the Federal Government is interested in opening up new fields for German enterprise in developing countries, in which the Germans have no traditional foothold. It is also true that many German officials, particularly in the Ministry for Economics, and nearly all German industrialists would argue that it is legitimate to expect the advancement of German commercial interests as a result of the aid programme, though they might well add the qualification that these interests would be even better served by other means if only the obligation to give aid could be set aside.

Those two statements refer to the personal and corporate attitudes of interested Germans towards the giving of aid. Attitudes, however, are not necessarily expressed in policy. As has already been pointed out, the natural inclination to give the aid programme a twist in favour of German commercial interests is to some extent counterbalanced by

Table 10

The Lag in Disbursements

Authorisations, Commitments and Disbursements of Bilateral Capital Assistance, 1960-1963
million DM

	Bilateral Capital Assistance (including non-project loans)				
	Commitment Authorisations (1)	General Advance Commitments Govt. to Govt. Agreements (2)	Firm Commitments (KfW Agreements) (3)	Cash ¹ Authorisations (4)	Actual Disbursements (5)
1960	300	492	492	—	392
1961	400	4,845	845	—	411
Bilateral Capital Assistance ...	...	...	...	...	...
Retroactive Commitment Authorisation (1962)	1,850	—	—	—	—
Cash Authorisation, 1961 ²	...	...	...	...	...
Federal Budget ...	1,301	—	—	1,301	—
ERP Fund ...	187	—	—	187	—
Volkswagen Foundation ...	500	—	—	500	—
The Länder ...	500	—	—	500	—
KfW's own resources ...	300	—	—	300	—
Total 1961 ...	5,038	4,845	845	2,788	411
Cumulative Total, 31.12.61	5,338	5,337	1,337	2,788	803
1962	1,250	1,354	1,329	—	853
Bilateral Capital Assistance ...	...	...	...	...	...
Federal Budget ...	—	—	—	240	—
ERP Fund ...	160	—	—	200	—
KfW's own resources ...	—	—	—	300	—
Total 1962 ...	1,410	1,354	1,329	740	853

Cumulative Total, 31.12.62	...	...	...	...	6,748	6,691	2,666	3,528	1,656
1963 Bilateral Capital Assistance ...	...	...	...	...	1,000	716	2,031	—	966
Federal Budget ...	...	...	...	...	—	—	—	525	—
ERP Fund ...	...	...	...	...	155	—	—	205	—
KITW's own resources ...	...	...	...	...	—	—	—	300	—
Total 1963 ...	...	...	...	...	1,155	716	2,031	1,030	966
Cumulative Total, 31.12.63	...	...	...	...	7,903	7,407	4,697	4,558	2,622
1964 Bilateral Capital Assistance ...	...	...	...	...	750 ³	750 ⁴	1,000 ⁴	810 ³	1,500 ⁴
Estimated Cumulative Total, 31.12.64...	...	...	...	...	8,653	8,157	5,697	5,368	4,122

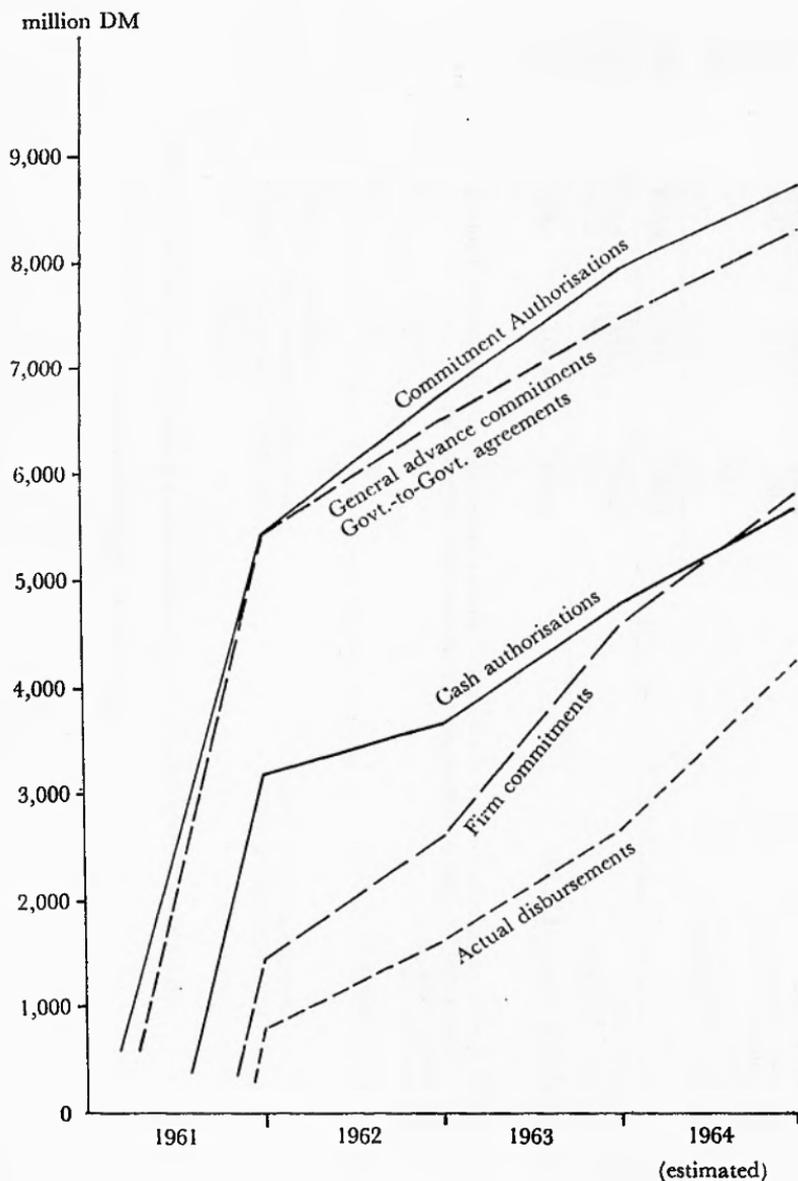
Notes: 1 Budgetary allocations include a part of a Finance Ministry allocation not mentioned in Tables 3 and 4.
2 Cash authorisations for 1961 are shown as commitment authorisations also.
3 Provisional figures.
4 Estimated figures.

Source: Ministry for Economics.

Figure 3

The Lag in Disbursements

Authorisations, Commitments and Disbursements for Bilateral Capital Assistance, 1960-1963.



Source: Ministry for Economics.

contrary policy considerations, such as the balance of payments surplus and the predominance of interest in Europe, as well as by the determination to look at aid in terms of the recipient's development.

Claims to the effect that German aid is tied or untied are claims concerning practical policy. Since claim and counter-claim have generated considerable heat, it is important to make clear precisely what one thinks tying is, and what question one is asking about it.

The question is not whether the capital assistance programme in some sense contributes to German commercial expansion, to which the answer is obviously and inevitably 'yes'. Equally, the question is not whether German aid is subject to formal procurement conditions, to which the answer could be given in simple percentage figures.

There are many ways in which a donor may ensure that capital assistance allocations benefit contractors from his own country, of which formal currency-tying is the most obvious and probably the most damaging to the recipient's interests. It is often said that aid which is not formally tied is nevertheless 'effectively' tied. What does this mean? Clearly, it does not merely mean that the money was in fact spent on the donor's goods and services. The recipient may have had perfectly good reasons of his own for wanting to spend the money on the donor's goods and services. For instance, the donor may have been able to put in the most favourable tender.

To say that aid is 'effectively' tied, therefore, must mean at least that aid is given in such a way that the recipient is persuaded either to spend it on purchasing from the donor goods and services which he would otherwise have purchased elsewhere, or to purchase from the donor goods and services to which he would otherwise have attached a lower degree of priority. There is also – and this is the most important point – an implication in the pejorative overtone of the phrase 'effectively tied', to the effect that this induced change of preference is to the recipient's disadvantage. An offer of aid for a project which had immediate priority in the recipient's development plan, and which happened to fall in a sector in which contractors from the donor country would be expected to produce the most favourable tender, would hardly be described as tied aid.

At this point, it is possible to offer what is admittedly a highly prescriptive definition of 'effective tying':

Effective tying is any measure which induces in the recipient a change of preference in favour of goods and services from the donor country, if there is a *prima facie* case for supposing that this change of preference may be to the disadvantage of the recipient's economic development.

This definition immediately suggests an admittedly loaded question, which is the most significant question that has to be asked in relation to tying. It is:

Does the desire to ensure that aid is spent on goods and services from the donor country cause capital assistance resources to be diverted from the primary objectives of economic development or

to be applied to those objectives in a way that deprives the recipient of part of the expected benefit?

Applied to German aid, this amounts quite simply to asking whether the interests of German commercial firms have an effect on the aid programme which overrides the interests of developing countries, and whether these two sets of interests conflict.

The principle that German aid should not be currency-tied – that is, tied specifically to the procurement of German goods and services – has been repeatedly criticised by the representatives of German industry. The criticism mounted sharply when the United States took to currency-tying in order to safeguard its balance of payments. Not only did the American decision mean that German exporters lost their share of orders financed from the US Development Loan Fund, which had been considerable, but it also meant, to their far greater chagrin, that they lost a number of established export markets which had previously been independent of aid finance from any country and which were now flooded with American goods purchased with American tied commodity credits. This result was particularly noticeable in Turkey, where German exporters lost the strong position that they had gained in open market competition.

In 1962, only 9% of German capital assistance commitments were formally tied to the procurement of German goods and services. In 1963, the Federal Government gave way to increasing domestic pressure, and attached formal procurement conditions to 55% of new commitments. A further 3% of commitments consisted of offers of consolidation credits, leaving 42% untied.

This sudden increase in tying drew protests from other donors, who argued that the Federal Republic's favourable balance of payments gave it no ground for tying. The increase was also opposed by the powerful Money and Credit Section of the Ministry for Economics, for the same reason. The Federal Government acknowledged the logic of this view, and reduced the proportion of tied aid as soon as the domestic political pressure eased. In the first half of 1964, a little more than one-third of German capital assistance commitments were tied.

But the basic factors which caused the Federal Republic to introduce tying remain. Politically, the Federal Government becomes embarrassed if the entire contract for a project financed by German capital assistance is lost to foreign suppliers. German officials still wince at the mention of the Roseires dam, in the Sudan, which is being built by Italian contractors but is financed largely by the Federal Republic. The Italian group which won the contract is alleged to have underbid its German competitors by only 0.25%. Reports in the German Press have angrily painted the picture of the Italian flag flying over what ought to be regarded as a 'German' dam. 'It's the Italians who will get all the gratitude' is the common reaction.

Losses of this kind are exceptional, but they crop up again and again in debate. There was, for instance, a promise of loans to Iran worth 200m DM, of which only 4% is expected to come back to German firms. This is all the more painful in that there are German firms which are well established in Iran.

What seems to rile the Germans is the loss of contracts for which the German tender was thought to have been fully competitive. Where it is recognised that the German tender is unlikely to be competitive, the loss of the contract seems to cause little ill-feeling. A German credit of 30m DM to Tunisia resulted in contracts which went almost exclusively to French firms. Since the French could in some cases underbid the Germans by 30–40%, no other outcome was expected. If there was any resentment, it was directed at the Federal Government's decision to offer such a credit in the first place, not at its failure to tie it.

Even so, the loss of too many contracts for complete projects would certainly cause all the earlier criticisms of the Federal Government's policy on tying to reappear. At the same time, government departments responsible for currency questions continue to insist that in Germany's own interests a proportion of German credits should be allowed to go elsewhere. The Ministry for Economics has tinkered with the idea of encouraging non-German sub-contractors to participate in German-financed projects, for which they would receive payment out of German capital assistance funds. If such a share-out of contracts could be properly controlled, about the same proportion of capital assistance funds would fail to return to German firms as at present, but the leakage would be spread in smaller quantities over a larger number of projects. It is supposed that this would be more acceptable to domestic public opinion.

The ratio that the Germans appear to have in mind for non-German participation is something between 10 and 20%. (This is a great deal lower than, for instance, the proportion of British financial assistance spent on non-British goods and services, although the British Government officially ties a significant proportion of its aid.) Not surprisingly, the few attempts that have been made to establish mixed projects on this basis have not been particularly happy, and there has been little enthusiasm for following the proposal up.

The Federal Government has also tried going to the other extreme, specifically excluding procurement of German goods and services or tying its offer of assistance to procurement from some other named source. In 1964, in the course of negotiations over British support costs (that is, the cost of supporting British troops in Germany, which imposes a burden on the British balance of payments and which is the subject of periodic negotiations between the two countries), the Federal Government at one point suggested that a German loan to Nigeria might be tied to *British* goods and services. The proposal caused such protests in Germany that it was subsequently dropped.

The Federal Government's stated policy on tying contains at least two absurdities. First, the 'exceptional reasons' which are said to be the only grounds for tying apparently occur with sufficient frequency for the proportion of German financial assistance that is subject to formal procurement conditions to be roughly comparable with that of the United Kingdom, which officially requires exceptional reasons for *not* tying its aid. Secondly, it is known that the Federal Government in principle requires procurement conditions if there is reason to believe that German firms will not be sufficiently competitive to obtain the

contract unless the loan is tied. In other words, aid is tied if there is no other way of ensuring the purchase of German goods and services. If this criterion were fully applied, its effect would be the same as if *all* German aid were tied. To confuse the situation still further, officials of the BMZ, who of course are not responsible for the administration of capital assistance, have stated publicly that German firms should not expect to gain contracts under the capital assistance programme unless their tenders are competitive, which seems to indicate that conflicting interests are at work somewhere behind the scenes.

The obvious way of escape from this conflict is simply to avoid making commitments for projects in sectors in which German firms are not competitive, which is the solution that the Federal Government seems consciously to have adopted. The tacit application of this kind of criterion does not necessarily conflict with the recipient's interests, but it clearly limits the range of projects for which German assistance is forthcoming. It therefore puts an onus on the Federal Government to take a far greater initiative in seeking out aid-worthy projects, since the criterion is not one that the recipients can be expected to take into account. So long as the Federal Government maintains a policy of not taking the initiative in seeking project proposals, leaving the recipient to produce projects in conformity with criteria which are in fact not fully stated, there is a continuing danger of an unchecked conflict of interest between German supplier and the recipients of German aid.

In 1963 and 1964, several recipient governments began to notice an increasing tendency on the part of German diplomatic representatives to suggest that aid would probably be forthcoming provided that the recipient put up proposals for such and such a project. In several cases, the suggestions were for projects which had a high priority in the recipient's development planning, but the more obvious common factor was the likelihood that the contract would be awarded to a German firm. Since there was no evidence that the new tendency was the outcome of intensified study of the recipients' economies, it was taken as evidence of an increased determination to promote German interests, not as the outcome of improved project selection machinery.

In principle, there is no harm in a donor country's seeking to concentrate its aid programme within those fields in which its special skills lie. Indeed, the idea has obvious attractions. In the case of Germany, these skills are numerous and valuable. It is significant that Germany was the principal outside beneficiary from American DLF credits to India when these were untied, and were therefore applied under conditions of free competition.

But it must be pointed out that the Germans tried at the outset to devise codified principles for concentration on particular sectors, and failed. Conditions vary so greatly between one country and another, and projects in different sectors are so closely interrelated, that areas of specialisation cannot be defined in general terms. They can only be evolved *ad hoc*, on the basis of positive and sophisticated methods of project selection designed to seek out the areas in which the greatest scope for development lies.

This is what present German policy specifically excludes. The onus

of ensuring that requests for aid fall within sectors in which German industry is competitive therefore falls upon the individual representatives of German firms. The negative influence exerted by the Federal Government is a partial insurance against the possibility that projects stimulated in this way will actually harm the recipient's economy by diverting resources from more urgent needs, but it is not really an adequate substitute for a positive initiative in the search for suitable projects. By confining itself to the rejection of obviously bad projects, the Federal Government exposes itself unnecessarily to domestic pressure, without any really significant gain in goodwill from the recipients of aid.

A third and more questionable method of ensuring that contracts go to firms of the donor's choice, without imposing formal procurement conditions, is simply to refuse to put the project up for tender. Up to the end of 1962, less than half of German capital assistance projects were put up for tender. The others were presumably projects in which a particular firm had had an interest from the start.

There is now an increasing tendency to invite tenders. In the case of tied credits, of course, the invitation is confined to German firms. In the case of projects not subject to procurement conditions, the KW's official policy is now always to issue an international invitation for tenders, and it is stated that there are very few exceptions to this rule: but German methods will inevitably remain suspect so long as the figures, and the attitude of German representatives in the field, tell a different story from the official one.

The means employed by the Federal Government to ensure that German suppliers benefit from the capital assistance programme are effective. It is estimated that nearly 85% of the loans disbursed by the KW are directly spent on German goods and services. If allowance is made for the small proportion of German aid that is spent on local costs, this means that less than 10% is spent on imports from other industrialised countries. It is doubtful whether any donor has had better success than that, with the possible exception of Japan, regardless of the extent to which aid is formally tied.

The Federal Government does not make any particular secret of the figures, at least when it is discussing aid in a domestic political context. The Minister for Economic Co-operation is reported to have said once at a press conference that there had been 'a little trouble' in the Sudan, but in general the problem of procurement had been satisfactorily resolved. The fact that more than 80% of German bilateral capital assistance comes straight back to German firms is constantly cited in speeches and other public statements, in refutation of the reproaches of German industry.

But the Federal Government would also argue that the reason for this success is German industrial efficiency, and that conditions imposed by the Federal Government have only a marginal effect. There is some truth in such a claim, in that there is no reason to suppose that the total freeing of German aid would result in a significant increase of orders for other industrialised nations, but that is not the whole story. Particularly in West Africa, it is possible to point to German aid

projects which do not make obvious economic sense from the recipient's point of view, though one should perhaps add that Germany is not the only donor that has had its nonsenses in the area between Dakar and the mouth of the Congo.

The point is this. 'Tying' does not simply mean ensuring that capital assistance funds do not result in contracts for one's competitors. It means that the desire to secure contracts for one's own suppliers overrides other considerations in the selection and implementation of projects. The crucial factor in German aid is not the occasional limiting of procurement to German goods and services, but the far more frequent limiting of procurement to goods requiring foreign exchange. By tying capital assistance to the foreign exchange content, the Federal Government forces the recipient to choose certain kinds of project. More seriously, the recipient is encouraged to inflate the foreign exchange content to projects already approved. In construction projects, for instance, the recipient is encouraged to use costly imported materials, such as steel, rather than cheap local materials, such as stone. It is possible to argue that the recipient is not harmed by being *persuaded* to buy German goods rather than British or American goods. It is far more difficult to argue that he is not harmed by being *forced* to buy German goods rather than local goods.

To sum up, the proportion of German capital assistance that is formally tied is high enough to bring the claim that German aid is not tied in principle seriously into doubt. But the proportion of capital assistance that is formally tied is so much smaller than the proportion that is actually spent on German goods and services that the question of formal tying is only of subsidiary significance. There are a number of reasons why this high proportion of German capital assistance comes back to Germany, among which are various tacit restrictions implicit in the policy of the Federal Government. The most important of these is the rejection of requests for aid which are unlikely to result in a contract for a German supplier.

There are good grounds for believing that the methods employed by the Federal Government do not necessarily have the damaging effects that have come to be associated with formal tying, such as the inflation of costs through lack of competition, but little or no positive effort is made to *ensure* that such effects do not occur. There have been occasions when the interests of German contractors have been allowed to override those of the recipient, not through positive furtherance of these interests by the Federal Government, but through the failure of the Federal Government to take a sufficiently active part in project selection.

In particular, tying to the foreign exchange content has on occasion brought benefit to the German supplier without any equivalent benefit to the recipient.

8 The Terms

The Federal Government continues to insist, in the face of strong pressure from recipients and other donors, that the terms of capital assistance loans should be fixed in accordance with the nature of the

project. It maintains that soft terms are appropriate only to infrastructure projects. To offer such terms for commercial projects, in the German view, is to encourage the application of resources to non-viable schemes. Such projects, therefore, are financed on terms that fall not far short of ordinary market rates.

The strongest pressure for softer terms has come from the United States. It is argued that the general state of the recipient's economy has to be taken into account, and in particular the burden of debt repayment on the balance of payments. It is also argued that the concept of what constitutes a 'commercial' project has to be much more flexible in developing countries than in a dynamic industrialised economy.

Both the Federal Government and the KW appear to have some sympathy for these arguments, as a justification for exceptions to the general rule. The terms of loans, although still primarily determined by the nature of the project, have gradually eased. The percentage of soft loans in the capital assistance programme is slightly higher than the percentage of projects classified by the KW as 'infrastructure'. For commercial projects in which there is not thought to be any special reason for offering soft terms, the repayment period is said to be governed by the economic life of the project, but in principle may not exceed fifteen years. Such loans carry interest at rates approaching the current market rate, usually about 5.5%. For infrastructure projects and other projects for which special terms are approved, the repayment period may be up to twenty years, and the rate of interest may be as low as 3%. A grace period is usually extended until completion of the project, though interest payments begin with disbursements. In 1963, the average maturity period of all new official loan commitments was nineteen years, two years longer than in 1962 and four-and-a-half years longer than in 1961. The average grace period was five years. The average rate of interest was 4.3%, slightly lower than in previous years. Commitments covered by these figures include consolidation and re-financing credits, and credits for current imports.

For administrative reasons, the Germans have avoided a precise explanation of what they mean by 'infrastructure' and 'commercial'. On the basis of various sets of figures giving distribution by sector, however, not more than 58% and not less than 47% of commitments for bilateral capital assistance has been for infrastructure projects. In 1962, about 65% of capital assistance commitments were for infrastructure projects. In 1963, the proportion fell to approximately 55%.

Tables 11 and 12 give the distribution of official loan commitments by rate of interest and length of maturity. In 1962, 44% of all official loan commitments (not only capital assistance) carried rates of interest of less than 4%. In 1963, the OECD's system of classification was reversed, so that loans at unit rates of interest fell in the category below instead of the category above – i.e., 'More than 3 to 4%', 'More than 4 to 5%', etc. In 1962, loans at precisely 3% had accounted for 27% of total new commitments, or more than half of commitments at 3 to less than 4%. In 1963, according to provisional figures, the proportion of loan commitments at 3% or less rose to 37%, although the proportion of infrastructure projects actually declined. This seems to indicate an

increasing flexibility in the criteria by which the Federal Government fixes its terms.

The Federal Government has been urged, particularly within the framework of OECD, to adopt what are known as 'two-step' loans. This is a technique much favoured by the Americans. It consists essentially of granting the recipient hard-currency credits on soft terms,

Table 11

**Official Loans to Developing Countries, by Rate of Interest
(Commitments)**
million DM

	Less than 3%		3 to less than 4%		4 to less than 5%		5 to less than 6%		6 to less than 7%		Total		
	Value	% of total	Value	% of total	Value	% of total	Value	% of total	Value	% of total	Value	%	
1961	-	420	30	104	7	434	31	432	31	1,390	100	
1962	4	0	549	44	122	10	509	40	76	6	1,260	100

Note: Provisional figures for 1963, based on a different method of classification, show a continuation of the same trend, with loans at 3% or less and at more than 5% increasing more rapidly than loans in the middle categories.

Source: The Flow of Financial Resources to Developing Countries, OECD.

Table 12

**Official Loans to Developing Countries, by Length of Maturity
(Commitments)**
million DM

	More than 1 to 5 years		More than 5 to 10 years		10 to less than 20 years		20 to less than 30 years		Total		
	Value	% of total	Value	% of total	Value	% of total	Value	% of total	Value	% of total	
1960	34	4	239	27	596	69	—	—	869	100
1961	284	20	212	15	536	39	356	26	1,390	100
1962	164	13	34	3	658	52	404	32	1,260	100

Note: Provisional figures for 1963 show a continuing relative increase in credits with maturity of more than 10 and less than 20 years, but a sharp decline in the relative volume of credits with maturity of 20 years or more.

Source: The Flow of Financial Resources to Developing Countries, OECD.

thus easing the burden on the recipient's balance of payments, while allowing the recipient to use the credit for onward lending in local currency on terms appropriate to the project.

There has been some sympathy for this proposal in the KW and the BMZ, but the Finance Ministry is strongly opposed to it, while the Ministry for Economics seems to have taken up a position of amused neutrality. The Finance Ministry has let it be known that it will insist, if the adoption of this technique is forced upon the Federal Government, that the recipient should pay the net interest accruing from onward

loans into a counterpart fund, which could be set against future German commitments.

The Federal Government has made a slight exception in the case of loans to development banks, the interest on which does not necessarily match the rate at which the development banks lend to their clients. Since the average rate of interest on German loans to development banks is more than 5%, it is probable that the difference is not significant. The length of maturity of such loans, however, is closer to that of loans for infrastructure projects, usually twenty years or a little less.

The Federal Government's reluctance to introduce greater flexibility into the terms of capital assistance loans does not imply any lack of awareness of the seriousness of the balance of payments position of the majority of developing countries. In 1963, the KW devoted much attention to this problem. The conclusions were published in its annual report, in which it was stated that an understanding of the 'fundamental problems' of which balance of payments weaknesses were a symptom was becoming increasingly important 'in view of the noticeably growing tendency to regard the balance of payments deficits of developing countries as the main criteria governing amounts, forms, and terms of development aid, especially when such deficits reveal serious strains due to interest and redemption payments'.

The KW did not go so far as an overt endorsement of the Federal Government's stated view that to introduce softer terms in an attempt to ease the strain on the balance of payments would merely be an encouragement to the recipient to pursue imprudent and extravagant import policies, but the conclusions given in the annual report were stern. It was stated that the decline in developing countries' foreign exchange reserves was 'mainly due to the short-term capital outflow, which includes a considerable amount of "flight" capital'. The report drew attention to what it considered to be serious mistakes in the allocation of resources.

The KW argued that there were a number of steps that should be taken by developing countries in order to halt the decline in foreign exchange resources. Among them were the following:

1. 'The developing countries should combat inflationary tendencies more than hitherto.'
2. They should adopt economic policies which would 'actively encourage investment activities'. The establishment of a banking system 'to serve as a reservoir and intermediary for domestic and foreign capital' would be an important starting point in this respect.
3. They should pay greater attention to considerations of productivity and profitability, including considerations of comparative advantage. It was to be hoped that such a development would be a step towards intensified regional integration.
4. Rationalisation and improvement of agriculture, mining and handicrafts should come before the promotion of new production. 'The developing countries must, however - if they want to avoid incurring even larger balance of payments deficits and thus

becoming increasingly dependent on foreign capital aid – provide the initial capital required by such structural investments largely from their own economies’.

The industrialised countries, for their part, should assist with trade policies designed to help developing countries to exploit their comparative advantages. This would call for ‘a well considered concept planned on a long-term basis and including measures affecting their own economic structures’.

The admonitory tone of the KW’s report was in part a reflection of the view of the Federal Government. Even so, the report differed from official policy in several important respects, in the form of discrepancies which revealed a difference of perspective, rather than any conflict of view. The report threw serious doubt, for instance, on the wisdom of pursuing a policy aimed primarily at import substitution, rather than expansion of exports, in spite of the fact that the achievement of import substitution is one of the most important of the criteria by which German capital assistance projects are chosen. The KW suggested that such a policy was ‘apt to lose sight of international competitive ability’.

There were other differences, mostly of a subsidiary character. What was left unsaid, which the reader could observe for himself, was that the built-in pressures of German capital assistance criteria ran directly counter to the policies which the KW was recommending developing countries to adopt. Although these recommendations were coldly worded, there was also a clear implication that the Federal Government should take another look at the ‘core’ of the balance of payments deficit, which was ‘determined by real development’.

9 Clauses in Government-to-Government Agreements

The following is a shortened version of the basic draft on which government-to-government agreements for capital assistance are based:

Article 1

- (1) The Government of the Federal Republic of Germany shall enable the Government of (and/or other borrowers who have been jointly selected by both Governments) to take up (a) loan(s) up to a total of (in words) Deutschmarks with the Kreditanstalt für Wiederaufbau (Development Loan Corporation), Frankfurt/Main for projects if, after examination, these have been found to be eligible for promotion.
- (2) The projects referred to in paragraph 1 of this Article may be replaced by other projects if the Government of the Federal Republic of Germany and the Government of so agree.

Article 2

- (1) The utilisation of the loan(s) and the terms and conditions (including the question of allocation of delivery orders) on which it – they – will be granted shall be governed by the provisions of the contracts to be concluded between the borrower(s) and the Kreditanstalt für Wiederaufbau, which shall be subject to the legal provisions applicable in the Federal Republic of Germany.

- (2) The Government of and the Central Bank shall guarantee to the Kreditanstalt für Wiederaufbau all payments and the resultant transfer to be made in fulfilment of the borrower's liabilities under the loan contracts concluded.

Article 3

The Government of shall exempt the Kreditanstalt für Wiederaufbau from all taxes and other public charges levied in at the time of the conclusion, or during the execution, of the loan contracts mentioned in Article 2 of the present Agreement.

Article 4

The Government of shall, subject to the provisions of Article 5 of the present Agreement, allow passengers and suppliers free choice of means of transport for such transportation by sea or air of persons and goods as results from the granting of the loan(s), and shall abstain from taking any measures that might exclude or impair the participation of German transport enterprises, and shall grant the necessary permits as required.

Article 5

The loan(s) may not be used to finance deliveries from, or performances by, the countries or territories named by the Government of the Federal Republic of Germany in a separate communication. This also includes deliveries originating in any of those countries or territories. Similarly, deliveries financed from the loan(s) may not be conveyed in means of transport of those countries or territories.

Article 7

The Government of the Federal Republic of Germany is anxious that for deliveries resulting from the granting of the loan(s), preference should be given to products of industries of Land Berlin.

LIST of countries and territories excluded in accordance with Article 5 of the Agreement of between the Government of the Federal Republic of Germany and the Government of concerning financial assistance.

- A Countries:** Albania
Bulgaria
Yugoslavia
North Korea
Cuba
Mongolian People's Republic
Poland
Romania
Czechoslovakia
Hungary
Union of Soviet Socialist Republics
North Vietnam
People's Republic of China.
- B Territories:** Soviet-occupied zone of Germany
Soviet-occupied sector of Berlin.

8—Germany and Other Donors

I Multilateral Financial Assistance

The exceptionally high proportion of German aid that is channelled through multilateral agencies consists primarily of two series of payments – the purchase of IBRD bonds over the years 1957–1961, and subscriptions to the first Special Development Fund (FEDOM) of the European Economic Community. Both of these operations tend, by their nature, to take the form of large sporadic payments. Net purchases of IBRD bonds from 1957 to 1961 amounted to 2,548m DM, but in 1962 and 1963 repayments appear in the annual figures as a small net gain to the Federal Republic. Payments under the Federal Republic's fixed quota in the first of the EEC's development funds were completed in 1962. For the next two years, no budgetary allocations needed to be made for this purpose, but payments will be resumed as soon as there is a call on the Federal Republic's quota in the second Development Fund.

Table 13

Capital Assistance through Multilateral Agencies, 1950-1963

	<i>million DM</i>							
	1950- 1955	1956	1957 and 1958	1959 and 1960	1961	1962	1963	1950- 1963
IBRD and affiliated Institutions								
IBRD:								
Capital subscriptions ¹ ...	60	64	153	66	31	31	31	436
Purchase of bonds, net ²	—	76	1,192	508	848 ³	-5	-20	2,599
IDA: Capital subscriptions	—	—	—	51	41	41	41	174
IFC: Capital subscriptions	—	15	—	—	—	—	—	15
Sub-total	60	155	1,345	625	920	67	52	3,224
EEC Development Fund ...	—	—	84	244	180	308	—	816
TOTAL	60	155	1,429	869	1,100	375	52	4,040
of which:								
Capital subscriptions and grants	60	79	237	361	252	380	72	1,441

- Notes:**
- 1 The figures include the full amount of the paid up 2% quota and that part of the 18% quota used by the IBRD for credits, net of repayments by the debtor countries.
 - 2 IBRD's estimate of IBRD bonds taken up by the Federal Republic.
 - 3 In addition, there were two conversion agreements in January 1961 to the value of:
 - (a) \$148m and 200m DM, with an average maturity of 3 years 10 months;
 - (b) \$110m and 200m DM, with an average maturity of 5 years 6 months.

Source: Lutzeyer Handbook of Development Assistance.

The annual totals of German aid have fluctuated as payments to multilateral agencies have occurred. Since the timing of these payments is determined only to a very small degree by the evolution of aid policy, the annual totals can be misleading. One obtains a clearer picture of German aid policy by considering bilateral and multilateral assistance quite separately.

In a certain sense, this is unexpected. When other donors first turned to Germany as a possible source for increases in the total of aid to developing countries from the West as a whole, it was thought that Germany, with a strong balance of payments position and with almost complete freedom from special commitments, would be especially well suited to adopt support for multilateral institutions as one of the main pillars of its policy. On the face of it, the Federal Government shared this view. The important decisions which resulted in the purchase of IBRD bonds and large German contributions to the European Development Fund were taken in the second half of the 1950s, several years before the bilateral capital assistance programme had gathered momentum.

But these decisions were conditioned to a large extent by circumstances which were not directly related to Germany's position as an aid-giving country. The purchase of IBRD bonds was partly a foreign exchange operation, designed to ease the difficulties created for other *industrialised* countries by Germany's massive balance of payments surplus. In particular, it was meant to contribute towards a solution of the balance of payments problems of the United States, which were already becoming evident.

The German contributions to the Development Fund of the EEC are a more special case. The Fund is applied in a way that offends against some of the basic principles of German aid policy. For a start, it is disbursed in the form of grants, often for small projects under the control of the recipient government. It is especially useful for small government construction projects, such as schools, which figure in the canon of German aid policy as costs which should in principle be borne by the recipient. Most of the countries which the Fund benefits are closely related to France, and the nature of the projects which it finances is such that locally placed contractors, which may well be French-owned subsidiaries, have a built-in advantage when it comes to producing competitive tenders. Of the disbursements made up to the middle of 1964, only 3% had gone to German contractors. This proportion, which is less than one-tenth of the Federal Government's quota in the apportionment of subscriptions to the Fund, is concentrated within a narrow range of projects. Such figures have not gone unnoticed by those sectors of German industry which are less than enchanted by French domination of the EEC.

If the Federal Government regarded the EEC's Development Fund purely as an instrument of aid policy, it would be hard put to it to justify the size of the German contribution and to reconcile the Fund's provisions with the principles governing the German bilateral aid programme. But the Fund is, in fact, more or less openly regarded as a political rather than economic instrument, the main purpose of which

is to underpin the relationship between the EEC and its associated overseas territories. It is hardly an exaggeration to say that the Federal Government regards its participation in the Fund as a consequence of its policy towards the EEC and towards France, rather than of its aid policy. Potential uses of the Fund are seldom mentioned in policy discussions of improvements in the forms of German aid.

The German quota of total subscriptions to the Fund is the same as that of France. For the first Development Fund, it was fixed at 34.5%, or \$200m. (Commitments to the Fund are stated in dollars. The German contribution worked out at 816m DM.) For the second Fund, which was established under the newly negotiated terms of association, the German quota was reduced, in percentage terms, to 33.7%, but the greater size of the second Fund meant an increase in the German commitment, in absolute terms, to \$246.5m (nearly 1,000m DM).

If these contributions are exceptionally large, other payments to multilateral organisations by the Federal Republic are, if anything, slightly below average. The quotas for capital subscriptions to the IBRD and its affiliates were fixed before the extraordinary extent of Germany's economic recovery had become apparent, and it is generally recognised that any attempt to re-apportion quotas today would result in an increased German commitment. This may have been an additional factor in the German decision to acquire IBRD bonds, as a sort of compensatory gesture.

Some German officials argue that the purchase of IBRD bonds is too close to ordinary capital market operations to serve as an instrument of aid policy. It is said that the purchases were made with a specific end in view, and that they should be excluded from aid statistics, especially since there are domestic political reasons for avoiding inflated statistical totals.

According to another view of aid policy, however, the character of IBRD bonds as assets with a market value is what marks them out as a possible means of increasing the German contribution beyond the level that would be attainable if the aid programme had to be financed entirely from budgetary sources. The Federal Government has not yet had any significant success in its attempts to mobilise the private capital market on behalf of developing countries. So long as the majority of developing countries lack the standing that would enable them to float bond issues in Europe, it is thought that the chances of raising capital from private sources will remain strictly limited. IBRD bonds are virtually the only kind of asset in development finance that is not regarded with extreme reserve by the German banks. In 1959, there was a private German loan of 200m DM to the IBRD, at 5%, and the private banks provided a further 63m DM through the purchase of assets. The possibility of repeating this exercise is still the only concrete proposal that emerges from discussions on means of raising overseas development finance on the capital market.

With that one exception, the present inclination of the Federal Government seems to be towards limiting its contributions to multilateral agencies to the existing level of commitment. Once the German bilateral assistance programme had been established, it was inevitable

that contributions to multilateral agencies would fall into second place. Everything in German experience has confirmed their belief in the rightness of this order of priorities, and policy has now crystallized as 'Bilaterally if we can; multilaterally if we must'.

There are two features of multilateral assistance which touch on German sensitivities – sensitivities which are shared by most donors, but which emerge with particular clarity in the German aid programme because of the degree to which aid policy is made explicit. The first is that projects financed by multilateral organisations are seldom identified with the true donor. The Federal Government has worked out in some detail the uses to which its multilateral contributions have been put. It may be doubted whether any recipient bothers to conduct an exercise of such discrimination.

The German desire to be identified with projects financed with German aid funds goes beyond the crude feeling that one may as well extort from one's aid programme whatever political benefits it offers. In the German view, the political, economic and cultural relationship of donor and recipient is the very heart of the activity of aid-giving. If this relationship is not a healthy one, the likelihood that the aid programme will promote sound economic development is much reduced. There is in German aid policy a profound preoccupation with the nature of aid-giving, with the interplay of giving and receiving, which is frustrated if the action of aid is veiled in the anonymity of a multilateral institution.

(It may be observed, in parentheses, that the Germans seem not to have followed the logic of this thought to its conclusion. Although the consciousness of an interaction between donor and recipient is more visible on the surface of German aid policy than on that of any other donor, the Germans have not yet been able to achieve that degree of flexibility, of departure from stated rules, which is the essence of all special relationships.)

The second objection to multilateral assistance that one hears among German officials is simply its alleged inefficiency. Any government with a policy so strongly expressed as that of the Federal Republic is bound to have difficulty in sharing responsibility with other authorities, from which it may differ on important questions of technique. In the bilateral assistance programme, the Germans have been dissatisfied with the experience that they have had of projects which are closely interdependent with projects financed by other donors. It is now official policy to fight shy of involvement in groups of projects for which more than one donor is responsible. German officials appear convinced that truly multilateral projects – that is, projects financed by a multilateral agency – suffer from the same disadvantages as multi-national projects – that is, projects financed by several donors. It is assumed that the difficulty of reconciling the policies of various donors within a single agency causes delays and ambiguities which outweigh the preference which recipients are commonly alleged to have for assistance which is not subject to the special interests of an individual donor.

Although the Federal Government appears to be putting less and less emphasis on multilateral assistance as a means of applying German

aid funds, it remains concerned with the problem created for a recipient by having to negotiate with a variety of donors. The tendency of German policy is more and more towards bilateral assistance, and it has been observed in Bonn that other donors appear to be moving in the same direction. The Germans want their aid programme to be identifiable as Germany's contribution, but they also want it to take effect as a part of a coherent western effort. Increasing attention is therefore being given to the search for a multinational alternative to multilateralism. In other words, the Germans would like to integrate their aid programme with those of other donors, while retaining a large degree of national control over it.

2 International Co-ordination of Bilateral Aid

Any multi-national alternative to multilateral aid is bound to involve the putting together of separate bilateral aid programmes. The starting point of the search for such an alternative, in the German view, is an improvement in co-ordination.

German officials regard the co-ordination of bilateral aid programmes as one of the most urgent priorities in western aid policy. Essentially, they appear to believe that the achievement of effective co-ordination would obviate many of the embarrassments and muddles which have occasionally threatened to bring bilateral aid into disrepute.

This view is maintained primarily from Germany's point of view as a donor. There is a surprising ignorance of the extent to which unco-ordinated bilateral aid can complicate the recipient's own development planning. Such complications are particularly damaging when bilateral aid is tied to specific projects – roads which are not related to the location of industrial development, manufacturing plant which is at odds with the planned expansion of production, or which competes for an inadequate market with a similar project financed by another donor, and so on – but German officials do not on the whole consider that project-tying is a significant contributory factor in the known evils of bilateral aid, or that there is any reason to believe that the abandonment of project-tying would be desirable in any except the most exceptional cases. For the Germans, co-ordination means simply a gathering of donors in order to integrate their bilateral programmes. It does not mean the pooling of bilateral aid resources in order to underwrite a general development programme.

The Federal Republic already participates in the large aid consortia sponsored by OECD and the IBRD. Greece, Turkey, India and Pakistan accounted for nearly two-thirds of new German capital assistance commitments in 1963. Germany is the second largest provider of aid within the Aid-India Consortium, after the United States.

But the Federal Government is uneasy about this state of affairs. The view is maintained that the existing consortia have failed in their primary task as co-ordinating bodies, and have drifted into an unhappy state, in which they are little more than auction rings, with the recipient as auctioneer and the donors under constant and artificial pressure to raise their bids. Apart from the feeling that this situation has

engendered excessive commitment to the countries to which aid is given by a consortium, the Federal Government views with dismay the unfavourable atmosphere that it creates, and the loss of control over the rational allocation of aid resources. German officials tell against themselves the familiar story of the semi-fictional commitment which was devised simply in order to induce the United States to match it. Recipients have been willing co-operators in absurdities of this sort. It is a device which is by no means exclusive to the Germans.

The Federal Government also has one specific objection to consortia which exist simply as a framework for aid to one country, which is that such groupings constitute in practice a virtual commitment to underwrite the recipient's balance of payments. In view of the Federal Government's reluctance to treat balance of payments difficulties as grounds for aid except in exceptional cases, even within its own bilateral programme, it is not surprising that a multi-national commitment of this kind is frowned upon, as an incitement to excesses which will lead inevitably to yet another round of auctioneering.

At an unofficial level, there has been some discussion of the possibility of setting up a new international agency to co-ordinate all western bilateral aid programmes. It is an idea that appears to have originated in the United States, and has not gained much support in Germany, where the view is gaining ground that the most effective instrument of co-ordination would be a much strengthened DAC. In recent years, the DAC has gradually grown less reverent towards the policies of individual members, as it has acquired better standards of comparison between them. The DAC's annual country-by-country examinations are described with some disrelish by officials who have had to prepare expositions of their governments' policies which will stand up to the kind of questioning that these examinations involve. But the DAC lacks executive functions, and it lacks defined objectives. It is a forum for comparison and discussion, rather than for the planning of co-ordinated western aid policy, and the somewhat exaggerated trepidation with which national officials approach it appears to stem largely from a feeling of embarrassment at having to unveil intimate details of what is essentially budgetary policy, something which most countries regard as peculiarly their own affair.

Individual German officials, and to a greater extent private persons connected with the German aid programme, have suggested that the DAC should act as a kind of umbrella consortium, with powers to lay down general principles, and to set up co-ordinating machinery for individual recipients as required. The proposal is not yet far advanced. Such difficulties as the developing countries' rooted dislike of anything that looks like a donors' club have not been fully taken into account. But this is the direction in which most discussion of improved co-ordination leads.

That there should be support in Germany at all for a reinforcement of the DAC is mildly surprising, since German officials assume, with some justification, that the thought behind it, when it was set up in 1961, was that something was needed to put pressure on the Germans. The assumption is no longer significant. 'I know that's what the

Americans once thought,' said one official, in personal conversation, 'but it doesn't count any more. We really got through this year's examination rather well.' In short, the German attitude appears to be that Germany's right to speak as an important donor country is now so unquestionable that it can face the DAC without excessive qualms, and can even set about making it more effective. This is an interesting reflection of the degree of confidence that the Germans have acquired in their own choice of methods and objectives.

9 — Private Investment

I Investment and General Development

If aid to developing countries is to achieve more than the temporary relief of poverty, it has to be designed to bring about enduring structural changes in the recipients' economies. This, it must be emphasised yet again, is the basic thought underlying all German aid measures.

The aims of German aid are certainly more ambitious than the mere relief of poverty. Aid which is no more than relief is likely to turn out to be a self-perpetuating activity, a possibility that few donor countries – or recipients, for that matter – care to contemplate. The Germans remain firmly attached to the belief that any aid programme must work steadily towards defined objectives, the achievement of which will make a continuance of aid unnecessary.

But experience has been discouraging. The Germans have always been slightly unhappy about the essentially intrusive nature of official capital assistance, and are apt to attribute its failures to the impropriety of unfettered state activity in this field. The well publicised failures of other donors' capital assistance programmes have been taken as confirmation of the view that official capital assistance is at best a poor substitute for a properly functioning free market economy.

Lately, a graver doubt has appeared, the first seeds of the suspicion that there may be some fatal flaw in the nature of many developing countries which will prevent them from ever achieving self-sustaining growth. The implication is that external finance will continue to be needed for far longer than was originally thought, that development aid is, after all, nothing more than relief, which has been given the grander title by virtue of a world-wide exercise in expedient self-deception. The reaction to the first appearance of such doubts is one of smothered panic, and an urgent search for an alternative projection.

It is a natural consequence of the German view of development that private investment should be regarded as a necessary complement to official capital assistance. Unlike other donors, which have more recently come to pay attention to the role of private investors, the Federal Republic tried at the outset to delineate a proper balance between public and private funds in external development finance. The attempt failed, partly because it was based on the subsequently falsified assumption that official capital assistance, if skilfully applied, would almost automatically bring private investment resources in its train. The Federal Government seems to have underestimated both the unwillingness of German investors to become involved in developing countries and the difficulties in the way of raising the savings ratio in the developing countries themselves.

As the disadvantages of official capital assistance in its present form become more apparent, and as the probable duration of the aid-giving countries' commitment lengthens, the attempt to carve channels for private investment acquires added urgency. In the process, the role allotted to private investment by officials of the Federal Government

has undergone a subtle change. In the original conception, aid and investment were to work in conjunction towards the targets of general development. Now there is a tendency to see private investment as the intermediate stage between official capital assistance and self-sustaining growth. The immediate objective of aid policy, therefore, has shifted slightly away from the direct promotion of development towards the intermediate promotion of a flow of private investment resources from the developed to the developing countries, sufficient to finish the work which official capital assistance has begun. Briefly and crudely put, it is the aim of the Federal Government, failing the accumulation of adequate indigenous resources in the developing countries, to shift as large a proportion as possible of its development activities over to the German private sector.

According to policy statements, the Federal Government sees private investment as having the following beneficial results, which are said to be lacking, or present to a lesser degree, in official capital assistance:

1. it increases employment in developing countries, and raises incomes;
2. it raises Gross National Product and taxation revenue;
3. it introduces much-needed foreign exchange;
4. it improves the balance of trade in favour of the developing countries;
5. being governed by motives of profit, it has a high success potential;
6. it relieves the Federal Budget;
7. in the form of joint ventures, it is an excellent advertisement for the private enterprise system.

Of these, the last three seem to be the ones that carry greatest weight with the Federal Government, since they are advantages which make obvious sense to the German electorate.

But German investors have been slow to think in terms of developing countries, and the flow of investment has been small. The Federal Government has tried to stimulate private investment with a series of inducements, some of which have been of an experimental nature. The problem is by no means solved yet, and it can be assumed that efforts will be maintained to devise further promotion measures.

The measures already introduced include:

1. investment guarantees;
2. investment protection agreements;
3. Government financial assistance in the form of loans or participation, the latter being available through the German Development Company;
4. tax concessions.

Various efforts have been made by the Federal Government, with the co-operation of the Federation of German Industry, to publicise these inducements and to draw investors' attention to specific opportunities that arise. The Federal Foreign Trade Information Office, the director of which is appointed by the Ministry for Economics, employs overseas correspondents from whom it obtains material for general and

specialised information services. Further information on conditions in developing countries is provided by a special working group (Arbeitsgemeinschaft Entwicklungsländer), sponsored by the Federation of German Industry, the German Chamber of Commerce and Industry, the Federation of Private Banks, and the General Association of German Wholesale and Foreign Trade with the working group of the exporters' associations.

In 1964, the Arbeitsgemeinschaft Entwicklungsländer published a booklet, entitled *Ein Unternehmerisches Wagnis* (loosely translated, "A Bold Enterprise"), which described the concessions available to investors in developing countries. In its introduction, it drew attention to the difficulties of exporting to developing countries, and suggested that planned investment in developing countries was the most profitable way in which these difficulties could be overcome. This was a suggestion which could not be expected to strike German businessmen as self-evident. The extent to which the authors thought they had to stimulate a radical change of attitude was indicated by such recommendations as:

"A good deal of pioneering spirit is always a part of investment in a developing country",

or "Your people must possess a dash of imagination; they should be able to improvise; in every situation, however tangled, the way out must always occur to them."

But the booklet also contained much hard factual information, concerning both what to expect and what to look for, as well as what help was available from the Federal Government.

2 Investment Guarantees

Germany is one of three countries, the others being the United States and Japan, that offer official investment guarantees. The system was introduced in 1955, and cover for the political risks of investment in developing countries has been available from the Federal Budget since 1959.

The granting of a guarantee is conditional upon the existence of a government-to-government investment protection agreement or the provision of equivalent assurances by the government of the country in which the investment is made. It may include cover against nationalisation or expropriation, limitations on the right of remission of principal or profits and military or civil disturbance, but it does not include cover for economic risks, such as runaway inflation.

The level of cover is based on the value of the fixed assets acquired, excluding cash reserves and similar holdings. Only new investments are eligible, including extensions to existing plants, participations and loans with equity features.

The investor is required to bear at least 10% of the risk. (Initially, the minimum was 20%.) This percentage usually increases at regular intervals, so that when twenty years have elapsed the Federal Government's guarantee will have been reduced to something in the

region of 40%. Twenty years is the maximum length of cover, and in practice no guarantees are given for more than fifteen years.

The premium varies in accordance with the length of cover, ranging from 0.6% to 1.0%.

In spite of the reduction in the proportion of risk that the investor is required to carry, these terms have not proved sufficiently attractive to stimulate a significant increase in the number of investors. Up to the end of 1963, guarantees worth about 311 m DM had been approved.

3 Investment Protection Agreements

The Federal Government appears to attach great importance to the conclusion of investment protection agreements with developing countries (officially termed "agreements for the Promotion and Protection of Private Investments".) By the end of the first quarter of 1964, it had concluded 20 such agreements, with Cameroon, Ceylon, Chile, Congo (Leopoldville), Greece, Guinea, Iran, Liberia, Madagascar, Malaya, Morocco, Pakistan, the Philippines, Senegal, South Korea, Sudan, Thailand, Togo, Tunisia and Turkey.¹ Investment protection agreements, as explained in the preceding section, are theoretically a necessary condition for the offer of an investment guarantee.

Among the more important provisions in the usual form of such agreements are the following:

1. there will be no discrimination against German investors;
2. a policy of expropriation will not be pursued unless there are exceptional reasons for it. If German-owned assets are expropriated, the action must be such as would bear examination in a court of law and must be accompanied by appropriate compensation. The compensation must be freely transferable;
3. the repatriation of principal and profits, including the proceeds of complete liquidation, shall be guaranteed;
4. the agreement applies to existing German investments as well as new investments, but usually with some limitation on the retro-active scope;
5. either party to the agreement may, with the consent of the other party, take any dispute that arises to the International Court of Justice. If such consent is not forthcoming, the dispute will be submitted to a court decided upon by the two parties jointly.

Although there are obvious loopholes in these agreements, the Federal Government attaches importance to them as a demonstration of good faith, and would welcome the conclusion of similar agreements with other developing countries. Interest has also been expressed in the OECD draft convention on the protection of investment, and there is considerable disappointment over the lack of progress towards the putting of such a convention into effect.

The Federal Government has shown much less interest in the

¹ Of these, four were in force, and two more had been ratified. The remainder had only been signed or drafted.

proposal for a multilateral investment guarantee system, which would presumably be run by the IBRD. The reason for German dislike of this proposal appears to be the belief that the requirements of investors vary too much from country to country for a multilateral system to be feasible.

4 Investment Credits

Up to the beginning of 1963, credits amounting to 67m DM had been available from the ERP Fund for German investment in developing countries. In 1962, it was decided that credits for small and medium-sized enterprises to invest in developing countries should be offered on specially favourable terms, and a sum of 20m DM a year is now set aside for this purpose.

Credits from this specially established fund carry interest at 5%. The normal length of maturity is twelve years, including a four-year grace period.

Credits are in principle limited to a maximum of 500,000 DM, though this figure can be exceeded in special circumstances. Application is made through the investor's bank to the KW. In considering the application, the KW is required to take into account the general development interests of the country in which the investment is to be made, as well as German economic interests and the credit-worthiness of the investor. The KW usually requires the investor to put down security for the loan, though the Federal Government is prepared in certain circumstances to assume liability for all but 10% of it.

In general, would-be borrowers seem to have found the rules governing the application of these credits excessively complex and far from clear. It is stated, for instance, that only German firms are eligible. Whether this means that the investor must be of German nationality, or merely that the firm must be established in accordance with German law, is not explained. Up to 1964, the fund was not fully utilised, and it is claimed that the reason for this was that the consideration of applications for a loan was so hedged about with formalities that it was hardly worth a small investor's while to apply.

5 The German Development Company

The German Development Company was established in 1962 with the aim of promoting private investment in developing countries. It was modelled to some extent on the British Commonwealth Development Corporation. That is to say, its principal operation is the provision of equity capital in partnership with German investors and their counterparts in developing countries. It also offers information and advice to German investors, and seeks partners for them in developing countries when they cannot find these for themselves. Its efforts are concentrated on small and medium-sized enterprises.

It differs from the CDC in one important respect. Its capital is derived from a budgetary allocation. It may borrow if it wishes to do so, but has not yet had any need. In theory, the fact that it is financed in this way should enable it to use its funds more flexibly.

The Development Company is still going through an experimental phase. When it was conceived, it was expected to operate on a fairly large scale. After consideration, however, its written down capital was reduced to 75m DM, less than two-thirds of which had been provisionally engaged by the middle of 1964 (see Table 14). If the company's operations appear to be offering a significant stimulus to private investment, the written down capital will undoubtedly be increased.

The company was established as an ordinary limited liability company, in the expectation that this would give it the necessary freedom for harmonious co-operation with private enterprise. In practice, the company's status appears to have been a mixed blessing. The extensive use of limited liability companies deriving all their finance from Government sources is a conspicuous feature of the German administrative system. Although it works well in most circumstances, it has occasionally produced a conflict of principle between the natural desire of officials to keep a tight control over the use of budgetary funds and the requirement that such companies should operate independently.

The offices of the company are in Cologne, where it maintains a small staff. It is run by a board of management which is responsible to a board of directors, among whom are representatives of the KW and the various ministries interested in the company's operations. This representation is at a high level.

One of the company's earliest discoveries was that it was no use waiting for applications to come in. If it was to give its support to projects which might be expected to contribute significantly to economic development, it would have to pursue an active policy of seeking investment opportunities. In its first report, it referred to this discovery. "A first step in this direction was to send staff members to those countries from which several applications had been submitted to DEG (German Development Company). They are to investigate local investment difficulties and to help overcome them. At the same time they will be in a position to explore further investment opportunities."

But the company's greatest difficulty appears to have been, not the finding of suitable investment opportunities, but the finding of suitable German investors whom it can take into partnership. The scope of its operations is not large enough to be of interest to German companies with extensive overseas investments, while smaller investors have yet to be convinced that investment in developing countries makes any sense.

When the company was set up, it was regarded in the light of an assumption similar to that which governed the planning of capital assistance – the assumption that its participation was required principally in order to provide an initial boost, and that it would be able to withdraw fairly rapidly, thus using its resources to the full in the form of a revolving fund. It has already become clear that it will take longer for the company's projects to become self-sustaining than was originally assumed. The company still expects, however, to sell its holding as soon as a project becomes solidly established. It would

prefer to sell to the partners themselves, but for this to be possible it would probably have to come to a working arrangement with the German private banks, which have in the past been reluctant to finance operations in developing countries except for specially favoured clients.

In addition to providing equity capital on a partnership basis with German investors and their counterparts in developing countries, the Development Company has experimented with other forms of financing. In particular, it has provided a share of the necessary capital for establishing the Tanganyika Development Finance Company and the Development Finance Company of Kenya. Its share in these companies is one-third, the other partners being the British Commonwealth Development Corporation and the government of the country concerned. In 1964, a similar agreement was negotiated with Uganda, where the other partners are the CDC and the Uganda Development Corporation. Funds for the Development Company's participation in overseas development companies are provided in a separate budgetary allocation. The Development Company is required to find only one-tenth of its share from its own resources. On the basis of the rather sketchy experience that the company has already acquired, it is thought that the provision of finance through such intermediaries offers a particularly promising line for expansion, since they can augment the finance provided by the Development Company. Another advantage seen in this method is that it offers a better flow of information concerning local conditions.

A more recent development, which is of particular interest, is the setting aside of a sum of 200,000 DM for smaller loans (expected to be about 5,000 DM each) to persons in developing countries who have completed a course of technical training, in order to enable them to establish a small workshop or business of their own. If this scheme is successful, it could be a significant pointer towards a close co-ordination of technical assistance and the provision of finance, and the avoidance of such anomalies as training programmes that result merely in a new kind of unemployment.

By the end of June 1964, the Development Company had either committed itself to or was considering a total of 43 projects. The aggregate value of these projects was estimated at 225m DM, of which the Development Company's share would be 46m DM. The average size of the company's commitments is therefore a little more than 1m DM, or one-fifth of the total investment, including fixed assets, liquid assets and initial costs. In addition, it was committed to providing one-third of the 33.6m DM required for the establishment of the development companies in which it was participating in Kenya and Tanganyika. Of the company's consequent commitment of 11.2m DM, one-tenth, or 1.12m DM, was to come from its own resources.

To cover these commitments, two-thirds of the company's written down capital had been paid in. Of this sum, only a very small proportion (3.1m DM) had actually been disbursed, a circumstance which indicates that the company is taking rather longer than expected to gather momentum. One of the causes of delay appears to have been

Table 14**German Development Company: Commitments up to 30.6.64**

			<i>Number of Projects</i>	<i>Total Value (thousand DM)</i>	<i>Value of GDCs participation (thousand DM)</i>
A. Firm Commitments	...	...	6	37,886	6,530
B. Under negotiation:					
Approved ¹	...	...	13	55,282	14,603
Awaiting approval	...	...	3	41,577	3,547
Under investigation	...	...	21	90,733	21,003
Sub-total	...	...	37	187,592	39,513
GRAND TOTAL	...	...	43	225,478	45,683
Participation in development banks ²	...	...	2	33,600	1,120

Notes: 1 A sum of 200,000 DM has been set aside for small credits of about 5,000 DM each. This is shown in the table as a single 'approved' project.

2 The German Development Company's participation in the Tanganyika Development Finance Company and the Development Finance Company of Kenya is mainly financed from an *ad hoc* budgetary allocation. The Company's share is 33%, of which one-tenth (1.12m DM) is to come from its own resources.

The regional distribution is as follows:

Europe	5 projects
Africa	18
Latin America	6
Asia	14
	—
	43

Source: German Development Company.

Table 15**The German Development Company: Distribution of Commitments¹ by Sectors, up to 30.6.64**

		<i>Total Number of Projects¹</i>	<i>Chemical Industry</i>	<i>Mining and Quarrying</i>	<i>Metal Industry</i>	<i>Machinery and Vehicle Manufacture</i>	<i>Electrical Industry</i>	<i>Wood and Paper</i>	<i>Textiles and Clothing</i>	<i>Foodstuffs</i>
A. Firm Commitments...	...	6	-	1	-	-	1	-	2	2
B. Under negotiation:										
Approved ...	...	12	-	-	3	3	1	1	3	1
Awaiting approval	...	3	-	-	-	1	-	-	1	1
Under investigation	...	21	2	-	1	4	3	5	6	-
		42	2	1	4	8	5	6	12	4

Note: 1 Excluding participation in development finance companies and small credits (see Table 14, Notes 1 and 2).

Source: German Development Company.

a degree of initial uncertainty concerning the criteria governing the selection of investment projects.

The distribution of the company's commitments, by value and by economic sector, is shown in Tables 14 and 15.

6 Tax Concessions

By the end of 1963, it had become all too clear that exhortation and reassurance alone would not provide a sufficient inducement to bring about a significant increase in German private investment in developing countries. Part of the trouble was that the probable return on capital invested in developing countries appeared to be no greater, and quite possibly smaller, than the return on capital invested in Europe. There was therefore no inducement to investors to accept the additional risks which investment in developing countries was presumed to involve, no matter how much the Federal Government might do in the way of offering psychological reassurance or financial lubrication.

The conclusion drawn by the Federal Government was that additional inducements had to be offered, in a form that would actually increase the immediate return on capital invested. To this end, a Development Assistance Tax Law was passed at the end of 1963. It came into effect on 1st January 1964, with retroactive application to German investments in developing countries made after 1st January 1963.

The new law offers three concessions, which are applicable to newly installed depreciable plant and equipment in developing countries:

1. the investor may set against his taxable profit an immediate depreciation allowance of 15% of his purchase or production costs;
2. he may form a capital reserve equal to 50% of the remaining book value of his depreciable fixed assets. (That is, 42.5% of the total book value.) The establishment of this reserve is equivalent to a further reduction of his taxable profit. After six years, the reserve is to be reduced in equal annual instalments over a further five-year period;
3. if the investment is in the form of goods which have previously had a book value as hidden reserves (for instance, used machines transferred from a parent company in Germany), this book value is excluded from assessments for income tax.

These concessions are designed principally to assist investment in manufacturing industries, in which depreciable fixed assets form about 75% of total investment. They are not intended to assist investment in trading companies.

The expected gain to the investor from these concessions, in the form of tax relief, is equivalent to approximately one-third of his first year's purchase or production costs. (The proportion will vary, of course, in accordance with the extent to which he is liable for tax.) A large part of this saving – that is, the part which is derived from

the formation of a capital reserve – consists of a postponement rather than a cancellation of the investor's liability for tax, since the investor has to start reducing his capital reserve after six years. It is presumed that no well judged enterprise, even in a developing country, should be in need of special concessions of this kind for longer than that.

There are a number of other tax concessions available to German investors in developing countries. Under the Federal Government's general tax provisions, increased depreciation allowances are allowed if there are circumstances which may be expected to reduce the value of fixed assets. The fact that an enterprise is situated in a developing country is regarded as one such circumstance.

Wherever possible, the Federal Government seeks to conclude double taxation agreements. Up to the beginning of 1964, however, such agreements had come into effect with only four developing countries – Greece, India, Pakistan and the UAR.

Where there is no double taxation agreement in force, profits earned overseas may not be taxed beyond a certain limit, a provision which gives the German overseas investor an advantage over the German exporter. The investor may choose between two concessions: he may offset the taxes paid abroad against his internal tax debt on the income concerned, or he may ask for taxation at an all-in rate of 25%.

7 The Attitude of Investors

German private investment in developing countries since the war has been small, and it does not yet show signs of any very rapid increase. It is perhaps too early to say whether the inducements already offered by the Federal Government will have a significant effect, but the general impression conveyed both by officials and by the representatives of private industry is that the reluctance of German investors to move outside Europe is so strong that piecemeal inducements will not be sufficient to overcome it.

According to OECD's figures, the value of German direct investment in developing countries from 1956 to 1962 was between one-third and one-quarter of that of French or British investment in these countries, and barely more than one-tenth of the value of investment from the United States. According to the Arbeitsgemeinschaft Entwicklungsländer, which probably has more detailed information available to it, the net value of German direct investment in developing countries in the years 1951–63, including re-invested earnings, was rather more than 2,000m DM. Investment in developing countries increased less rapidly than investment in other industrialised countries, which was a characteristic common to the investment trends of most of the industrialised countries of the West. In 1963, German investment in developing countries was offset by an increasing withdrawal of German capital, with the result that the net rate of increase slowed. In the first months of 1964, the reverse flow reached such proportions that there was net disinvestment.

Table 16

German Private Investment in Developing Countries

Cumulative investment in developing countries, net, from 1951 (including re-invested earnings)
million DM

	Up to	Up to	Up to	Up to
	31.12.61	31.12.62	31.12.63	31.3.64
Europe ¹	137	174	238	249
Africa	142	228	296	308
Asia	122	151	168	172
Latin America	1,099	1,357	1,477	1,441
TOTAL	1,500	1 910	2,179	2,170

Investment in developing countries as % of total overseas investment ...	39.0	38.5	35.9	34.2
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Note: ¹ The Arbeitsgemeinschaft Entwicklungsländer uses a different classification of countries from the one laid down by the DAC. Countries in Europe classed as 'developing countries' are Greece, Malta, Gibraltar, Spain and Turkey.

Source: Arbeitsgemeinschaft Entwicklungsländer.

The bulk of German investment had been in Latin America, and it was inflation in Latin America that was one of the principal factors in a world-wide tendency towards increased withdrawals of capital from developing countries in 1963. With its investments so concentrated in one continent, Germany felt the effect of this tendency with particular force. As can be seen from Table 16, net disinvestment in developing countries in the first quarter of 1964 amounted to 9m DM, a drop that was more than accounted for by a drop of 36m DM in Latin America.

Up to the end of 1961, 73% of German investment in developing countries had been in Latin America. Of the remaining 27%, about one-third had gone to the less developed countries of Europe (principally Spain, Greece and Turkey), and one-third to developing countries in Africa (excluding South Africa), and one-third to developing countries in Asia (excluding Japan). By the end of the first quarter of 1964, Latin America's cumulative share had fallen to 66%. The most remarkable increase during these two years had been in Africa, where the aggregate value of German private investment since 1951 had more than doubled. That is to say, German investment in Africa in 1962 and 1963 was greater than the total of German investment in the preceding eleven years. Net German direct investment in developing countries between the end of 1961 and the end of March 1964 as a percentage increase over cumulative net investment during the 11 years 1951-61, was:

Europe	81%
Africa	117%
Asia	41%
Latin America	31%

In Africa, the principal countries to which German private investment has gone are Liberia, Algeria, Libya, Guinea and Ethiopia, in that order. In Asia, India and Iran are the most important.

It may be noted that Germany's loss of overseas assets as a result of the Second World War meant that in the 1950s investors were starting again almost from scratch. The annual average of German direct investment *and* other new lending in developing countries from 1950 to 1955, according to OECD figures, was about 60m DM. The flow of new resources for direct investment during this period was negligible.

So long as Germany was preoccupied with internal economic reconstruction it was natural that overseas investment should be confined to those areas where Germany did already have some kind of established position; hence the predominance of investment in Latin America. The later shift to other continents, notably Africa, is a sign of the post-war changes in the pattern of German economic activity. The fact remains that the interest of German investors in developing countries is very small, compared with their interest in their European neighbours and other industrialised countries. The volume of German investment in developing countries, though it has increased rapidly in some areas, is still of minor significance. It is dwarfed by the capital assistance programme.

The imbalance is so great that domestic inducements alone will not suffice to redress it. They are only a part of the answer. What is really needed is a change in the pattern of German overseas economic activity. There are signs that such a change is coming about.

In German discussions of private investment in developing countries, there are frequent references to the need for a favourable investment "climate". The importance attached by the Federal Government to investment protection agreements is indicative of a feeling that one of the biggest obstacles to private investment is the lack of any assurance on the part of developing countries that private investment is welcome.

This appears to be something of a red herring. It may be doubted whether the climate of investment in developing countries is what really puts German investors off – not, at any rate, in any sense which allows of improvement. Investment in these countries has always had risks attached to it, and will probably continue to do so. If the nature of an investor's business compels him to accept those risks (for instance, to secure an adequate supply of raw materials), or if the possibility of profit is great enough for the risks to seem justifiable, he will invest. Attempts to obviate or to insure against the risks will not fundamentally alter the nature of the motives by which investment decisions are governed.

German investors mention four factors which account for their reluctance to undertake projects in developing countries:

1. their profound fear, after two world wars, of further losses through expropriation;
2. their feeling of being at a disadvantage in relation to established British and French enterprises;

3. the lack of profitability of most investment enterprises in developing countries;
4. the inadequacy of any conceivable guarantee system.

The fear of expropriation is very deep-seated, too deep to be washed away by bland governmental assurance. "We cannot risk losing everything yet again!" is the cry that one often hears. The strength of this anxiety is illustrated by the reluctance of German firms to risk even the degree of exposure that is involved in investment in West Berlin, in spite of far more generous financial concessions than any government could ever offer for investment in developing countries.

The feeling of being at a disadvantage in relation to British and French firms, with long-established local representation, is equally ingrained. The Germans, like most peoples with a strong corporate sense, tend to become unhappy in situations to which their established rules seem not to apply. Investors are no exception. If they go to a developing country, they say, the laws are unfamiliar, the markets are unfamiliar, the banking system is unfamiliar and the social rules are unfamiliar. The British or French businessman, on the other hand, is probably working within a legal framework modelled on that of his own country; his markets have been developed over the years; the local banks are branches or affiliates of his own bank; and he is himself the man who makes the social rules. One German businessman said in conversation, "The biggest discouragement to us is the fact that wherever we go we see that name - Barclay's DCO." (He was apparently complaining of the extent to which investors from other industrialised countries enjoyed the advantage of familiar financial institutions and assured backing; but it would not be difficult to find other German investors who would in general welcome the existence of financial institutions on which they knew they could rely.)

The alleged lack of profitability of investment enterprises in developing countries is largely a matter of ignorance. For most sectors of German industry, Europe does indeed offer unbeatable opportunities. But there are certain kinds of German enterprise which have undoubtedly missed equally profitable openings in developing countries simply because they did not know about them. The Federal Government and the industrial organisations are trying, through such bodies as the Development Company and the Federal Foreign Trade Information Office, to disseminate specific information, but it is a difficult task. It is not so much a question of general education as of seizing specific opportunities as they arise, putting the right proposals to the right firms, and this is an activity which requires an immensely detailed information service and a precisely ordered catalogue of contacts.

The present guarantee system is said to be unsatisfactory because it does not provide full cover, is costly, and is applicable only to fixed assets. It is admitted, however, that the guarantee system would not have an appreciably greater effect even if the Federal Government offered - which it has no intention of doing - 100% cover for all overseas assets. The very fact that a guarantee is deemed necessary is taken as a sign that there is something very uncomfortable about

investment in developing countries. In case of disaster, the investor may recover his capital, but still he has lost the years of enterprising effort that he has expended. In the German view, there is no point in getting mixed up in such a frustrating affair, for a highly questionable return.

In the comparatively short run – that is, over the next few years – it seems likely that improvements in the availability of information, backed by a general programme of persuasive education, is likely to be more effective than material inducements. On the basis of present experience, the most promising openings for German investment in developing countries are those specifically related to German production or consumption. Enterprises which fulfil this condition may be of three kinds:

1. enterprises which are established in order to secure a constant supply of raw materials for processing in Germany;
2. enterprises which are established in order to manufacture goods for the German market at lower cost than would be possible in Germany itself;
3. enterprises which are established in order to secure overseas outlets for German manufactured or semi-manufactured goods.

Much of the heavy German investment in Liberia falls into the first category.

Enterprises in the second category are mainly in labour-intensive sectors of production. A large part of the German shirt-making industry, for instance, has moved to Hong Kong, where it continues to manufacture shirts principally for the German market. In spite of the unfamiliarity of the new surroundings, such transplanted firms continue to enjoy the benefit of assured and familiar markets, which they can supply on more competitive terms than before.

The third category is the one to which most attention has recently been given. Organisations responsible for promoting private investment in developing countries try to hammer home the likelihood that these countries will become increasingly protectionist as local industry begins to take root. It is pointed out that the best way to circumvent the predicted tariff walls is to establish one's own plant locally, and that the firm that gets in first is likely thereafter to enjoy a secure and specially favoured position, inside a protected and expanding market. But there is some scepticism among German industrialists concerning the presumption that the market will expand. So far, investment of this kind has consisted mainly of plant for finishing processes which for some reason are better carried out near the point where the goods are to be delivered than in the parent factory in Germany, the usual reason being a reduction in transport costs.

One particularly interesting example of investment of this kind is that of the small German manufacturer of steel pipes – small, that is, in comparison with the giants of the German steel industry – who saw a possibility of greatly increased sales of his product when the Libyan oil boom started. Taking advantage of the development of the new process known as “spiral-welding”, he proposed to establish a factory

in Libya to produce spiral-welded pipes for the oil industry. The steel sheets for the pipes would be manufactured in Germany. Being flat, they could be transported to Libya at far less cost than finished pipes. In Libya, the pipes could be made to order, the diameter being determined by the angle of the spiral. The reduction in transport costs would enable the manufacturer to undercut his larger competitors. After some initial difficulty with the Bank of Libya over exchange formalities, the project seemed, at the time of writing, virtually assured.

Successes of this kind are few, and the opportunities for them are limited. There are more stories of failure, and these are the stories that stick. A typical example is that of the attempt to produce salted nuts in Nigeria at a price low enough for them to be sold to a wider public than the cocktail party set in Lagos. What the investor had failed to grasp was that outside the cocktail party set there is no demand whatsoever for salted nuts in Nigeria, however cheap.

The common factor of the success stories does appear to be the existence in Germany of a market or of productive plant to which the overseas investment is complementary. The business of promoting German private investment in developing countries, therefore, is the business of finding as many specific investment opportunities as possibly which fulfil this condition.

In the long run, there are more comprehensive economic trends which may have some bearing on private investment in developing countries. In 1964, the representatives of German industry were expressing serious anxiety over the possibility that Germany would find itself importing inflation from the other Common Market countries. If this occurs, it could presumably result in an increasing concentration of German investment within the Common Market, as German industry loses its competitive position outside. It seems more likely, though, that any tendency for goods manufactured in Germany to become less competitive in comparison with goods manufactured outside the Common Market would result in increased overseas investment.

Another trend which has already been noticed is the increasing competitive power of certain French medium and small-sized enterprises, following a thoroughgoing rationalisation programme, which is depriving some sectors of the German industry of their dominant position within the Common Market. There is a possibility that some firms in these sectors (one sector of German industry that has suffered noticeably is tanning), will decide to move their plant and equipment overseas and carry on with their business elsewhere.

Towards the end of 1964, the Common Market went through one of its periodic crises, and Franco-German relations seemed to be deteriorating rapidly. If this deterioration were to continue, leading to a significant re-orientation of foreign policy, it would inevitably have a further impact on the pattern of German investment.

It is far too early to judge what the long-term result of these apparent trends may be. All that can be said is that in the long run

the most important factor determining the trend of German investment in developing countries is likely to be the degree to which investment capital continues to be attracted to countries within the European Economic Community.

10 — Trade

I The Opening of the German Market

In 1964, the year of the United Nations Conference on Trade and Development, an additional concept began to appear with increasing frequency in discussions of German aid, the concept of trade assistance (Handelshilfe). In an insertion to the Lutzeyer Handbook of Development Assistance published in February 1964, it was stated:

“As a measure of development assistance, trade assistance ranks today at least as highly as capital assistance, technical assistance or other forms of assistance in the machinery of development policy . . .”

At the end of 1964, the Federal Government had not as yet enacted any significant measure under the heading of “trade assistance”.

Discussions of trade assistance tend to revolve around the functions of various international organs, such as the General Agreement on Tariffs and Trade, the United Nations Economic and Social Council, and the International Monetary Fund. Possible measures which are mentioned in the Lutzeyer Handbook as constituting trade assistance by industrialised countries for developing countries are:

1. preferences and tariff reductions;
2. the elimination of quotas;
3. the reduction of consumer taxes and other internal levies on commodities exported by developing countries;
4. stabilisation of the market for raw materials;
5. structural modifications such as the transfer of resources away from inefficient domestic industries which had had to be protected to the disadvantage of developing countries;
6. technical assistance measures to enable developing countries to exploit their export markets more efficiently.

Germany's foreign trade reflects the worldwide trend, in that trade with developing countries is a decreasing proportion of total trade. This trend is becoming more and more marked.

In the years 1960–1963, Germany's imports from developing countries increased by 11%, but Germany's total imports rose in the same period by 22.5%. In other words, total imports rose more than twice as fast as imports from developing countries. As a proportion of total imports, imports from developing countries fell from 25.5% to 23.5%.

During the same period, it may be noted, German exports to developing countries actually declined, while total exports increased by 21.7%.

Foodstuffs and raw materials still make up more than 75% of German imports from developing countries, and it is in these two categories that the rate of increase has been slowest. Imports of semi-manufactured and manufactured goods from developing countries rose by 42% in the period 1960–1963, or nearly twice as fast as total

imports. During this period, semi-manufactured and manufactured goods as a proportion of total imports from developing countries rose from 17% to 22%. As is generally the case among the EEC countries, however, German imports of manufactures from developing countries start from a low base. In 1962, the share of the developing countries in total German imports of manufactures was 3.8%. The proportion was significantly higher in the United Kingdom (12.3%) and the United States (11.3%), but it was slightly lower in France (3.2%).

In principle, the Federal Government recognises the need to open the German market to imports from developing countries. All policy statements make a point of this as a long-term objective, but few immediate measures have been proposed.

Part of the explanation of this state of affairs lies in the figures given above. In international discussions concerning methods of improving the developing countries' trading position, the emphasis has been on exports of foodstuffs and raw materials, if only because these

Table 17

Trade between the Federal Republic and Developing Countries, by Continents: 1959-1963

		000,000 DM				
		1959	1960	1961	1962	1963
Europe						
Imports	...	1,296	1,395	1,522	1,582	1,554
Exports	...	1,708	1,853	2,059	2,196	2,435
Africa						
Imports	...	1,897	2,113	2,104	2,274	2,793
Exports	...	1,527	1,885	1,688	1,554	1,876
Asia						
Imports	...	2,833	3,645	3,581	3,659	3,781
Exports	...	3,479	3,772	3,777	3,373	3,606
Latin America						
Imports	...	3,451	3,724	3,663	4,291	3,986
Exports	...	3,105	3,308	3,599	3,298	2,878
Oceania						
Imports	...	29	17	18	11	6
Exports	...	17	13	21	14	22
Total Trade with Developing Countries						
Imports	...	9,506	10,894	10,889 ¹	11,816 ¹	12,119 ¹
Exports	...	9,836	10,832 ¹	11,144	10,435	10,816

Trade with Developing Countries as % of total Foreign Trade

Imports	...	26.6	25.5	24.5	23.9	23.5
Exports	...	23.9	22.6	21.8	19.6	18.5

Note: ¹ Discrepancies in totals are caused by rounding.

Source: Federal Office of Statistics.

Table 18

**The Federal Republic's principal trading partners among
Developing Countries 1963**

					<i>million DM</i>		
					<i>Imports into Germany</i>	<i>Exports from Germany</i>	<i>Total Trade</i>
Europe							
Spain	...	...	...	...	563.5	1,002.4	1,565.9
Greece	...	...	...	...	275.6	589.3	864.9
Yugoslavia	...	...	...	...	359.2	426.9	786.1
Turkey	...	...	...	...	350.1	395.3	745.4
Africa							
Libya	...	...	...	...	442.5	125.0	567.5
UAR	...	...	...	...	138.8	400.4	539.2
Nigeria	...	...	...	...	260.0	152.3	412.3
Nyasaland (Malawi)	...	...	...	...	269.2	59.4	328.6
Asia							
Iran	...	...	...	...	885.4	398.9	1,284.3
India	...	...	...	...	253.7	723.1	976.8
Iraq	...	...	...	...	388.4	110.4	498.8
Israel	...	...	...	...	223.3	232.4	455.7
Latin America							
Brazil	...	...	...	...	594.2	492.6	1,086.8
Argentina	...	...	...	...	552.4	363.4	915.8
Venezuela	...	...	...	...	568.1	300.7	868.8
Peru	...	...	...	...	403.2	303.3	706.5

Note: In order to indicate the direction of trade in each continent, figures are given for the four developing countries in each continent with the largest total trade with the Federal Republic *in that continent*. If the choice were made on a world-wide basis, Nigeria, Nyasaland and Israel would give way to Chile, Mexico and Colombia.

Source: Federal Office of Statistics.

two categories cover such a high proportion of the developing countries' total exports. The proposals put forward at the United Nations Conference on Trade and Development, for instance, were primarily concerned with alleviating the consequences of the steady decline in commodity prices. But the Germans argue energetically against any measures which make the developing countries even more dependent on the export of foodstuffs and raw materials than they already are. At the same time, it is admitted that the extent to which the export earnings of developing countries can be increased through exports of manufactured goods is likely to remain extremely limited for the next few years at least.

The Federal Government's freedom of action is in any case limited by membership of the EEC. In the general disposition of its tariff structure, the Federal Republic's policy has in general been a liberal one. In 1957, before the Treaty of Rome came into force, there was a sharp reduction in tariffs. In 1963, the Federal Republic's average tariff rate *ad valorem* on imports of manufactures was lower than the rates applied by the other members of the EEC, and approximately half of the average rate applied by the United Kingdom. During the

EEC's transition to a common external tariff, therefore, the Federal Government has little opportunity for further reductions. On the contrary, the Federal Republic's tariff rates have been raised towards the EEC average, while the rates of the high-tariff members of the EEC (France and Italy) have been lowered.

To assess the trend in non-tariff barriers against imports from developing countries is more difficult. The Federal Republic retains a significant number of licensing or quota restrictions, but it appears that some of these are kept as reserve lines of defence, the quotas being at present fixed above the likely level of imports. In general, the Federal Republic pursues a less restrictive policy than France, Italy or Japan; but the restrictions are concentrated on precisely those manufactured goods which the developing countries are most likely to want to export, notably textiles and processed foods. This situation is in marked contrast to that of Italy or Japan, which apply restrictions mainly to manufactured goods exported from other industrialised countries.

Controversy over this issue has recently been complicated by the incipient tendency of German manufacturers in sectors which have been badly hit by rising wage rates to move overseas, in order to continue manufacturing for the German market. The present position, therefore, is liable to change.

Another possible obstacle to increases in imports from developing countries that has recently been much discussed in Germany is the incidence of internal revenue taxes, such as excise duties and consumption taxes. In the Federal Republic, levies of this kind bear particularly heavily on a number of commodities that figure prominently in the exports of developing countries. The rate of customs and fiscal duties combined, in 1962, amounted to 127% *ad valorem* of import unit values in the case of coffee, 53% in the case of tea, and 592% in the case of tobacco. These rates are among the highest in force in the principal industrialised countries.

One proposal which has been debated in Germany is the abolition of the consumer tax on coffee. The proposal has been the subject of much controversy. In 1963, the Ministry for Finance and the Ministry for Economics commissioned an academic institute to conduct a research project on the extent to which coffee consumption would be increased by a reduction or abolition of duty and consumer tax. The institute came to the conclusion, which was in agreement with the conclusions of previous research projects on this subject, that coffee consumption was more sensitive to changes of income than to changes of price. Coffee consumption had increased by about 200% in the years 1953-1962, and there was a particularly strong demand for high-quality coffee. Assuming that the price to the producer remained stable, it was predicted that the abolition of the consumer tax would lead to an increase of approximately 6-8% in consumption. The value of coffee imports would therefore rise by about 48.9m DM, against a loss in revenue to the Federal Government of 845.7m DM.

The conclusion was obvious. The abolition of the coffee tax would bring only a small benefit to the producers, which might in any case

have to be set against a large reduction in the budgetary allocation for development assistance. The proposal, with faultless logic, was abandoned.

The episode was politically unfortunate. The fact that the argument for abandoning the proposal was so unshakeable has discouraged consideration of similar proposals. The fact that it is the only significant proposal to have been considered – and rejected – by the Federal Government has created an unfortunate impression.

The German delegation to the United Nations Conference on Trade and Development, which took place in Geneva in 1964, found itself faced with some hostility. One reason for this was undoubtedly the assiduousness with which it addressed itself to the task of preventing the East Germans from being seated, rather than to the matter of the Conference itself. Individual members of the delegation in the specialist committees had a far better reception. Even so, the comment was subsequently heard that the German delegation had been remarkably deficient in constructive proposals.

There is at present hardly any reason to believe that this situation may change. If anything, the German attitude is hardening. The view is gaining ground that special concessions for imports from developing countries should be granted only to the extent that it becomes possible to reduce the volume of other forms of aid.

The Federation of German Industry, in its annual report for 1964, examined the trading prospects of developing countries. Its conclusion was that "special optimism is out of place".

The Federation argued against the preferences enjoyed by developing countries in association with the Common Market, on the grounds that these were an obstacle to the desired re-orientation of the economies of the countries concerned, and that they ran counter to Germany's traditional friendship with all developing countries.

It argued against commodity agreements, on the ground that these were also an obstacle to the growth of new industries. "The future of the developing countries does not lie in increased production of raw materials" the report said.

It argued against the reduction of consumer taxes in the industrialised countries, on the ground that such a reduction would have no significant effect on the level of imports.

It argued against preferences, on the ground that to give up the "most favoured nation" principle would, in the long run, restrict world trade and therefore work indirectly to the disadvantage of the developing countries.

The argument concluded: "Support for developing countries in trade policy is a necessary complement to development assistance. To a certain extent, it is a third leg beside capital assistance and technical assistance. It should go to the limit of what is tolerable, in order to enable the developing countries to earn as much foreign exchange as possible. But if this limit is overstepped, with consequent production set-backs and other losses (to Germany), then it must be to the disadvantage of development assistance as a whole, the latter being a burden which can only be borne by healthy, productive economies."

2 Export Finance

Long-term German finance first reached developing countries after the Second World War in the form of guaranteed private export credits. It was never pretended that these credits were primarily intended to promote the economic development of the recipient countries, and since the establishment of the aid programme discussion of export credits has fallen into the background.

Even from its own point of view, the Federal Government has a diminishing interest in the financial machinery of export promotion. With a balance of payments surplus to worry about, and with trade flourishing within the Common Market, the need to adopt special measures to push exports to developing countries is small. According to OECD figures, the volume of guaranteed private export credits with maturities of one year or more fell from more than 800m DM in 1959 to less than 130m DM in 1962. At the same time, the Federal Government has become more reluctant to provide export credits from official sources, preferring to leave them to a private banking consortium (the Export Credit Company - AKA) which operates with Government guarantees. The only significant exception is a series of three programmes of assistance to the shipbuilding industry.

At the end of 1963, the level of approved export credit guarantees outstanding for exports to developing countries, not all of which had been effected, was:

Europe	...	...	...	1,785m DM
Africa	...	...	...	1,787m DM
Asia	...	...	...	3,688m DM
Latin America	...	...	...	2,805m DM

Of the guaranteed commitment for exports to Asia, 27% was for exports to India, 23% for Iran, and 13% for Pakistan. This distribution is not unexpected in view of the pattern of trade (cf. Tables 17 and 18). In Africa, the concentration was slightly more surprising. Of the guarantee commitment for exports to Africa, 51% was for exports to the UAR. There are, of course, no figures officially available giving the distribution of *claims* under guarantees country by country, since the publication of such figures would be to the disadvantage of the importing countries.

The Federal Government's guarantees are granted through a limited company, the Hermes Credit Insurance Company - hence the name "Hermes guarantees". Hermes was established in 1917 as an ordinary domestic credit insurance company. Since 1949, on behalf of the Federal Government, it has administered guarantees for exports for foreign firms, and to foreign governments or their agencies, and guarantees for tied financial credits to foreign private companies, and to foreign governments or their agencies. This side of its business is carried out on a trusteeship basis. The company still maintains its own private domestic insurance business.

The normal procedure for obtaining an export credit guarantee is that the German exporter puts in a detailed application, which goes before the Hermes Committee. The Foreign Ministry and the

Ministries for Finance, Economics and Economic Co-operation are all represented on this Committee, but in effect the deciding voice is the Foreign Ministry's. If the application is accepted, it is then up to the exporter, armed with a guarantee, to obtain credit finance either from the KW, or from AKA, or from his own bank.

The procedure for buyers' credits is similar. Buyers' credits usually replace the more normal suppliers' credits if there are several German suppliers acting in a consortium, making it possible for the importing country's debts to be consolidated. The application is in such cases usually submitted by the German consortium.

3 Trade between Developing Countries

The Germans are pessimistic about the chances of a significant increase in imports from developing countries, and not especially interested in the maintenance of governmental concessions for their own export business. Under these circumstances, it is not surprising that the administrators of German aid have turned to an expansion of trade between the developing countries themselves as the most promising way to improve their trading position.

Some thought has been devoted to measures which the aid-giving countries might take in order to promote trade between developing countries. Essentially, these would consist of support for the formation of regional economic groupings. It is recognised that the scope for action in this field is limited, and that the prime responsibility must rest with the developing countries themselves.

The Lutzeyer Handbook's list of possible assistance measures for the promotion of intra-regional trade strikes a slightly unrealistic note. They include:

1. the provision of experts by the aid-giving countries to advise on the elimination of tariffs and quotas, and on the establishment of mutual preferences;
2. the provision of experts by the aid-giving countries to advise on the establishment of an export credit guarantee system;
3. capital assistance for the construction of roads, railways, and harbours;
4. an exchange of technical assistance between developing countries.

In theory, German capital assistance is more readily available for projects which are geared to a regional market, and which may therefore be expected to result in an expansion of trade between developing countries. But the countervailing pressures of national rivalries among the recipients are strong, probably too strong for a strictly bilateral (that is, co-ordinated between neither recipients nor donors) capital assistance programme to withstand. Of approximately five dozen projects individually mentioned in the KW's annual reports for 1961, 1962 and 1963, only one is specifically related to an improvement in trade and communications between developing countries, though presumably such projects as the construction of harbours will

also have this as one of their effects. The single project that was selected specifically on the basis of its contribution to an improvement in communications between developing countries is a bridge over the Volta River, which is to be a link in the projected West African Highway. The financing of the West African Highway, however, is far from being secured.

11—Technical Assistance in Developing Countries

I General Policy

The somewhat fuzzy categories into which the German technical assistance programme is officially divided can for most purposes be reduced to two. The essential distinction is between overseas assistance and programmes carried out in Germany. Overseas assistance consists of the direct transfer of personnel, skills and equipment to the developing countries. Programmes carried out in Germany include both the development of skills appropriate to the conditions of developing countries and the imparting of skills to people brought specially from developing countries for courses of training or education. Throughout this chapter, in order to avoid the clumsy repetition of such phrases as "technical assistance (in the narrow sense)", the phrase "technical assistance" will be used to refer exclusively to overseas assistance except where otherwise stated.

Overseas assistance includes what is known as technical assistance "in the narrow sense" – that is, training institutes, pilot projects and the provision of experts and advisers – and categories such as social assistance (social welfare projects) and educational assistance (development of the recipient's educational system). It also includes, of course, those categories which are sometimes treated as separate entities but are more usually included in the main technical assistance programme, of which technical assistance in the fields of public health and public information are the most important examples.

The administrators of German aid have probably put more thought into refining the forms of technical assistance than into any other part of the aid programme. Technical assistance is the one part of the aid programme in which policy changes can already be based on accumulated practical experience, rather than on preconceived sets of criteria. In its relationship to the thinking which underlies German aid as a whole, technical assistance is interesting as an illustration, not of the preconceptions of German aid, but of the practical difficulties which those preconceptions entail.

As a result of practical experience, the Federal Government's policy is to put as much emphasis as possible on overseas assistance, and to cut down the programmes carried out in Germany. This is particularly true of technical training. But it is not so easy as it sounds, as is illustrated by the fact that in the years 1962–64 the budgetary allocations for overseas assistance and for technical training in Germany rose at roughly the same rate.

Technical assistance is essentially a matter of communicating, which is something that the Germans find difficult. Their difficulty arises not only from their lack of a common language with the people of most developing countries – an obvious handicap of which German officials are painfully aware. It is also the difficulty known to all people of

great certainty and of great faith in their own rationale, the difficulty of preserving sufficient patience and self-restraint for the delicacies of persuasion. It is almost a matter of social finesse. The German technical assistance programme lacks the touch of conversation.

It is this characteristic which gives to German technical assistance the appearance of being distressfully laboured. Whether it is because of arrogance or obstinacy or ignorance, or sincerity or willpower or fixity of purpose, or simply a clear realisation of the enormity of the task, the thought that is devoted to the re-shaping of German technical assistance gives an impression of being uncommonly arduous.

The image of technical assistance policy, like that of capital assistance, has to some extent been distorted by one eye-catching project which is untypical of the programme as a whole. In the case of capital assistance, it was Rourkela. In the case of technical assistance, it is another project in India, the technical college in Madras. The Madras college is an ambitious project, which was intended as a complement to parallel projects financed by other donors in different parts of India. Its difficulties – mistakes in design, inappropriate materials and equipment, shortage of suitably qualified staff – have been publicised in much the same tone as those of Rourkela. But the present trend of German technical assistance is towards much smaller projects, designed to fulfil more specific functions.

By the end of 1963, the Federal Government had entered into overseas technical assistance commitments amounting to nearly 800m DM, of which about 760m DM was for projects which were classified as “technical assistance” in the budgetary sense. In addition, a total of about 120m DM had been committed to projects to be undertaken by the Churches with official support. The distribution of these commitments was about 40% each to Africa and Asia, about 15% to Latin America, and the small remainder to Europe. Of the sums already disbursed, nearly half had gone to Asia.

The underlying assumption of technical assistance has always been that it should be “help towards self-help”, that is, that its function should be limited to that of giving the recipients a start towards the development of their own technical training programmes. This has led to a strong emphasis, repeated in all policy statements, on the principle that German projects “should have the character of pilot projects”. In theory, technical assistance projects are intended as models which the recipient may copy and multiply for himself. This principle applies not only to pilot projects themselves, which account for nearly one-third of technical assistance expenditure, but also to other types of technical assistance, in all of which there is a strong emphasis on the training of instructors and other counterparts to the German personnel.

This principle was based on a misunderstanding, which has now been recognised. It was thought at first that the Federal Government would be able to dispatch a small party of German experts with their equipment, at little cost, and that within approximately two years there would flower a fully operative training institute which the German personnel could hand over to newly trained counterparts in

Table 19

**Regional Distribution of Commitments and Disbursements for Bilateral Technical Assistance,¹
up to 31.12.63**

million DM

	Up to 31.12.63				1963				Up to 31.12.63	
	Cumulative Commitments	Cumulative Disbursements	New Commitments	New Disbursements	Cumulative Commitments	Cumulative Disbursements	New Commitments	New Disbursements	Cumulative Commitments	Cumulative Disbursements
Europe	40.6	22.8	17.6	5.9	58.2	28.7
Africa										
North of the Sahara	257.9	55.6	83.9	45.0	341.8	100.6
South of the Sahara	72.7	16.2	12.6	7.3	85.3	23.5
	185.2	39.4	71.3	37.7	256.5	77.1
Asia	274.5	88.9	83.2	60.3	357.7	149.2
Middle East...	62.2	22.8	28.9	12.3	91.1	35.1
Southern Asia	141.0	42.9	26.9	26.0	167.9	68.9
Far East	71.3	23.2	27.4	22.0	98.7	45.2
Latin America	62.8	11.9	62.1	24.0	124.9	35.9
Central America	13.7	0.9	21.2	2.1	34.9	3.0
South America	49.0	11.0	40.9	21.9	89.9	32.9
Total	635.8	179.2	246.8	135.2	882.6	314.4

Source: Lutzeyer Handbook of Development Assistance, supplemented and amended by the Ministry for Economic Co-operation.

Note: ¹This table covers only bilateral technical assistance in the narrow sense (training institutes, pilot projects, experts and advisers), and subsidies to the technical assistance programmes of the Churches. The reason for including the Churches is that their work is closely comparable to the Federal Government's technical assistance programme, and, as a matter of policy complementary to it. The figures for the Far East and South America, where the Federal Government is not very active, represents a particularly concentrated effort by the Churches. (See Table 30.)

the recipient country to run for themselves. It was also presumed that the continued operation of such institutes, and of other institutes which would be modelled on them, would be the sole responsibility of the recipient government.

In practice, such expectations turned out to have been somewhat optimistic. Even the experience of the small German technical assistance programme that existed before 1960 was enough to show that on average a period of some five years is needed for the training of an adequate number of counterparts. Even then, after five years of training and demonstration, interim measures are likely to be needed to cover the period of re-adjustment. German officials have resigned themselves to seeing the departure of the official technical assistance team as the signal for an immediate drop in efficiency of anything up to 50%.

The Federal Government is therefore trying to devise a way of converting the technical assistance programme into a continuing exercise without abandoning the fundamental principle that it should be "help towards self-help". One proposal which is favoured is the appointment of technical assistance advisers as monitors for completed projects throughout a group of countries. One monitor might be appointed, for instance, to South East Asia, where his advice would be available on the continued operation of those projects which no longer employed full-time German experts. Large countries such as India would presumably be treated as if they were separate regions. The proposal has not been worked out in detail, but some arrangement of this kind is likely to be produced as a means of softening the effect of the handover of responsibility.

Further adaptations are still being worked out. One important question that is discussed is that of the relative advantages of different forms of assistance.

Expenditure on each of the three official categories of technical assistance – technical training institutes, pilot projects, and the provision of experts and advisers – was roughly equal until 1964. Subsidiary forms of technical assistance, such as social and educational assistance, have not yet been sufficiently developed to account for more than a very small proportion of actual expenditure. Surprisingly enough, there was in the early years no great effort to co-ordinate these forms of assistance. Recently, greater effort has been put into the co-ordination of technical assistance projects both with each other and with other forms of aid. Officials expect this development, if carried to its conclusion, to lead to greater concentration on specific countries, within which the German aid contribution may take the form of clumps of closely inter-related projects. The Federal Government remains firmly opposed, however, to joint projects undertaken with other donors.

German technical assistance is at present characterised by a degree of concentration on certain sectors, rather than by geographical concentration. Most technical assistance is for projects in manufacturing industry and handicrafts, agriculture and forestry, health, and information. These four sectors accounted for about three-quarters of the projects to which the Federal Government had committed itself by

the end of 1963, and for about 85% of committed funds. Manufacturing industry and handicrafts predominated, particularly in the establishment of technical training institutes. Health, and agriculture and forestry, together accounted for about two-thirds of approved pilot projects. (See Tables 20 and 21.) There is also a small programme of assistance for educational projects which is classified separately (see Section 7).

This distribution reflects the nature of Germany's special skills, and there is no reason to suppose that it is likely to alter significantly. What *is* altering slowly is the view of what the immediate objective of these projects should be. It was initially supposed that the extreme shortage of skilled technicians in developing countries could most swiftly be remedied by a programme designed to create a class of middle-grade technicians with moderate qualifications in as wide a range of subjects as possible. In practice, it appears that this aim has been frustrated by the conscience of the German instructor, who cannot allow himself to rest content with producing a mere Jack-of-all-trades. Non-official advisers commissioned by the BMZ to report on the progress of technical assistance seem more or less to concur in the view that the usefulness of German projects is severely undermined by an over-ambitious insistence on the achievement of qualifications which would be acceptable even in Germany, over too wide a range of subjects. The suggestion has been made that German technical assistance should be designed to produce specialised technicians, for whom specific openings have previously been secured.

The proposal has met with strong official resistance, for two reasons. First, it would involve far more complex administrative mechanisms, and a far higher degree of co-ordination, than at present exist. Secondly, and more fundamentally, it would involve the final abandonment of the principle that technical assistance projects should have the character of pilot projects, since it would mean that projects were being established to fulfil specific needs, rather than to demonstrate general principles.

But the policy of limiting the role of German technical assistance to one of demonstration is already under attack from other quarters. It is the maintenance of this limitation, more than any other factor, which is impeding the Federal Government's attempt to shift as large a proportion as possible of its technical assistance activities to the developing countries themselves. In theory, the requirement that a project must have the character of a pilot project rules out any proposal for a project which is similar to one that the recipient country already has. The limitation is not, in fact, imposed with such extreme rigidity, but there is certainly a reluctance to multiply projects of any one type, and within any one country, beyond a very low limit. The restrictive effect is sufficiently marked for it to be clear that a rationalisation of the technical assistance programme will not be possible until officials stop looking upon it as if it were simply a matter of practical demonstration.

2 Conditions

The conditions on which technical assistance is granted, and the extent to which the Federal Government is prepared to depart from them, are

in accordance with general aid policy. The conditions are as follows :

1. the granting of technical assistance is dependent upon the conclusion of a government-to-government agreement. Such agreements may only be concluded with independent countries or countries on the verge of attaining independence. If a government-to-government agreement cannot be concluded, and the Federal Government still considers it desirable to make technical assistance available, an attempt will be made to persuade one of the non-governmental organisations to undertake the project with Government support;
2. the recipient government is required to participate in the project, at least to the extent of providing counterparts and of demonstrating that it will be able to maintain the project without further assistance once it is fully operational. The recipient is usually required to bear the local costs of the project also, particularly the general cost of putting up buildings, etc.;
3. the Federal Government in principle provides only personnel and technical equipment. It does not provide general materials;
4. since it is desirable, within reason, that projects should have a visibly favourable impact on relations between the Federal Republic and the recipient, projects should not be undertaken in partnership with other donors;
5. the Federal Government's share of the cost of projects will normally be made available in the form of grants. In special cases, however, projects may have to be financed with loans. If, for instance, the Federal Republic wishes to induce the recipient to use stricter criteria in assessing requirements, loan finance may be insisted upon.

The second and third of these conditions are often relaxed. The Federal Government has usually been prepared to supply special materials, such as imported building materials, if these are necessary for the project. It is also showing an increasing willingness to contribute to local costs, particularly if the recipient is exceptionally poor. This should have the result of saving money, since recipients have sometimes used costly imported materials, such as aluminium, instead of cheap local materials, such as wood or stone, simply because the Federal Government was less willing to pay for local materials.

The condition which has given most trouble is the one which superficially perhaps looks most harmless, the insistence on the conclusion of a government-to-government agreement. The Federal Government's standard agreement, which precedes the granting of technical assistance, lays down that:

1. the goods supplied shall be free of duty;
2. German personnel and their dependants shall have freedom of entry and exit, and all necessary permits shall be provided;
3. the recipient government shall provide rent-free accommodation;

4. the salaries and allowances of German personnel shall not be taxed by the recipient government;
5. the personal effects of German personnel shall be imported free of duty, including (and these are specified) a motor car, refrigerator, deep-freeze, wireless, gramophone, tape-recorder, television set, air-conditioning plant, smaller electrical appliances and photographic and cinematic apparatus;
6. German personnel shall continue to import free of duty food, drink, medicines and other commodities of daily use;
7. the recipient government shall provide German personnel with documents expressing official support for the project to be undertaken and demanding the co-operation of all local officials with whom the German personnel have to deal;
8. travel within the recipient country in connection with the project, including a daily travel allowance, shall be paid for by the recipient government;
9. the recipient government shall be responsible for providing and maintaining the necessary counterparts for training.

In addition, there are provisions limiting the liability of German personnel for damages and setting out a number of other legal safeguards.

Recipient governments have on occasion been reluctant to commit themselves to this extent, and the negotiation of agreements has been subject to long delays.

Recipient governments have also shown a strong inclination to differ from German officials in their assessment of the apportionment of the cost of the project. Both administratively and financially, it is claimed that the conditions of German technical assistance impose upon recipients a greater burden than they can carry.

3 Procedure

The procedure for administering technical assistance projects is different from the procedure for capital assistance in one important respect. While the capital assistance programme is supervised largely by one ministerial office, Section V of the Ministry for Economics, and carried out by one agency, the Kreditanstalt für Wiederaufbau, the technical assistance programme is administered by a wide variety of ministries and at least two agencies.

In the methods of considering requests for aid, the procedure for technical assistance runs along more or less the same lines as for capital assistance. In theory, the Federal Government waits for a request, which is submitted to the Germany embassy in the recipient country. After a brief preliminary examination, the embassy passes the request to the Ministry for Foreign Affairs, which in turn passes it to an inter-ministerial committee. In the case of technical assistance, the chairman of this committee is a Foreign Ministry official.

If the inter-ministerial committee approves of the proposal, it passes it on to a steering committee, which is under the chairmanship of the BMZ. After further examination, the BMZ draws the necessary funds

from its own budget and transfers them to the ministry appointed to administer the project. Responsibility for administration is allotted to the appropriate ministry in accordance with the nature of the project. A large number of projects falls to the Ministry for Economics, the Ministry for Health and the Ministry for Food, Agriculture and Forestry. Other Government departments administering technical assistance projects are the Ministries for Housing, Labour, the Interior, Transport, and Posts and Telegraphs, and the Federal Press Office.

All of these Government departments have a right to be represented on the inter-ministerial committee for technical assistance when projects that touch on their spheres of interest are being discussed. Ministries with a less direct interest also have the right to be represented. Throughout Lufthansa's protracted efforts to negotiate landing rights at Nairobi Airport, for instance, the Ministry for Transport demanded a say in all discussions of aid to Kenya. Perhaps because of the greater spread of technical assistance in relation to the sums spent, the impression is given that it is more vulnerable to lateral pressures of this kind than is capital assistance.

The multiplicity of administrative interests in the technical assistance programme appears to have been compressed into a tolerably effective unity by the all-embracing activities of the BMZ. The difficulties inherent in the system become more apparent, however, when a third German partner is brought in. Particularly in the machinery for giving official support to private technical assistance projects (which is discussed in Chapter 13), the division of responsibility appears as a source of rancour.

Once the requirements of an official technical assistance project have been worked out, either GAWI or the Federal Office for Manufacturing Industry (BAW) is commissioned to draw up and issue contracts for the necessary German personnel. (The status of these agencies was described in Chapter 3, Section 3.) As a general rule, GAWI is the agency employed for this purpose, but contracts for a number of projects administered by the Ministry for Economics, especially those financed from the ERP Fund, are issued by BAW. The latter arrangement applies principally to projects involving only short visits by engineering consultants or other technical advisers engaged to conduct a specific inquiry or survey, in return for a fee. Pre-investment surveys, for instance, would normally be commissioned in this way.

As was pointed out in Chapter 3, the Ministry for Economics appears to have a preference for BAW, on the ground that its status as an office of the Federal Government puts it directly under ministerial control, while GAWI, as a limited company, has a degree of independence. Since projects involving the use of consultants are precisely the field in which the Federal Government has to draw on the kind of skill that is possessed in the highest degree by private industry, and since the official character of BAW constitutes something of a barrier between private industry and itself, this particular division of responsibility may have had an inhibiting effect. It is certainly alleged by officials

in other departments to have done so, but the issue has become so clouded by administrative rivalries that a precise appreciation is hardly possible.

4 Technical Training Institutes

The Germans have gained an international reputation for the successful development of new methods of technical and industrial training. This reputation is a source of justifiable pride. It is not surprising, therefore, that German officials are inclined to regard the establishment of technical training institutes in developing countries as the solid core of their technical assistance programme.

There is one fundamental difference between the methods used in Germany for the training of German technicians and the methods used in the technical assistance programme. In Germany, the emphasis is on in-service training, which is the method that has also inevitably been adopted for trainees who come to Germany from developing countries. Formal training institutes are supplementary, their function frequently being to provide advanced finishing courses.

In the developing countries, the facilities for in-service training are often rudimentary, or do not exist. The emphasis therefore has to be on formal courses at training institutes. This shift of emphasis is undoubtedly correct, but it has created one practical problem – the finding of jobs for trainees who have completed their courses. A small start has been made towards the solution of this problem with the provision of individual loans from the funds of the German Development Company (see Chapter 9, Section 5). The long-term solution is clearly a closer relationship between training institutes and capital assistance projects, and perhaps between training institutes and private investment.

Rather more than one-third of the budgetary expenditure on technical assistance since 1956 has been for technical training institutes. In 1963, funds were spent in almost equal amounts on technical training institutes, pilot projects, and experts and advisers. In the 1964 budget, nearly half the allocation for technical assistance (in the budgetary sense) was for training institutes – an indication of the way in which policy is moving towards a greater emphasis on technical training.

Up to the end of 1963, approval had been given for 140 technical training institutes, of which about 30 had been completed. Of the total of approved projects, 45 were in Asia and 45 were in Africa.

In this part of the technical assistance programme, there is a strong emphasis on industrial and craft training. This sector took 88% of total appropriations for technical training institutes in 1963 and 1964. Agricultural training institutes took a further 5%. The distribution of approved technical training institutes up to the end of July 1963, by region and by sector, is shown in Table 20.

The Federal Government appears extremely anxious not to be saddled with the responsibility for running these institutes once they are firmly established. To accept such a responsibility, it argues, would

Technical Training Establishments in Developing Countries

Number of projects¹ initiated by 31.7.63

	Industrial and craft Training	Agriculture and Forestry	Health	Information	Postal and Telephone	Traffic	General Administra- tion	Others	Total
Europe	14	2	1	—	—	1	—	3	21
Africa	30	5	3	1	—	—	—	3	42
North of the Sahara	8	1	—	—	—	—	—	2	11
South of the Sahara	22	4	3	1	—	—	—	1	31
Asia	32	4	—	1	2	1	2	1	43
Middle East... ..	10	1	—	—	1	1	—	1	14
Southern Asia	13	1	—	1	1	—	1	—	17
Far East	9	2	—	—	—	—	1	—	12
Latin America	17	6	—	—	—	—	—	—	23
Central America	4	1	—	—	—	—	—	—	5
South America	13	5	—	—	—	—	—	—	18
Total	93	17	4	2	2	2	2	7	129
of which: Projects completed	16	4	1	—	—	1	—	4	26

Source: Lutzeyer Handbook of Development Assistance.

Note: ¹ The average value of the German commitment for each project, excluding projects under 'health' and 'information', is 1,980,000 DM.

amount to giving budgetary support. As has already been pointed out in the context of other parts of the aid programme, the Federal Government regards budgetary support as a dangerous incitement to extravagance.

The German contribution is therefore limited to:

- Planning;
- Supplying technical equipment;
- Supplying German personnel;
- Training counterparts from the recipient country, if necessary, in Germany.

The recipient government, or one of its agencies, is required to take administrative responsibility for the project, and to pay the running costs. In addition to running costs, the recipient government is expected to provide:

- The site, together with premises and adequate approaches;
- Power, water and other services;
- Non-technical equipment;
- Maintenance of the local teaching, administrative and other personnel.

The general criticisms of official technical assistance policy which were quoted in the first section of this chapter have been directed with especial force at the planning of technical training institutes. It is certainly easy enough to find institutes which seem to have been planned without regard to the nature of local industries, institutes that have lost their impetus and degenerated into ordinary workshops, and institutes which seem to have been built without regard to local climatic conditions or the availability of local materials. But the critics allege more fundamentally that the whole conception is wrong. It is said that the official aim, of producing middle-grade skilled workers who will be able to turn their hands to a fairly wide variety of tasks, is one that was bound to be frustrated in practice. What is alleged to be happening is that over-ambitious institutes are turning out people who have managed to convince themselves that they are now fully qualified engineers, whose qualifications entitle them to a dignified administrative post, and to the full status of a white-collar worker. This is the very opposite of the desired result. As an example of the way in which official policy is pitched too high, the critics cite Okhla, the combined centre for applied research, demonstration and training in New Delhi, which is the pride of the German technical assistance programme.

This is a picture the accuracy of which is difficult to check. Short of visiting a large number of German technical training institutes in developing countries, the outside commentator cannot do more than report the policy and the criticisms that have been laid against it. On balance, it has to be said that the critics' case looks plausible. The official reaction to any suggestion that German technical assistance should consist of a broad programme to train people specifically for jobs that are likely to come their way is one of violent disapproval.

5 Pilot Projects

The distinction between pilot projects and training institutes which

Pilot Projects in Developing Countries

Number of projects¹ initiated by 31.7.63

	Industry and crafts	Agriculture and Forestry	Health	Information	Postal and Telephones	Traffic	General Administra- tion	Others	Total
Europe	2	9	3	3	—	—	1	—	18
Africa	8	34	53	21	2	8	3	2	131
North of the Sahara	5	10	11	4	—	—	2	1	33
South of the Sahara	3	24	42	17	2	8	1	1	98
Asia	8	12	20	7	—	2	3	5	57
Middle East...	—	5	3	2	—	—	—	—	10
Southern Asia	4	4	6	5	—	1	1	—	21
Far East	4	3	11	—	—	1	2	5	26
Latin America	1	3	10	1	—	—	2	—	17
Central America	—	—	6	1	—	—	1	—	8
South America	1	3	4	—	—	—	1	—	9
Total	19	58	86	32	2	10	9	7	223
of which: Projects completed	4	10	35	4	—	5	4	4	66

Source: Lutzeyer Handbook of Development Assistance.

Note 1: The term 'project' is used here in a very wide sense. It covers, for instance, gifts of ambulances, mobile clinics, and other medical equipment, all of which are shown here as 'projects completed'.

The average value of the German commitment for each project, excluding projects under 'health' and 'information', was 1,280,000 DM.

The average value of the German commitments under 'health' was 580,000 DM, under 'information', 980,000 DM.

'have the character of pilot projects' is one that is becoming increasingly hard to draw. Just as training institutes are intended to serve as models which may be copied, so do pilot projects include an important element of training. Indeed, the BMZ has devoted some effort to bringing the two categories closer together, by initiating pilot projects and training institutes in conjunction with each other.

The distinction made more sense in the earlier years of the technical assistance programme, when pilot projects consisted of little more than a gift of technical equipment. The Federal Government made a practice, for instance, of presenting newly independent countries with mobile clinics, which were intended to be used as the basis of a rural health service. (This accounts in part for the very large number of projects under 'Health' in Table 21.) It was soon found that there was little point in offering a mobile clinic unless it was to be accompanied by qualified medical personnel and servicing facilities. It is said that some of the vehicles soon broke down under maltreatment, and were abandoned, or were taken over by local political party organisations for their own purposes. At the same time, the discovery that the roads in some developing countries were so bad that they were impassable to vehicles of this kind forced the BMZ to think again in terms of fixed clinics or small hospitals. Gifts of mobile clinics are now usually accompanied by qualified German personnel. The reason for classifying them as 'pilot projects' is not immediately clear, unless it is simply that there is no other suitable place for them in the German catalogue.

Table 21 shows the distribution of pilot projects by region and sector. Apart from health services, the sector which accounts for the largest number of projects is agriculture and forestry. These are pilot projects in the more generally understood sense of the term – model villages, for instance, or experimental crop stations. The figure under 'Information' in Table 21 includes a number of projects for assistance in establishing Government printing presses. In the industrial and commercial sector, the Germans have expressed particular interest in setting up standards institutes.

6 Experts and Advisers

The practical difficulties that stem from Germany's lack of traditional relationships with developing countries are nowhere more apparent than in the search for qualified German personnel willing to serve overseas. Having been without colonial possessions for nearly half a century, and having during that period twice lost its overseas assets, Germany has no reservoir of administrators and technical experts with continuous or specialised knowledge of conditions in developing countries.

The European languages which are most widely understood in developing countries are English, French and Spanish. Germany's colonial empire was neither big enough nor sufficiently long-lived to lead to an increase in the use of German as an international language. This added obstacle to communication has effectively prevented Germany from giving assistance in forms in which the use of language

is of central importance. In higher education, for instance, there are no more than a few dozen German teachers serving in developing countries with financial support from the Federal Government.

The lack of a common language is also a barrier to the transmission of ideas in a more general sense. The body of ideas with which the German aid programme is imbued, which amount to something not far short of a faith, are locked up behind the doors of language, within the administrative machine. This may be the explanation of the somewhat introspective character of German aid. It may also be the explanation of the Germans' reliance on the proliferation of formalised instruments and techniques, as a substitute for words and common understanding.

Although a large number of German officials and technical experts speak fluent English, it remains a foreign language, in which it is difficult to establish that direct human relationship which is an essential part of good teaching, and which is equally essential to the personal sense of well-being of a lonely man in a strange and not always welcoming land. It is significant that the Germans accept increased commitments with obvious enthusiasm in the few countries, such as Afghanistan, where their language is widely understood.

The shortage of experts with the right kind of experience is a constantly recurring theme in the documentation of technical assistance. It is a limiting factor of course in the setting up of training institutes and pilot projects as well as in the provision of advisory services. Most of what is said in this section applies with equal force to other parts of the technical assistance programme.

There is in Germany, naturally enough, no presumption that a proportion of university graduates will decide to pursue their careers overseas. Still less is a period of overseas service regarded as a preparation for, or an enhancement to, a domestic career. To the highly qualified German specialist, a period of service overseas looks like a gamble. What is more, it is a gamble in which the odds are loaded against him, for it appears to involve his absenting himself from the sources of his knowledge, from the providers of his future employment, and from the courts of his professional prestige. Again and again, the objection that is raised against service overseas is the threat to one's career.

For experts in Government service, time spent overseas under the technical assistance programme counts towards pensions but not towards promotion. No formal provision can be devised which would ensure equality of promotion prospects. In the middle grades of the German bureaucracy, as in any other bureaucracy, promotion comes to the person who is on the spot at the right moment. Often one hears of experts returning from service overseas to be met with such remarks as, 'Oh, if only I had remembered you were coming back. We had just the job for you a few weeks ago.' Whether such stories are true or not, they are a powerful deterrent.

In private industry, the state of the economy is such that skilled technicians are in constant demand at home. Very few firms are prepared to grant leave of absence for a year or two, to enable

employees to accept a technical assistance contract. Experts in private industry who wish to go overseas therefore nearly always have to give notice in order to do so. If their qualifications are highly specialised, they may have difficulty in finding an equally congenial job when they return, in spite of the fact that there is a strong general demand for experts in their field.

The Federal Government, acting through GAWI, has made repeated appeals for people willing to serve overseas. These appeals have had a surprisingly good response, but applicants have seemed to lose interest if a post exactly suited to their qualifications is not immediately available. GAWI has made some progress in compiling a register of experts who have expressed interest in service overseas, but it is doubted whether all the people named in this register would be willing to accept a contract whenever it could be offered. That is to be expected, since there must be a tendency for experts to approach GAWI at a time when they are in any case thinking of changing jobs. By the time a suitable technical assistance post becomes available, the expert in question may have had to look elsewhere.

The idea of a career service has been discussed, but it has been dismissed on the ground that the specialised nature of the technical assistance posts available would make it impossible to maintain an adequate career service except by keeping a very large reserve of idle specialists in readiness for all eventualities. The nearest to this that can be achieved is the register that GAWI is compiling. Since there are nearly 1,000 German experts serving overseas in technical assistance projects at any one time, of which perhaps two-thirds are employed in work of a continuous nature (that is, employed on the basis of a salary rather than a fee), the conclusion appears to be that the technical assistance programme would have to include several thousand overseas appointments before a career service would become feasible.

If the Federal Government were to abandon the concept of the 'pilot project', of course, the problem would be partially solved, since it would be possible to plan overseas appointments on a long-term basis. There is no indication as yet, however, that officials are prepared to consider such a step.

In projects involving solely the services of experts, as distinct from training institutes and pilot projects, GAWI makes a rough distinction between four kinds of appointment:

1. experts commissioned to execute a specific report, including consultants;
2. advisers appointed for a longer term to give continuous advice within one sector of the economy;
3. planners attached to the central planning authority of the recipient country;
4. experts commissioned to carry out surveys of resources (geological surveys, etc.).

The greatest difficulty arises, oddly enough, in the first category, in finding people to undertake the short-term contracts for the preparation of specific reports. The main source of personnel for work of this kind

would normally be consulting firms, but in Germany the consultancy business is a post-war phenomenon, and still regarded with some suspicion. One reason for this suspicion is the fact that a large number of German consulting firms are closely tied to, or even owned by, the main industrial combines. The relationship is sometimes so close that the consulting firm's work is little more than a branch of the parent company's business. The consulting firm which planned Rourkela, for instance, was set up for the purpose by Krupp and Demag.

The consulting firms of Düsseldorf and Essen tend to have especially close links with individual contractors. The same is true to a lesser extent in Frankfurt, while the Munich firms are more or less independent. The authorities have enough material at their disposal to guard against the possibility that special relationships might colour a consultant's report, but the official hostility to consultants appears also to be based on a less rational prejudice against consultancy work in general. This hostility applies equally to the independent firms, and appears to arise from a feeling that consultants are in some way parasitic. To put it crudely, the fees demanded by consultants seem to the German official mind unreasonably high. It appears more economical to employ an expert from the appropriate ministry. Here again, the division of responsibility between GAWI and BAW appears to have had an inhibiting effect.

Emotional attitudes and a suspicion of special interests are not the only reasons why the Federal Government has not made more use of consultants in the technical assistance programme. There are also practical limitations on their usefulness inherent in their close links with the big contracting firms. The function of consultants in Germany is rather narrower than in other industrial countries, being close to that of a site engineer. Consultants tend to be called in at a fairly late stage in the planning of a project, and their task is usually to advise on the execution of work for which a contract is already in the offing.

In developing countries, the potential usefulness of consultants is in the earlier stages of project planning, in carrying out pre-investment surveys and feasibility studies. This is a field in which the German consultants have comparatively little experience. Still less are they equipped to conduct the kind of national economic survey, aimed at locating and advising on the exploitation of new resources, which is an important aspect of the activities of, for instance, American consultants. The only important organisation in Germany to have developed techniques appropriate to this kind of work is the Batelle Institute in Frankfurt, which is backed largely by non-German interests. Officials show little interest in the possibility of using an organisation of this kind as an instrument of technical assistance, although it is admitted that its services might in theory be of benefit, in relation to both capital assistance and the promotion of private investment.

The distribution of projects involving solely the services of experts and advisers is given in Table 22. The sectors in which there has been the largest number of projects are, as would be expected, manufacturing industry and agriculture. One interesting fact shown in the table is the large number of economic advisers who have been supplied under

Table 22

Planners, Advisers, Consultants, Geological Surveys and Other Expert Services in Developing Countries
 Number of projects¹ initiated by 31.7.63

	Industry and Crafts	Agriculture and Forestry	Health	Information	Posts and Tele-phones	Traffic	Housing and Town Planning	General Administration	Economic Advisers	Geological and Other Surveys	Others	Total
Europe	19	5	—	—	—	2	1	1	1	1	—	30
Africa	28	41	11	6	5	16	5	10	17	—	6	145
North of the Sahara	10	11	1	1	1	2	1	3	2	—	2	34
South of the Sahara	18	30	10	5	4	14	4	7	15	—	4	111
Asia	41	23	2	5	5	15	2	1	5	8	6	113
Middle East...	9	9	2	3	3	9	2	1	—	4	1	43
Southern Asia	18	6	—	1	2	4	—	—	2	4	—	37
Far East	14	8	—	1	—	2	—	—	3	—	5	33
Latin America	14	21	1	—	3	1	3	3	3	3	2	54
Central America	6	4	1	—	—	—	—	2	—	—	1	14
South America	8	17	—	—	3	1	3	1	3	3	1	40
Total	102	90	14	11	13	34	11	15	26	12	14	342
of which: Projects completed	32	21	2	3	1	13	1	8	5	—	10	96

Source: Lutzeyer Handbook of Development Assistance.

Notes: ¹ The average value of the German commitment for each project, excluding projects under 'health' and 'information', was 464,000 DM. The highest average commitment (1,929,000 DM for each project) was for geological and other surveys. The word 'project' is applied to any operation, short-term or long-term, involving exclusively the services of an expert or group of experts - that is, excluding training institutes and pilot projects.

technical assistance. Some of these have been sent overseas only for short visits, but there are some who have had more prolonged appointments in the central planning authority of the recipient country. There is some evidence to show that, where this has been the case, the recipient's relationship with Germany as donor has been an easier one, and the selection and approval of aid projects has been more rapid. An example was Tanganyika, before the union with Zanzibar.

At the end of 1963, there were roughly 900 German experts in the field involved in bilateral technical assistance projects. This figure includes the staff of training institutes and pilot projects. Of the total, more than half were instructors.

In the past two or three years, the number of German technical assistance experts overseas at any one time has varied between 800 and 1,000. Of these, rather more than half tend to be working under

Table 23

German Experts Overseas, 31 December, 1963, by Type of Appointment (including Staff of Training Institutes and Pilot Projects)

	<i>Advisers</i>	<i>Instructors</i>	<i>Total</i>
Europe	25	56	81
Africa	194	104	298
Asia	169	270	439
Latin America ...	48	54	102
Total	436	484	920¹

Source: Ministry for Economic Co-operation.

Note 1: Only 502 of these were appointed under contract to GAWI, the organisation chiefly responsible for allocating German experts. The remainder were appointed by the Federal Office for Manufacturing Industry and other government authorities.

Table 24

German Experts Overseas under Contracts from GAWI, 1 July, 1964, Classified by Project Administering Authority (including Staff of Training Institutes and Pilot Projects)

	<i>Europe</i>	<i>Africa</i>	<i>Asia</i>	<i>Latin America</i>	<i>Total</i>
Ministry for Economics					
Instructors at industrial training schools...	—	23	125	7	155
Others	3	37	47	—	87
Ministry of Health	—	47	29	—	76
Ministry of Food, Agriculture and Forestry	3	64	55	16	138
Ministry of Housing	—	—	1	2	3
Ministry of Labour	—	1	1	—	2
Federal Press Office	—	12	2	8	22
Ministry of the Interior	—	10	15	—	25
Ministry of Transport	—	12	2	—	14
Ministry of Posts and Telegraphs	—	7	10	—	17
Total	6	213	287	33	539

Source: GAWI.

contracts issued by GAWI. In its first seven years of technical assistance activity, starting in 1957, GAWI concluded contracts with more than 1,000 experts, many of whom have had their contracts renewed, sometimes more than once. Of the 500 experts, or thereabouts, that are working under contract to GAWI at any one time, about 100 are usually Government servants.

GAWI's contracts for overseas postings, as distinct from contracts for specific reports, usually run for periods of between six months and two years. Technical assistance instructors usually have a renewable two-year contract.

For contracts over six months, the expert is usually enabled to take his family with him. The terms of the contract vary with its duration, but they normally include, in addition to salary, the following expenses:

- Travel;
- Travel Allowance (including kit allowance where necessary);
- Dependants' travel;
- Transport of motor car;
- Transport of some personal effects (usually up to and including soft furnishings);
- Housing;
- Insurance.

GAWI's terms are intended to be more or less competitive with those of private industry. It is calculated that on average the German expert ought to be able to save 6,000-7,000 DM a year during his service overseas.

7 Educational Assistance

Projects designed to strengthen the educational systems of developing countries are administered separately from the main technical assistance programme. The controlling authority is a special inter-ministerial committee for educational assistance, and administrative responsibility rests with the BMZ. There appears as yet to be little effective co-ordination between 'educational assistance' and the provision of places at German universities for students from developing countries. The latter is normally referred to as 'cultural co-operation', and is not formally administered as a part of the aid programme.

Educational assistance became an item of German aid policy when the inadequacy of short-term solutions to the problems of development had become apparent. The guiding principles were not laid down until 1963. Budgetary allocations in 1963 for the activities which were subsequently to be brought together under the heading of 'educational assistance' amounted to 4.6m DM. In 1964, the allocation was raised first to 6.0m DM, and then raised again by the Budget Committee of the Bundestag to 15.0m DM, with a commitment authorisation of 15.0m DM. From the size of the commitment authorisation, it is clear that the Federal Government hopes to expand its activities in this field once the programme is well established.

Educational assistance projects are, in principle, selected with a view to achieving long-term results through the establishment of permanent educational institutions. What is meant by this principle, the extent to which it differentiates educational assistance from other forms of aid, is not very clear. In a sense, it appears to signify a tentative departure from the view of aid as consisting of 'pilot projects', but the departure is still very guarded. In educational assistance, as elsewhere, the Germans see the role of aid as being confined to getting things started, and they seem to be fighting shy of accepting any indefinitely prolonged commitment: but it has been officially recognised that some forms of educational assistance – in support of a university in a developing country, for instance – cannot be planned on a short-term basis. The emphasis is therefore put more directly on the modernisation and adaptation of the recipient's educational system, in line with contemporary standards.¹ The impression is given that in educational assistance the Germans have already to some extent abandoned their attachment to criteria and principles in favour of a more flexible approach.

They have little choice. There are obvious limitations on the scope for German educational assistance, one of which is the language problem. This may well be the explanation of a conspicuous willingness to co-operate with other donors and multilateral agencies to a greater extent than is usually thought prudent in other branches of the German technical assistance programme.

In the view of German officials, educational assistance should be selectively applied, and should have a concentrated impact on the opinion-forming elements in the societies of developing countries. The key sectors which are mentioned in policy documents are 'academic institutions and communities, trade unions, social welfare associations and organisations, work among young people and women, and senior personnel in the administrative, economic and cultural fields'.

The educational assistance programme is intended to cover popular education, schooling and higher education. It includes the following measures:

(a) **Higher Education**

General measures in support of universities, colleges and research institutes; the provision of places for students at institutions of higher education in their own country; the promotion of student organisations; advanced courses in Germany or elsewhere for educational specialists from developing countries.

(b) **Languages**

Development of the educational use of the languages of developing countries.

(c) **Schooling**

Improvement of teaching methods; teacher training; the establishment of model schools; the provision of German school-teachers.

¹The Federal Government appears largely unaware of the controversy taking place in the United Kingdom over the question of university standards in developing countries. (See, for instance, Sir Eric Ashby: *African Universities and Western Tradition* OUP 1964.)

(d) **Adult Education**

General literacy campaigns are an important item under this heading.

(e) **Training of German Specialists**

Instruction of German agricultural specialists, welfare workers, etc., in preparation for service in developing countries; training for German specialists in adult education and youth work.

8 Social Assistance

Social assistance, like much else in the German aid programme, appears to have originated partly as a response to the lessons of Rourkela. In the selection of projects, there is a strong emphasis on the need to combat the social stresses that may develop in the process of development, particularly the stresses which are inherent in the sudden creation of new industrial communities in the neighbourhood of large capital assistance projects.

In 1962, expenditure on social assistance amounted to only 121,000 DM. In 1963, the budgetary allocation was raised to 3.5m DM, and the allocation was raised again in 1964, to 10.5m DM, with a commitment authorisation of 6m DM.

The dividing line between educational and social assistance is somewhat blurred. Included under the latter, for instance, are projects in the field of civic education. The larger part of the social assistance budget, however, is spent on straightforward social welfare projects – training social workers, establishing welfare centres, providing German social welfare workers to carry out model schemes, and so on.

A high proportion of social assistance funds is channelled through non-governmental organisations, such as the Churches, the trade unions, and welfare associations in Germany (see Chapter 13).

Table 25

Grants to Technical Assistance Activities of United Nations Agencies, 1962 and 1963

	<i>million DM</i>	
	1962	1963
UNEPTA	10.5	10.6
UN Special Fund	19.5	21.4
UNRWA	2.5	2.5
UNICEF	5.5	6.0
FAO	1.7	5.6
WHO	0.3	0.2
UNREF	1.5	1.2
Total¹: voluntary grants	41.4	47.5
Other grants (from subscriptions) to UN "aid" activities, not falling within DAC classification	15.5	24.0

Sources: Lutzeyer Handbook of Development Assistance. Ministry for Economics.

Note 1: This is the figure reported by the Federal Government to the DAC, as the total of contributions to multilateral agencies within the DAC's definition.

9 Multilateral Technical Assistance

The extreme shortage of German experts with experience of conditions in developing countries has the inevitable result that the German contribution to multilateral technical assistance agencies is almost entirely in cash. The Federal Government is naturally reluctant to spare people from its small corps of technical assistance experts to serve, for instance, in the specialised agencies of the United Nations.

Apart from cash contributions, the only multilateral technical assistance scheme in which Germany participates to an important extent is the technical training programme financed by the European Development Fund. (The facilities provided by the Federal Government for technical training in Germany are described in the next chapter.)

Germany's voluntary contributions to the technical assistance activities of the United Nations, as reported to the DAC, are shown in Table 25. The figures given under 'other grants' include assessed contributions to UN agencies.

12—Technical and Academic Programmes in Germany

I Technical Trainees

The arrival in Germany of the first technical trainees from developing countries, in the mid-1950s, was a startling and intriguing event for those Germans with whom they came into contact. Since the years leading up to the Second World War, the Germans had been culturally isolated. The Africans and Asians who came to study in the workshops of the Ruhr were often the first coloured people that they had ever met.

The technical training programme remains well publicised, largely because of the work of the Carl-Duisberg-Gesellschaft (see Chapter 3, Section 3). The CDG has done a great deal to bring home to the German public the developing countries' crying need for skilled workers, and to dispel some of the more damaging myths by which the giving of aid is surrounded.

But not all the publicity has been good. It is all too easy to paint a depressing picture of bewildered trainees, shivering their way through a German winter, not really knowing what they are doing and not really learning very much. The problems which German life presents to the newly arrived trainee from a developing country have led to the introduction of a new word into the vocabulary of German aid – *Anpassungsschwierigkeiten*, or 'difficulties of adaptation'.

Partly for this reason, the Federal Government has declared its intention of shifting as much as possible of its technical training programme to the developing countries themselves, making greater use of technical training institutes and cutting down the number of trainees who come to Germany. As was pointed out in the previous chapter, it shows no sign of succeeding in this endeavour. The budgetary allocation for technical trainees in 1964 was 36% larger than in 1963, and nearly two-and-a-half times as large as expenditure in 1962. The commitment authorisation for 1964 was 25% higher than the authorisation for 1963. Commitments in 1963 had exceeded the authorised figure by more than 50%.

There appear to be three main reasons for the Federal Government's inability to reduce the number of government-sponsored technical trainees in Germany. First, the alternative course, of greatly expanding the overseas technical training programme, is beset with difficulties. These difficulties, which were described in the previous chapter, stem largely from the requirement that overseas training institutes should have the character of pilot projects. To set up a sufficient number of training establishments to absorb the trainees who are now accommodated in Germany would clearly involve the total abandonment of this limitation.

Secondly, whether the Federal Government is prepared to pay or not, the reputation of German technology will continue to draw trainees to Germany, either under the auspices of German private firms or on

their own initiative. The Federal Government can neither ignore this influx nor stop it.

Thirdly, the technical training programme is a going concern which, in spite of some failures, has on the whole been of great benefit to the developing countries. Its momentum cannot be broken by the wave of an administrative wand. To put the contrast rather harshly, the technical training programme in Germany, supported by private industry and supervised by specialist institutions with a large degree of independence from Government, is imbued with a sense of purpose and a forceful concentration on specific objectives, while the overseas programme, burdened with administrative preconceptions, is not much more than a series of widely distributed and often badly integrated projects, by no means all of which fulfil an immediate need of the recipient country.

This is an oversimplification, but there is much truth in it. Although the German argument that practical experience in the trainee's own country is of greater value than an excursion to Europe is one that most experts would now accept, there are practical difficulties in putting this preference into effect. The danger is that the Federal Government, by advertising a policy which it cannot implement, will pull the rug out from under the feet of those responsible for technical training in Germany, without providing an adequate alternative. Among those responsible for technical training, one may already detect the first signs of a certain bewilderment and loss of confidence.

The first post-war technical trainees from developing countries came to Germany in 1956. At that time, the special needs of developing countries were not fully appreciated. The number of trainees grew, but without any clear-cut attempt on the part of the authorities to devise a coherent policy for the organisation of training facilities or the selection of trainees.

A change came in 1960, when the basic policy of German aid was being formulated. Since then, the Federal Government and the Länder jointly have introduced further refinements. One of the most important decisions they have reached – though it has not yet been fully implemented – is to confine the selection of government-sponsored trainees to those who have already served an apprenticeship in their own country, or who have long practical experience behind them.

As a direct result of better co-ordination between the various authorities concerned, the number of trainees in Germany increased rapidly after 1960. It is reckoned that there are now approximately 10,000 trainees from developing countries to Germany at any one time, of whom rather more than 2,000 are under the official auspices of the Federal Government, the Länder or the EEC. Of the remaining 8,000 or so, some are brought to Germany for training by individual firms, in connection with the fulfilment of overseas contracts or for subsequent employment in German-owned enterprises in developing countries, and some are brought by private organisations operating technical assistance programmes of their own: but the larger number consists of what are known as 'wild trainees', people who come to Germany on their own initiative or with the help of their own governments. On

average, technical trainees of all kinds spend approximately two years in Germany.

By far the largest number of officially sponsored trainees, nearly 70%, has come from Africa. Most of the remainder have been from Asia. The official training programme appears to be concentrated on particular countries, of which India and the UAR are the most conspicuous.

Table 26

**Technical Trainees Financed from Federal or Länder Funds,
up to 31 December, 1963**

<i>Area of Origin</i>				<i>Number Trained</i>		<i>% of Total</i>	
Europe	...	...	...	507	507	8.1	8.1
Africa	...	...	...	4,306		69.1	
	North of the Sahara	...	...		3,277		52.5
	South of the Sahara	...	...		1,029		16.5
Asia	...	...	...	1,073		17.2	
	Middle East	...	...		289		4.6
	Southern Asia	...	...		414		6.7
	Far East	...	...		370		5.9
Latin America	...	...	...	342		5.5	
	Central America	...	...		113		1.8
	South America	...	...		229		3.7
Total¹	...	...	...	6,228	6,228	100	100

Source: Ministry for Economic Co-operation.

Note: ¹ Discrepancies are due to rounding.

The technical training programme for each year is planned in outline beforehand by the Foreign Ministry and the BMZ. In addition to the general programme, there are a number of special categories of training which are treated separately – for instance, the training of counterparts in connection with overseas technical assistance projects.

Since the Länder are deeply involved in the technical training programme, the outline for each year is submitted to a committee in which the Länder governments are represented. Once the general plan has been approved, the implementation of individual training projects is worked out between the BMZ and the Land authority concerned.

The selection of trainees is the responsibility of the Foreign Ministry, working through the Federal Republic's embassies. In only a very few embassies are there officials with special responsibility for the selection of trainees. In general, the principles of selection worked out in Bonn seem not to percolate to the point at which trainees are actually chosen. The embassies, indeed, are under considerable pressure not to be too discriminating in their choice. For one thing, the natural interest of any diplomatic representative is to see that the selection of trainees will please the political leaders of the country to which he is accredited, rather than the administrators of technical training in Germany. For another, the principle that the Federal Government gives aid only in

response to requests, and not on the basis of its own proposals, expressly discourages embassy officials from picking and choosing.

Wherever possible, trainees are selected in batches. One reason for this is that it makes it possible to bring them to Germany in specially chartered aircraft, which has proved itself to be usually the cheapest form of travel. Before they leave their own countries, they are asked to fill in a questionnaire concerning their technical experience and the kind of training that they hope to receive. In some cases, they attend a preliminary course in the German language before departure. They are usually able to leave for Germany about three months after they have been selected.

Courses for ordinary industrial trainees are administered by the CDG and the Central Labour Exchange, but there are a number of specialised institutions which administer more or less self-contained programmes. Among these are the three training centres of the German Foundation – the Centre for Manufacturing Industry, the Agricultural Centre, and the Centre for Administrative Assistance (see Section 4). The Federal Government also makes use of a number of non-governmental organisations. The most prominent of these is the Friedrich Ebert Foundation, an organisation which is closely connected with the trade union and co-operative movements (see Chapter 13, Section 2).

Broadly speaking, responsibility is divided between the CDG and the Central Labour Exchange as follows:

The CDG is responsible for receiving trainees on arrival, for the German language courses, for social insurance, and for general supervision of the trainees' personal welfare; The Central Labour Exchange is responsible for interviewing the trainee in order to find out what kind of course he can best undertake, for placing him and for drawing up individual and group training programmes.

Nearly all trainees are given an initial language course, which usually lasts four months, in addition to any instruction that they may have had before departure. If places are available, this course is provided by the Goethe Institute, which has an extremely high reputation for language teaching. The CDG sponsors other courses for those whom the Goethe Institute cannot take. In spite of this, language remains a problem for most trainees. It is generally admitted that only a small proportion of them emerge from the language course with a sufficient knowledge of German to take full advantage of their two years in Germany. If it is remembered that special language courses for officials of European countries going overseas, for instance, usually last at least a full year, the inadequacy of a four-month course for a newly arrived trainee is hardly surprising.

Since there are obvious reasons for not extending the language course beyond the present limits, the only practical solution appears to be to devote more time to language instruction in the trainees' own countries, before departure. It is argued, incidentally, that this would facilitate a more discriminating selection procedure.

Towards the end of his language course, the trainee is interviewed by the Central Labour Exchange. It has been found that this last-

minute interview is absolutely essential to a proper placing of the trainee. The questionnaires filled in beforehand often turn out to bear little relation to the trainee's actual qualifications, and it is necessary to dispel a few illusions. There have been frequent cases of trainees coming to Germany in the belief, which the German embassy had apparently not bothered to dispel, that they would return to their own countries as judges, senior civil servants, or with similar high dignities to their name.

A suitable course for the trainee then has to be found. The Central Labour Exchange may make use of Government authorities and institutions, or it may seek the co-operation of the various trade associations, or the trainee may be attached directly to an individual firm. Throughout his training, the CDG remains responsible for seeing that he is properly housed, that he is looked after in case of illness, and that problems that arise in the course of training can be brought to the surface and discussed. For its work in this field, the CDG receives a Government subsidy of about 3m DM a year.

More than half of the training courses sponsored by the Federal Government are in the engineering industry. There is also quite a large number of trainees in agriculture. Nearly all the courses, whether they consist of in-service training or are carried out by specialised institutions, have a very strong practical emphasis. Indeed, one of the German words used to refer to technical trainees, *Praktikanten*, confirms this emphasis. The other term in common use is *Fach- und Führungskräfte*, meaning 'experts and senior personnel', which is merely a courtesy title on a par with 'developing countries'.

Table 27

**Government-Sponsored Technical Trainees, by Sector,
up to 30 September, 1963**

<i>Industrial Sector</i>	<i>Senior staff</i>	<i>Engineers</i>	<i>Foremen</i>	<i>Skilled workers</i>	<i>Total</i>
Chemicals	27	54	—	68	149
Mechanical engineering	44	1,128	122	359	1,653
Electrical engineering	43	707	198	282	1,230
Construction	20	285	16	77	398
Industrial organisation and adminis- tration	53	2	1	14	70
Finished goods	27	25	—	76	128
Public Administration	25	7	—	4	36
Agriculture	12	1,170	18	20	1,220
Others	278	127	54	306	765
Total	529	3,505	409	1,206	5,649

Source: Lutzeyer Handbook of Development Assistance.

By the end of 1963, a total of more than 6,000 technical trainees from developing countries had been given training in Germany under the auspices of the Federal Government and the Länder. In 1963, about 1,500 new trainees came to Germany, and the 1964 plan provided for the same number. It therefore looks as if the past number of rather

more than 2,000 Government-sponsored trainees in Germany at any one time will rise to about 3,000.

The training programme had cost the Federal Government, according to official figures, about 15m DM by the end of 1963. The real cost was certainly much higher. The official figure does not include expenditure by the Länder, the cost of special programmes run by such organisations as the German Foundation, or the cost of peripheral welfare measures such as the construction of hostels and other facilities. The budgetary allocation for technical *and* continuation training in 1964 alone was 15.7m DM, of which it could be expected that more than three-quarters would be spent exclusively on technical training and related measures.

From the budgetary figures, it can be worked out that the average cost to the Federal Government of bringing one trainee to Germany and maintaining him for two years is nearly 10,000 DM. By adding up the known average costs of one trainee, however, one arrives at a figure of well over 15,000 DM. The higher figure seems more likely to be an accurate reflection of the actual burden on all budgetary sources. The following are the costs borne by the Federal Government:

(a) Travel

The German authorities pay the fares of about 90% of officially sponsored trainees. The cost varies widely, of course, according to the distance. The average return fare is about *1,500 DM*.

(b) Language Course

The cost of the language course itself is 450–500 DM a month. Including pocket money and other incidental expenses, the average cost of a four-month course is *2,600 DM*.

(c) Maintenance

Once the language course has been completed, trainees normally receive a maintenance allowance of 400 DM a month, which may in special cases be raised to 650 DM a month. Any other wage or similar payment received by the trainee is set against this. Firms conducting training programmes, for instance, usually pay a small allowance, particularly if the training takes the form of ordinary practical work rather than special instruction. On average, trainees receive about 70 DM a month from their German employers, and therefore receive an average maintenance allowance of 330 DM a month. Agricultural trainees, who receive free board and lodging, receive a maintenance allowance of 200 DM a month.

In addition, the Federal Government pays for any special courses that the trainee may need. Including incidental expenses of this kind, the total maintenance cost of a trainee can add up to as much as 600 DM a month – i.e., *12,000 DM* for a 20-month course.

(d) Special Costs

The trainee may receive a clothing allowance of up to *300 DM*. In principle, the Federal Government does not pay for books and teaching materials, but the CDG is given a small grant towards the cost of these.

(e) **CDG**

The CDG's costs, over a two-year period, are on average as follows :

Insurance	600 DM
Travel within Germany	300 DM
Seminars, etc.	250 DM
Teaching materials	50 DM
Administration	400 DM
Sundry expenses	100 DM

1,700 DM

The difficulty of adapting to the German way of life has already been mentioned. There are difficulties of a different kind in adapting the training courses to the needs of developing countries. The German system of in-service training, which is probably in itself the finest system of industrial apprenticeship in the world, does not always reproduce the conditions that the trainee will meet when he returns to his own country. If the training programme in Germany is maintained at its present level, therefore, it seems that the Federal Government will be compelled to establish a greater number of special training courses, the administrative cost of which could rapidly rise out of all proportion to the benefit.

The most serious problem to have appeared so far, however, is one which is a direct result of policy, and therefore soluble. It is the problem of selection. Except in a few countries in which the number of trainees to be chosen has been sufficient to justify allocating special responsibilities to one member of the German embassy staff, selection is haphazard. One could produce volumes of evidence, backed with specific examples, to show that too many trainees have come to Germany because of some diplomatic official's sudden quirk of fancy. To take just one, the quaintness of which is particularly illustrative, there is the case of the tailor from Togo, who was brought to Germany to learn how to cut morning coats. Presumably the assumption was that all the new diplomatic activity in Africa was going to create a demand for morning coats. What had been forgotten was that few diplomatists, not even African diplomatists, have their tailoring done in Lomé.

More seriously, there are cases in which highly qualified industrial technicians have been given a course which was simply inappropriate to their particular position. Would-be mechanical engineers have been trained as electrical engineers, and *vice versa* so that they may return to their own country to join the ranks of the unemployed. Often, the only employment asset that they have gained in Germany is a knowledge of the German language, which fits them, of course, to act as guides for visiting experts who have come to find what is wrong with the German technical assistance programme.

It can also be proved that German embassies have adopted a permissive attitude towards political favouritism in the selection of trainees. It is reckoned that nepotism, rewards for political service, or occasionally the desire to get rid of a political trouble-maker for a while, account for about half of the Government-sponsored trainees who

come to Germany. They are known collectively as 'die Neffen', the nephews, and they are not expected to learn anything. The classification is brutal, but it is expedient. One large firm which makes a number of training places available, bothered by the bad influence that the nephews exercised on the more serious-minded trainees, adopted the thoroughgoing solution of appointing two separate executives to administer its training courses. They were known semi-officially as the executive for technical training and the executive for nephews. Trainees under the first heading were given an extremely intensive programme. Trainees under the second had a pleasant time, being given shorter working hours, weekend excursions, anything to keep them away from the workshop.

One may admire German logic, but the fact that the second kind of programme could usefully be applied to half the trainees in Germany is something that alarms the administrators of the programme. The CDG's proposed solution is to set up selection offices of its own in the main regional centres. These could operate also as follow-up offices to maintain contact with the trainee after he has returned to his own country, and to help him to make the best use of his qualifications. The CDG already has one large follow-up office in Athens, but the proposal to expand this side of its work is resisted for the reason which has already appeared again and again in this study of the German aid programme – the reluctance of Government officials to give responsibility to specialist departments or semi-independent organisations.

2 Higher Education

The language problem, which makes itself felt in many aspects of Germany's relations with developing countries, might perhaps have been expected also to hinder the flow of students from developing countries to German universities. But German universities have, in fact, always been attended in large numbers by students from other countries, and there is an established tradition which makes it possible for the student, even with a poor knowledge of the German language, to fit into university life.

There are two main reasons for the popularity of German universities. One is the ease of entry. Provided that one has the necessary formal academic qualifications, one may enrol at a German university without any further entrance examination. German students themselves, as is well known, move freely from one university to another during their studies, in pursuit of particular facilities which fit in with their immediate requirements. This is a system that can accommodate foreigners in a way that is not possible in universities in which formal entrance examinations are the usual preliminary for a three- or four-year course in one faculty.

The second reason is the high reputation of German learning in certain fields which are of special interest to developing countries. Among these are included most of the technological subjects, and of course, medicine.

At the end of the 1963 summer term, there were 27,000 foreign

students in Germany, out of a total student body of 370,000. Of the foreign students, 18,000 came from developing countries, the principal countries of origin being Greece, Iran, Turkey, India, UAR and Syria. (The predominance of students from the Middle East appears to be an established feature of the foreign student community at German universities.) Of the students from developing countries, rather less than 3,000 were in receipt of German official scholarship funds. In the next academic year, this number rose sharply, to over 4,000.

These ratios are astonishing. They are roughly comparable to the equivalent ratios in British universities, in which the size of the foreign student community is maintained largely by the flow of students from the Commonwealth. It must be emphasised, however, that in neither country is the flow of students from developing countries necessarily a reflection of Government policy, since it depends to a great extent on traditional relationships and on the character of the university system.

It is reasonable to suggest that the composition of the flow of students from developing countries to Germany is slightly more the result of policy – though not necessarily *aid* policy – than it is in Britain. One of the most obvious features of the distribution of students from developing countries at colleges and universities in Germany is the predominance of industrial and technological subjects (32%). A precise comparison with Britain is hard to obtain, because of differences in the system of classification. The percentage of students from developing countries in subjects that may be loosely classified under industry, technology or applied sciences is about the same in both countries – roughly 35–40%, but a more detailed analysis appears to show a stronger emphasis in Germany on advanced industrial training.

In 1962, a survey was conducted into the financing of students from developing countries. It was found that:

- 20% were holders of German scholarships and bursaries;
- 7% were paying for their own studies;
- 65% were wholly or partially supported by their families;
- 8% had some kind of grant from the government of their own country.

The granting of scholarships and bursaries for students to come to Germany from developing countries is primarily the responsibility of the Foreign Ministry, working through the embassies of the Federal Republic. The BMZ plays little or no part in this section of the aid programme. The placing of students, and the drawing up of suitable study programmes, is delegated by the Foreign Ministry to the German Academic Exchange Service (DAAD) and the Alexander v. Humboldt Foundation. The DAAD is the organisation responsible for most undergraduate foreign students in Germany, including those from other advanced countries. The Alexander v. Humboldt Foundation is principally responsible for administering postgraduate courses.

Government bursaries are granted from a number of different budgetary sources, but the main source is the Foreign Ministry's large allocation for cultural and educational co-operation. In the budget for 1963, 13m DM was allocated to the German Academic Exchange Service, 5.5m DM to the Alexander v. Humboldt Foundation, and

Table 28

Students from Developing Countries at German Institutes of Higher Education, by
Type of Study¹ and Area of Origin, Winter Term, 1962/63

Region ²	1		2		3		4		5		6		7		8	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
	<i>Agriculture and Forestry</i>		<i>Industry and Technology</i>		<i>Medicine and Health</i>		<i>Education</i>		<i>Scientific Studies</i>		<i>Applied Sciences</i>		<i>Law, Economics, Admin., etc.</i>		<i>Languages</i>	
Europe ...	220	4	2,441	41	863	15	20	—	419	7	435	7	570	10	222	4
Africa ⁴ ...	100	4	532	23	796	35	9	—	159	7	87	4	229	10	78	3
North of the Sahara	67	5	374	29	320	25	5	—	135	10	52	4	127	10	47	4
South of the Sahara	33	4	111	12	471	50	4	—	18	2	27	3	101	11	28	3
Asia ...	546	6	2,617	29	3,057	34	20	—	637	7	373	4	517	6	225	3
Middle East	483	8	1,620	26	2,510	40	11	—	339	5	307	5	302	5	114	2
Southern Asia	28	2	694	47	231	16	3	—	179	12	40	3	62	4	43	3
Far East	35	3	303	25	316	26	6	1	119	10	26	2	153	13	68	6
Latin America ...	35	3	344	31	143	13	18	2	86	8	50	5	93	8	71	6
Central America	7	2	83	28	43	14	3	1	28	9	17	6	34	11	24	8
South America	28	4	261	33	100	13	15	2	58	7	33	4	59	7	47	6
Grand Total	901	5	5,934	32	4,859	26	67	—	1,301	7	945	5	1,409	8	596	3

Region ²	9		10		11		12		13		
	Religion and Philosophy		Fine Arts		Others		Total		Students with German Govt. Bursaries Winter term, 1963/64		
	No.	%	No.	%	No.	%	No.	%	No.	% of Col. 12	
Europe ...	128	2	123	2	520	9	5,961	100	33	1,311	22
Africa ⁴ ...	33	1	22	1	260	11	2,305	100	13	484	21
North of the Sahara	13	1	13	1	141	11	1,294	100	7	319	25
South of the Sahara	19	2	9	1	115	12	936	100	5	165	18
Asia ...	117	1	93	1	772	9	8,974	100	49	1,630	18
Middle East	49	1	44	1	527	8	6,306	100	34	1,022	16
Southern Asia	38	3	6	—	150	10	1,474	100	8	284	19
Far East	30	3	43	4	95	8	1,194	100	7	324	27
Latin America ...	58	5	60	5	140	13	1,098	100	6	689	63
Central America	13	4	14	5	34	11	300	100	2	240	80
South America	45	6	46	6	106	13	798	100	4	449	56
Grand Total ...	336	2	298	2	1,692	9	18,338	100	100	4,114	22

Sources: Columns 1-12, Overseas Section of the German Federation of Students;
Column 13, Ministry for Economic Co-operation.

TABLE 28 (continued)

- Note 1: Type of Study:** subjects are grouped according to their functional relationships, as follows:
1. Agriculture and Forestry: Agriculture, Botany, Forestry, Horticulture, Veterinary Science.
 2. Industry and Technology: Brewing, Carpentry and Joinery, Ceramics, Constructional Engineering, Electrical Engineering, Management, Mechanical Engineering, Mining, Shipping, Steel Production, Textiles.
 3. Medicine and Health: Dental Science, Medical Science, Pharmacology, Psychology.
 4. Education: Teaching.
 5. Scientific Studies: Archaeology, Astronomy, Chemistry, Mathematics, Physics.
 6. Applied Sciences: Architecture, Geology, Meteorology, Mineralogy, Surveying.
 7. Law, Economics, Administration, etc.: Demography, Economics, Applied Economics, Geography, History, Politics, Public Relations, Law, Social Science.
 8. Languages: Languages, Simultaneous Translation.
 9. Religion and Philosophy: Catholic Theology, Comparative Religion, Evangelical Theology, Philosophy.
 10. Fine Arts: Art History, Drama, Music, Visual Arts.
- Note 2: Regional Classification.** The classification given in Appendix II is here expanded to include the following territories which were dependent in 1962, or are elsewhere excluded for other reasons:
- Africa: Angola, Mozambique, the Rhodesias;
 - Asia: Bahrein, People's Republic of China, Hong Kong.
- Note 3: Percentages:** The percentage figures in columns 1-11 relate to the appropriate regional total in column 12. The second line of percentage figures in column 12 relate to the Grand Total. The percentage figures in Column 13 relate to the appropriate regional total in column 12.
- Note 4:** Numbers given for Africa as a whole include 75 African students who gave no country of origin, and are therefore not included in the regional sub-totals.

1.2m DM to other scholarship programmes for students from developing countries. To arrive at a figure for the full budgetary cost, one would have to add in the cost of student hostels and other welfare measures implemented through the various student organisations, the CDG, the Churches, the Friedrich Ebert Foundation and similar organisations. The scholarships themselves normally include a four-month language course at the Goethe Institute, and are worth, on average, 400 DM a month.

The isolation of this large scholarship programme from the main stream of German aid policy is emphasised by the fact that it is the only important form of governmental aid to developing countries which is not even formally included in the BMZ's budget. (Capital assistance, for instance, though administered exclusively by the Ministry for Economics, is included in the BMZ's budget, and the BMZ pays out the funds as required.) Of the scholarships covered by the budgetary allocations mentioned above, the only ones that are directly related to other aid measures are those which fall under the small allocation for 'other scholarship programmes'. In addition, some of the continuation courses financed from the budgetary allocation for 'technical training' take place at institutes of higher education, principally technical colleges.

The scholarship programme, in other words, is implemented within the framework of the Foreign Ministry's general overseas cultural activities, not within the framework of the aid programme. Although this makes it hard to assess the scholarship programme's contribution to the economic and social development of the recipients of German aid, the separation is not necessarily damaging in terms of the academic return. There are obvious advantages in freeing academic assistance from the rigid criteria by which general development assistance is bound.

The danger in judging scholarships for students from developing countries by purely academic or cultural standards is that it will produce graduates whose academic attainments are of a kind that make them less rather than more fit for positions of responsibility in their own countries. This is a danger to which the scholarship programmes of both Britain and France have sometimes been vulnerable, and in both these countries increasing attention is being given to the danger of providing an education which merely isolates the intellectual élite from the rest of the population. Among English-speaking and French-speaking African graduates, there is quite a large number of misplaced intellectuals who have spent their university careers listening to historical expositions according to which all things began in 1066, or in the misty age of 'nos ancêtres, les Gaulois'.

Absurdities of this kind arise from a traditional relationship. The German scholarship programme is therefore less vulnerable than those of Britain or France. How *much* less vulnerable it is, Table 28 clearly shows.

But the lack of control over the selection of students from developing countries, and the lack of an energetic policy for seeing that they are subsequently re-integrated into the intellectual life of their own countries, have given rise to considerable anxiety. Officials are concerned at the number of students who stay in Europe after their studies have been completed. The solution that has been suggested is to devote more attention to making a university education available in the developing countries themselves – that is, to expand the Federal Government's activities in 'educational assistance'.

The obstacles to this solution are exactly the same as those which have blocked a parallel solution of the problems of technical training, added to which is the language difficulty, which is of especial relevance in this respect. The inability of the Federal Government to find university teachers to send overseas has already been mentioned. Of 329 German university teachers in developing countries at the end of 1963, only 74 were in receipt of Government funds, nearly half of these being in Latin America.

In the long term, the Federal Government hopes to remedy this situation by training a special corps of teachers for service overseas. This is expected to be one result of the setting up of a new institute, called the Institute for Development Policy (see Section 6). In the short term, there seems to be no solution, short of setting up a special college for students from developing countries or putting the scholarship programme directly under the control of the aid authorities. Both of these possibilities have been discussed, and rejected.

3 Research

One of the special features of the German university system is a proliferation of small research institutes, many of which receive a direct Government subsidy in addition to their ordinary sources of income. In spite of massively documented bibliographies, which are another special feature of the German system, the research work of these

institutes tends to be badly co-ordinated. There is an astonishing amount of duplication of work already done.

Research is undertaken simply because Government funds for it happen to be available. In order to know just what funds are available, and for what kind of research, a few institutes go to the length of employing specialists whose function is to keep the administrative map under constant surveillance and to know exactly what committees are sitting, when, and with what resources at their disposal.

The plethora of specialised institutes has also led to the appearance of a breed known as *Tagungsprofessoren* (conference professors), Germany's rather more serious-minded, but also more numerous, equivalent of England's television dons.

When aid and development became fashionable, in 1960, a number of institutes jumped on the bandwagon. Here was a whole new source of subsidies. A kind of academic racketeer appeared, referred to by officials as 'academic undergrowth', ready to turn his hand to a short thesis at the drop of a few thousand marks. So-called research theses were published in shoals.

The nuisance has now abated, though one may occasionally still find the odd idle professor hanging around the ministries in Bonn, often accompanied by a little flock of attendants who are described as research assistants.

The BMZ quickly realised how wasteful this state of affairs was becoming. Apart from anything else, it was bringing the whole subject of development into disrepute, and causing good academics to refuse research work in order to protect their reputation. The Ministry has therefore taken steps to bring the research programme under control. First, the German Foundation has been given the task of classifying and correlating the work that has already been done. This almost wholly pointless endeavour, which is expected to cost 100,000 DM, may at least have the result of revealing real gaps in the hard core of meaningful research, though even in this respect it is likely to be of limited value, since the volume of material is too great for any serious evaluation.

Secondly, the BMZ has in principle decided to reject *all* applications for research grants which it has not itself initiated, thus showing the door to those who try to hawk their projects around the offices of Bonn. At the same time, it is trying to draw up a programme of planned research to be financed from a special budgetary allocation. In 1964, the allocation for research was 2m DM, or 1m DM less than in 1963. Officials hope that the allocation will be increased when a proper research programme has been established.

This is not to say that no good research has been done. The quantity is so vast that some of it is almost bound to be useful, if only it can be sorted out from the dross. Even if the estimate of one highly respected academic is correct, that no more than 10% of the research on development since 1960 has made the slightest contribution to the world's understanding of development economics, that represents quite a significant quantity in absolute terms.

The BMZ's initiative has already had an effect. Most of the

publicised work now being done is undertaken by about ten of the more respectable research institutes, who co-ordinate their projects through a working group.

The greatest contribution that the academic community has made to German aid policy, however, is not in research but in men. When the BMZ was set up, it managed to attract from research institutes and other non-governmental organisations a handful of academics who were and are highly respected in their field. Some of these, frustrated by the meanderings of bureaucratic procedure, shocked by the realities of inter-ministerial jealousy, have tried to break away, but they have remained, on the whole, within the Government machine, and they have retained access to the policy-making authorities. Their effect is most noticeable in limited aspects of aid policy, where they have been given special responsibilities.

It takes time, of course, for a union of this kind to stick. At present, the arrangement is at its least happy in questions of general policy. But the presumption is that a growing accumulation of small areas in which theory and practice have interacted effectively will eventually amount to a composite re-shaping of policy.

4 The German Foundation for Developing Countries

The German Foundation is probably the most widely known of the Federal Government's special agencies for aid to developing countries. Its centre of activities is Berlin, where it has premises in which it holds numerous seminars and conferences. In Bonn, it has a documentation centre and a public relations office.

Its responsibilities are wide, though somewhat ill-defined, and its budget (8.5m DM in 1964) is extremely large. A large part of this allocation is required for the activities of its three special training centres:

(a) **Centre for Manufacturing Industry, Mannheim**

The principal function of the Centre for Manufacturing Industry is the training of instructors from developing countries as counterparts for the German staff of technical training institutes.

(b) **Agricultural Centre, Munich**

The Agricultural Centre is responsible for supervising the training of agriculturalists from developing countries, including counterparts for German personnel in technical assistance projects, at various agricultural schools throughout Germany.

(c) **Centre for Administrative Assistance, Berlin**

The Centre for Administrative Assistance conducts courses of its own, as well as co-operating with local government authorities.

The German Foundation appears to have suffered from not having exclusive responsibility in any sector of the Federal Government's activities. Its training programmes compete to some extent with the far larger programme administered by the CDG. Its documentation work was anticipated by the Friedrich Ebert Foundation, which had established a large documentation section before the German Founda-

tion had got its filing system in order. Its work of co-ordination appears to be effective only in so far as it is expressly backed by the authority of the BMZ. Its public relations work competes with the BMZ's own activities in this field.

Under these circumstances, the Foundation has inevitably become entangled in administrative rivalries. The fact that it was the first agency to be put under the authority of the BMZ has made it slightly suspect to other Government departments, and it has acquired a certain reputation for attempted empire-building.

The German Foundation does fulfil a useful role as a liaison office, and as a channel of communication between officialdom and the non-governmental world. (The author himself has reason to be grateful to it in this respect.) In general, however, it gives the impression of being a structural anomaly left over from the early days of policy-making. Its central value now is as a talking shop. It can be argued that this value would be enhanced, as would the value of the Foundation's specialised training programmes, by a thorough re-organisation designed to produce more tightly defined and more functional units. As things are, the Foundation engenders unnecessary resentment and confusion by sprawling into too many camps.

5 The Development Service

The Entwicklungsdienst, or Development Service, was formally established in 1963, during the visit to Germany of the late President Kennedy. Modelled in conception on the American Peace Corps, it was widely regarded – and to some extent written off – as a begrudged response to American pressure. This impression was not dispelled by the inauguration ceremony, at which a parade of presumed 'volunteers' turned out to have been garnered from a variety of youth organizations, including, it was reported, the junior branch of the Christian Democratic Union. It subsequently emerged that many of those on parade were in fact members of the non-governmental organizations that had been largely responsible for the establishment of the Development Service, but the feeling that a false impression had been deliberately given was never quite dissipated.

The Development Service, both in conception and in effectiveness, has travelled a long way from this unfortunate and premature beginning. It has become one of the areas of aid policy in which the benefit of the Germans' fundamentally theoretical approach, modified by close observation of the practical experience of other aid-giving countries, is most clearly visible.

When the Development Service was established, the Germans had little practical experience of their own that was of any use as a guideline. Before the rise of the Nazis, missionary societies and youth organizations based in Germany had been active overseas, but this line of communication had already been cut before the Second World War. In the post-war situation, in which the technological needs of the developing countries had to be regarded in an entirely new light, the interrupted missionary tradition was of only limited practical use. A different kind of motivation was about to appear.

In the late 1940's, German voluntary workers began to appear in small numbers again, in such countries as India, Pakistan and Algeria. The number of German missionary and humanitarian organizations engaged in activities in developing countries grew steadily, and in 1961 these organizations set up a working group to evolve a co-ordinated programme.

Administratively, therefore, the Development Service had at its inception a certain amount of experience to draw on. What was still missing was the notion of a term of service overseas as one of the ordinary possibilities open to any young German preparing himself for a conventional domestic career. The problem was more or less the same as that which has beset the recruitment of experts for the official technical assistance programme, the problem of how to inject artificially into German public attitudes a sense of natural involvement in countries beyond the confines of Europe (see Chapter 11, Section 6).

The men who laid the foundations of the Development Service had not merely to incorporate an organization modelled on the experience of other countries into their own administrative framework. They had more profoundly to reconstruct from the partially inappropriate experience of other countries, particularly the United States and Britain, as well as from the unevenly distributed experience of German non-governmental organizations, a concept of service which would draw the German public: and they had to devise an organization within which that concept of service could be uttered.

The Germans began by rejecting, as the British had rejected before them, the American idea of a massive corps, amounting to a task force, backed with the full and proclaimed authority of the Government. But the Germans also rejected those intellectual overtones which had long since found their fullest expression in France's *mission civilisatrice*, and which had more recently become apparent in the concentration of Britain's Voluntary Service Overseas on teaching.

As things turned out, the appeal was not so difficult to compose as might have been expected. It had a ready audience among sections of the post-war generation, in which a certain highly functional brand of idealism was waiting for an outlet.

The idealism is this. The young German, looking at his country's past, cannot reject present prosperity. The affluence which in other western countries is sometimes regarded as a potential threat to sensitivity of thought is in Germany the bastion against a return to darkness. Among the German student community, there is singularly little rebellion against the occasionally suffocating effects of middle-class democracy. But there is an awareness of it, and a certain desire to make use of it.

This affluence, then, is regarded as given, and received, and entailing obligations. One of the greatest contributions of the academic community as a whole to the concepts of German aid is the belief that Germany must give. It is a belief in which the foundations of aid policy were laid. Although it has been beaten down, inevitably, by the pressure of special interests and by the frustrations inherent in the whole relationship between rich and poor countries, it has been too integral a part of the activity of aid to be entirely killed. Often it reappears in

disguised form, in criteria, conditions and rigidity of mind. But it also appears, still, in the touchingly simple form of a desire to serve. And that, openly expressed, shaped and directed, is the *raison d'être* of the German Development Service. If capital assistance is in some sense the proof of Germany's return to industrial power and responsibility, the Development Service is threaded with the sense of Germany's return to goodwill – and responsibility. The special quality of the idealism that is looked for in the German Development Service is its very strong inclination towards specific practical objectives. The literature of the Service emphasises the need for technical competence as much as the need for humanitarian goodwill.

It took time for the Development Service to acquire this character, guided by an organisational team in which officials and non-governmental specialists were mixed in a combination of peculiar force. The first 50 or so volunteers did not depart until August, 1964, for projects in Tanganyika, Libya and Afghanistan. By that time, about 100 projects were under examination. The number of volunteers overseas had increased to 100 by the end of the year, and it was hoped that the number would rise to 500 by the end of 1965. All these figures are lower than the original targets set.

The choice of countries for the first three projects is interesting. These are all countries in which Germans have already been specially active in one way or another, and where the teams of volunteers will therefore come to partially prepared situations. The Service is obviously still feeling its way.

The basic approach, to the extent to which it has already been evolved, is expressed in the most widely distributed of the Service's leaflets:

'Learn – Help – Get moving. That is expected from every volunteer. Idealism and goodwill alone are not enough. Not all have to be experts, but they must be capable of enthusiasm for the job in hand. Each one who comes to us should have some ability in his calling, to get a grip with both hands, to co-operate and to set an example.'

What this means in practice is that the Service is trying to attract people with specific technical or craft qualifications, such as newly qualified apprentices, and to give its projects a practical slant. The first three projects, in Tanganyika, Libya and Afghanistan, were respectively a slum clearance scheme, a mechanical workshop, and a teaching and training programme. The Tanganyika project, to take one example, involved the services of:

- 10 builders (bricklayers, plasterers, etc.)
- 1 plumber
- 1 electrician
- 2 horticulturists
- 2 mechanics
- 2 draughtsmen
- 5 nurses
- 2 domestic science teachers
- 2 kindergarten teachers.

The Development Service has appealed specially for people in the following trades and professions, for service in different continents:

Africa: Agriculturists, social welfare workers, youth workers, cattle breeders, irrigators, mechanics, clinical assistants, craftsmen, midwives, teachers, sports instructors, architects.

Middle East: Agriculturists, metallurgists, electricians, language teachers, poultry breeders, geologists, veterinary surgeons, agricultural advisers and specialists in plant protection.

Asia: Carpenters, metal-workers, agriculturists, foresters, doctors, nurses, vehicle mechanics.

Latin America: Teachers, mechanics, butchers, nurses, agriculturists.

There appears to have been no serious problem over recruitment. By the end of 1964, without any formal publicity campaign, the Service had received about 9,000 inquiries, of which 1,400 had led to formal applications. This number corresponded roughly to the Service's requirements.

Service is normally for two years, and applicants have to be over 21 years old. Married couples can apply jointly, provided they have no children. Applicants fill in a detailed questionnaire concerning their educational record, their qualifications, and their legal and financial status, which has to be accompanied by at least three references. Once an application has been approved in principle, the volunteer is asked to wait for a summons to attend a training course for a specific project.

The training courses normally last three months, and are planned individually in accordance with the requirements of each project. The team which eventually arrives in a developing country has thus already been working together for three months with this end in view before the project is started.

The Development Service gives volunteers a contract which covers:

- I Social insurance;
- II Free board and lodging for the duration of the training course, plus 3 DM a day pocket money;
- III Board and lodging for the duration of the period of service (given either in cash or in kind), plus pocket money fixed in accordance with the purchasing power of the local currency;
- IV A terminal grant of 200 DM for each month of service;
- V An initial kit allowance of 600 DM, plus a variable allowance for tools and equipment.

So far as can be estimated from the limited material already available, the total cost to the Federal Government of a two-year project, together with the initial training course, is likely to be between 25,000 DM and 40,000 DM for each volunteer.

The principal difficulty from which the Development Service appears to have suffered, to which its administrators have drawn attention publicly, lies in its somewhat anomalous status as an autonomous limited company, financed entirely from public funds but run largely by people drawn from non-governmental organisations. The Federal Government is represented on its council through the BMZ. The private organisations are represented through the 44-member co-ordinating group – Arbeitskreis 'Lernen und Helfen in Uebersee' e.V.

In this equivocal position, it is said to be regarded with some suspicion both by the non-governmental organisations with which it has to co-operate and by the Government departments responsible for authorising its budgetary allocation. On the side of the non-governmental organisations, the view was expressed as far back as 1961 that a unified service was not needed, being of less value than a purposeful co-ordination of the programmes of the existing organisations with the policy of the Federal Government. This view is still maintained in some quarters, though not, it appears, by those representatives of the non-governmental organisations who have become involved in the Development Service through taking part in its administration. In an issue of the monthly publication *German Youth*, devoted entirely to the Development Service, it was stated that a 'general dialogue' between the Development Service and the non-governmental organisations still did not exist. The principal reason, the writer claimed, was the stiffness which was the inevitable result of the Service's legal status.

On the official side, there appears to have been a certain unwillingness to authorise administrative expenses until the Service had proved itself in projects completed. Budgetary funds for projects are not lacking, but the organisation shows signs of being severely handicapped, to the point of desperate frustration, by its inability to engage the necessary specialists in sufficient numbers. The budgetary allocation for projects in 1964, when only a few experimental projects were to be initiated, was initially set at 4.9m DM, subsequently reduced to 3.9m DM. The allocation for administration was only 1.9m DM, and part of this allocation was blocked pending further discussions concerning its use.

6 The Institute for Development Policy

The Development Institute, as it is usually known, was established in 1964 as a post-graduate study and research centre. It began work in the 1964/65 academic year, and its study programme was still being worked out at the time of writing. It is therefore far too early to offer any meaningful assessment of its probable value.

The primary function of the institute is to provide one-year courses in the problems of development for German post-graduates who have already, in their ordinary degree courses, achieved a certain level of academic distinction. It was set up partly in an attempt to mitigate the ill effects of Germany's lack of highly qualified theoreticians with specialised knowledge of the conditions of developing countries. The hope is that those who have taken the institute's course will come to form a small but significant elite of development specialists, widely distributed throughout the administration, the non-governmental organisations, and, under the technical assistance programme, the planning authorities of the developing countries themselves.

The numbers involved are small. Under the present plan, the institute expects to take only 30 students a year, who may thus be encouraged to form a tightly knit group, the members of which will

stay in touch with each other when they are scattered abroad. The student body is to be kept small also in order to enable the institute to function as a sort of inter-disciplinary communications centre for academic specialists in development problems.

Its premises are in Berlin.

13—Technical Assistance by Non-Governmental Organisations

I The Churches

The special place reserved for private enterprise in German aid policy has already been discussed in the context of capital assistance and private investment. In the technical assistance programme, a somewhat analogous role has been allotted to non-governmental organisations with overseas assistance programmes of their own. Of these, by far the most significant are the two main Christian Churches of Germany, the Catholic Church and the Evangelical Union.

In this chapter, no attempt will be made to describe in detail the programmes of the Churches or other non-governmental organisations. For the purposes of a study of German aid policy and practice, discussion of the role of non-governmental organisations can be confined to their relationship to the official aid programme.

Each of the two Churches has a special organisation responsible for overseas assistance. That of the Catholics is Misereor. That of the Evangelical Church is Brot für die Welt (Bread for the World). Between 1959 and the end of 1963, Misereor held five special Easter collections, and Brot für die Welt four. Between them, they collected and spent some 300m DM, on programmes which included nearly 1,500 projects in developing countries.

Table 29

Technical Assistance Programmes of the Catholic and Evangelical Churches Financed from Their Own Resources,¹ up to 31 December, 1963

	Misereor (Cath.)		Brot für die Welt (Ev.)		Total	
	<i>No. of Projects</i>	<i>Value (million DM)</i>	<i>No. of Projects</i>	<i>Value (million DM)</i>	<i>No. of Projects</i>	<i>Value (million DM)</i>
Europe	n.a.	9.3	18	n.a.	—	—
Africa	n.a.	61.1	92	n.a.	—	—
Asia	n.a.	65.8	146	n.a.	—	—
Latin America	n.a.	57.2	13	n.a.	—	—
Supra-continental	n.a.	29.3	12	n.a.	—	—
Total	996	222.8	281	64.3	1,277	287.1

Sources: Published material.

Note: ¹ This table covers only the central technical assistance programme of the two Churches. It does not include, for instance, the Churches' share in projects subsidised mainly by the Federal Government (see Table 1).

The two series of special collections are only a part of the Churches' activities in this field, accounting for perhaps 55% of the Churches' combined technical assistance programmes. In addition to projects financed from the special collections, they conduct significant technical assistance programmes which are financed largely from Government funds. By the end of 1963, the Federal Government had granted the Churches a total of 181m DM.

There are certain sectors, and more noticeably certain regions, in which the BMZ prefers to channel technical assistance funds through the Churches. In Latin America, for instance, the Catholic Church has an obvious part to play. In general, the Churches are seen as having a valuable contribution to make when there are special reasons, political or otherwise, for not making the Federal Government's participation offensively conspicuous. The terms under which the Federal Government supports the Churches, however, put special emphasis on the Churches' independence of operation.

In the activities of the Churches, there is a certain element of disaster relief and straightforward charity. Their true technical assistance activities – that is, projects which are intended to make a permanent contribution to development – lie principally in the following sectors:

Welfare: clinics and other medical services, social welfare centres, orphanages, homes for the old.

Training: craft training centres, domestic science centres, technical, agricultural and teacher training institutes.

Perhaps because of the size of their own operations, the Churches have managed to retain a very large degree of independence from Government, even in the administration of projects which are largely Government-financed. Presumably, also, the Federal Government itself is anxious to preserve the independence of the Churches, since therein lies their special value as technical assistance agencies. The principles by which Government subsidies are granted are:

1. projects must be approved within the framework of an annual budgetary allocation;
2. grants will be made available principally for projects for training and to improve the level of health. Confessional promotion is absolutely excluded;
3. the two Churches should in principle receive equal allocations, which must be utilised through *German* overseas missionary establishments;
4. in general, the Federal Government's support will be in the form of grants, though projects which are expected to earn revenue may be credit-financed;
5. the Churches must themselves bear at least 25% of the cost of the project, leaving 75% as the Federal Government's maximum contribution. These percentages are calculated on an all-in basis, including local costs;
6. the Churches must submit project descriptions and cost estimates to the Foreign Ministry, which is required to comment

in the light of the political desirability and development value of the project. After approval of the project, other Government departments are given two weeks in which to raise any objections that they may have;

7. when a project has been completed, an account is to be submitted to the Foreign Ministry. This account may be audited by the Federal Auditors;
8. the principles by which grants are given are to be periodically reviewed in the light of practical experience.

2 Other Non-Governmental Organisations

The success of the technical assistance programmes of the Churches, and the comparative absence of friction in their relationship with the Federal Government, stimulated the thought that official support might be extended to other non-governmental organisations. A number of these had already been called in for specific projects, particularly in technical training in Germany and in social assistance overseas, but such projects had remained under official control.

At the end of 1963, after prolonged inter-ministerial negotiations, the following principles were laid down for the allocation of funds to non-governmental organisations from the technical assistance budget, for projects initiated by the organisations themselves:

1. in general, the same criteria are to apply as apply to the official technical assistance programme, with the exception that a government-to-government agreement is not required;
2. grants are to be made available for specific projects after submission of a project description and a cost estimate;
3. grants are only to be made available to organisations which are deemed to stand for the principles of freedom and democracy, and whose activity will not come into conflict with the wishes of the recipient government;
4. grants are only to be made available to organisations with past experience of work in developing countries, and with sound finances;
5. projects may only be considered in response to a request from the recipient government or after an assurance of the recipient government's approval has been obtained.
6. the organisation's own contribution must amount to at least 25% of the total cost, or be sufficient to meet all import duties levied by the recipient government, whichever is the larger. The total is calculated on an all-in basis, including local costs.
7. a grant does not commit the Federal Government to further support of the project in any way;
8. the organisation is responsible for maintaining the social insurance of its employees in accordance with all regulations;
9. after a project has been approved by the appropriate inter-ministerial committee, responsibility for disbursing the funds will be delegated to the Government department appropriate to the sector in which the project lies. The organisation is

Table 30

Federal Grants (Commitments) to Technical Assistance Projects of the Churches, 1962/63, by Regions and Sectors

Region	Number of Projects							Total	Value of Commitment (million DM)	% of Total Commitment
	Agriculture and Forestry	Industrial Training	Health and Social Welfare	Education and Information	Communications	Community Development	Training of Key Personnel and other projects			
Europe (Greece) ...	—	—	1	—	—	1	—	2	1.5	1
Africa ...	6	11	61	29	—	7	1	115	30.8	23
North of Sahara ...	—	—	—	—	—	—	—	—	—	—
South of Sahara (Tanganyika) ...	6	11	61	29	—	7	1	115	30.8	23
	—	(4)	(27)	(9)	—	(1)	—	(41)	(5.8)	(4)
Asia ...	19	19	47	60	1	2	—	148	55.9	41
Middle East ...	1	3	4	3	—	—	—	11	11.4	8
Southern Asia ...	5	7	20	16	—	1	—	49	11.9	9
(India) ...	(5)	(7)	(16)	(11)	—	(1)	—	(40)	(7.6)	(6)
Far East ...	13	9	23	41	1	1	—	88	32.5	24
(Indonesia) ...	(6)	(3)	(13)	(11)	(1)	—	—	(34)	(9.0)	(7)
Latin America ...	29	10	45	60	—	14	3	161	33.1	24
South America (Brazil) ...	(29)	8	42	55	—	13	2	149	30.7	23
Central America ...	—	2	(28)	(28)	—	(3)	—	(78)	(14.2)	(10)
	—	2	3	5	—	1	1	12	2.4	2
Supra-continental ...	—	—	—	1	—	—	3	4	14.7	11
Total ...	54	40	154	150	1	24	7	430	135.9¹	100

Source: Ministry for Economic Co-operation.

Note 1: Up to 31.12.61, the Federal Government had committed, and paid, approximately 45m DM to the Churches.

responsible for submitting periodic or concluding reports, at intervals of not more than a year. These reports will include an evaluation of the impact of the project on the development of the recipient country;

10. the total allocation to non-governmental organisations will remain in moderate proportion to the allocation for the official technical assistance programme. This form of support will remain the exception in technical assistance rather than the rule.

In addition to these specially devised principles, in every sentence of which the dragging of official feet is clearly audible, there are further administrative obstacles in the complex regulations covering the use of official funds in general by private organisations.

To launch the new policy, the Minister for Economic Co-operation called a meeting in Bad Godesberg in July 1964, at which were represented the following groups:

Labour and Co-operatives	(8 organisations)
Social Welfare and Youth Work	(13 organisations)
Academic and Semi-Academic Bodies	(28 organisations)
Churches	(6 organisations)
Private Industry	(15 organisations)
Press and Information	(4 organisations, not counting ordinary press coverage)

These 74 organisations included all the most important of the 250 or so private organisations engaged directly or indirectly in aid to developing countries. The Minister gave an address in which he made the point that there was a desperate shortage of suitable German experts for work in developing countries, and that this was a gap which the private organisations might be able to fill. The private organisations could diversify German aid, he said, within the general areas of social and training assistance, and in particular with measures in support of official (capital assistance) or private investment projects. He admitted that the initial budgetary allocation was very small, but expressed a hope that it would prove to be only the beginning. The private organisations could bring to the aid programme their special qualities, which were 'a sense of responsibility, spontaneity and flexibility'. The relationship between the private organisations and the State was bound to be a complex one, which still had to be worked out in detail. It was inevitable that the beginning should be modest. Eventually, he suggested, some kind of co-ordinating body might be set up to plan a coherent programme and to dispel friction.

It was obvious from this speech that the Federal Government's attitude was still cautious, and the reaction was cautious also. The main difficulty which still has to be solved is that of the difference in procedure between an official and a private organisation. To a small private organisation, unused to the ways of a bureaucracy, the principles drawn up by the Federal Government must have seemed daunting. Unlike many of the principles of German aid policy, these turned out to mean exactly what they said. They were applied with stiff precision.

The stiffness of principle has caused prolonged delays, which have increased the delays already experienced by private organisations in trying to find their way about the administrative labyrinth. The new budgetary allocation (5m DM in 1964) is for subsidies to non-governmental organizations for projects which they propose to implement on their own initiative, but the relationship between non-governmental organizations and the authorities had already been shaped before this provision was made, in official projects which the non-governmental organizations carried out at the Government's request. There has therefore grown up a habit of tight control, which will not, in the view of some of those most directly concerned, be broken down by a mere set of principles.

Until a specific budgetary allocation was made available, the organisation that received the money was the one with the right contacts, and with a detailed knowledge of the timetables of various committees. For this reason, organisations with party political connections had a built-in advantage. The effect of this bias has sometimes been clearly visible in a haphazard choice of projects. A member of the Bundestag, for instance, may return from a foreign tour convinced of the value of some isolated project that one of his hosts has urged upon him. He will naturally try to persuade an organisation attached to his own party to undertake the project, and the organisation to which he addresses himself is likely to be precisely the organisation with the most favoured access to official funds.

For the others, the delay in considering an application, while it is shunted from department to department, may be six months or more. Many organisations have therefore renounced the use of official funds, preferring to bear the cost themselves and save themselves a headache.

This is particularly true of private industrial firms. In order to expand the overseas technical training programme, the Federal Government offered to finance the creation of additional training places in workshops set up in connection with German overseas private investment projects. Like any government, however, it required to be assured that Government funds would not be used to finance the recipient's ordinary business or to pay for the training of technicians that the firm wanted for its own plant. One German firm with an interest in Afghanistan is said to have worked out that the administrative cost of providing such an assurance would exceed the amount of the Federal Government's offered grant. It therefore proposed to make the requested places available from its own resources.

The principal reason for these delays appears to be the conflict of responsibility between various ministries, and the ambiguity of control over the BMZ's budgetary funds. One exception is the special fund administered by the Federal Chancellor's office, generally known as the Reptilienfonds, for which no account has to be given to the Bundestag. There is some evidence that an unstated amount has been made available from this fund for projects of a technical assistance character. The use of funds from the hip pocket, so to speak, is perhaps unfortunate, in spite of the gain in administrative simplicity. It provokes suspicion in the mind of the recipient.

As things stand at present, the game of blind man's buff which the private organisations are expected to play in order to locate official funds is likely to do more harm than good. It is difficult to avoid the conclusion that in this area the Federal Government, which elsewhere has devoted careful attention to its relationship with non-governmental organisations, has shot surprisingly wide of the mark. But it must be said immediately that there are other areas of aid policy in which a stilted beginning has been the signal for intensive study and a practical re-shaping of methods.

For the immediate future, it is vital to the general contribution of the non-governmental organisations that this re-shaping should take place. There is, in any case, a greater tendency in Germany than, say, Britain for such organisations to be at least partially dependent on government subsidies. In 1963 and 1964, a wilting of public interest in development assistance intensified this dependence.

It is difficult to assess the contribution that private organisations have made to overseas development from their own resources, since few published statistics are available except for the Churches. At the end of 1963, private German technical assistance organisations (excluding the Churches) had 225 experts in developing countries, of whom more than half were in Africa. The principal sectors were education (40), commerce and industry (84), and health (55).

Among the organisations concerned, the most conspicuous are perhaps the three institutes with political connections – the Friedrich Ebert Foundation (Social Democratic), the Eichholz Academy (Christian Democratic) and the Friedrich Naumann Stiftung (Free Democratic). The last two of these were established partially in imitation of the Friedrich Ebert Foundation, and they appear not yet to have found a satisfactory role of their own.

The trade unions also are active on their own account, in addition to participating in some of the projects sponsored by the Friedrich Ebert Foundation. Their total contribution up to the end of 1963 is believed to have been in the region of 13m DM.

On a concluding note, one diminutive organisation which is perhaps worth mentioning specially is Weltweite Partnerschaft (World-wide Partnership). It was intended to be a co-ordinating body for all trade union, co-operative and other more or less left-wing organisations, but co-ordination is no easier in the private sector than in the public. Working with very limited resources, Weltweite Partnerschaft has initiated a number of projects of its own, consisting principally of the supply of technical equipment. In countries in which it has had an interest, notably Kenya, its reputation far outstrips its financial significance in relation to the German aid programme as a whole. It has what German aid as a whole lacks – simplicity and directness.

14—Public Opinion

I The Impact of Public Opinion

In the years following the inception of a comprehensive aid programme, aid was the subject of intense public debate. Not only the idea of giving aid to other countries was new. To the vast majority of the German public, the whole picture of life in the countries of Asia, Africa, and Latin America was strange. A large part of the early interest in aid was simple curiosity – the curiosity of people for whom the world had suddenly become much, much bigger.

The German public was initially very receptive to explanations of the needs of developing countries, but it lacked the anchor of familiarity. The reaction was therefore unstable, and plunged suddenly from zealous enthusiasm to shocked dismay. In the development of a public attitude to a subject which, it must be repeated, had been set before the German people as something entirely new and strange, it is possible to trace three main phases.

First, there was general public enthusiasm, based on the belief that Germany had at least found a constructive and significant role in post-war international relations – a role for which Germany, with its own post-war record of reconstruction and development, was peculiarly and brilliantly fitted. The enthusiasm was extraordinarily widespread, touching sections of the population which might normally be expected to regard all questions beyond their own immediate interests with apathy.

But this was largely a romance. When the mists were dispelled, and people saw all the things that could go wrong with aid, there was a sense of disillusionment as widespread as had been the enthusiasm. By approximately the middle of 1962, the public's feeling that Germany was in some way being cheated was expressed in demands for a reduction in the total of aid, for the attachment of strict political conditions, and for measures to ensure that the aid programme promoted, or at least did not conflict with, Germany's immediate economic interests.

The partial collapse of public support for aid preceded similar developments in the United States (symbolised by the Clay Report) and in France (*Cartiérisme*). But the public outcry was shorter lived in Germany than in the other two countries, perhaps because less was at stake in the way of vital national interests. It rapidly gave way to the third phase, which is still working itself out, of boredom and weary resignation – the dismissal of aid as a regrettable but inevitable nuisance. This attitude was vividly expressed – to take a specific example – by the reaction of one German to the news that someone whom he knew had joined an organisation concerned with aid. 'Oh God: not another!' was his comment, a comment which many members of the German public would apply with equal feeling to every additional million marks that is now spent on developing countries.

In the present state of the programme, when fundamental considera-

tions of policy are being reviewed and overhauled, this attitude is probably as harmless as any. Renewed critical interest in aid among the general public would probably be the signal for increased pressure within the Government and administration for a reduction in the aid programme. In the long run, however, the maintenance of such an attitude is bound to cause the aid programme to wither away, not because of any positive decision to cut it down, but simply from lack of interest. A tendency in this direction would presumably give additional weight to the already noticeable pressure on Germany to retreat behind the walls of a little Europe.

The Federal Government did not at first devote much attention to the question of public relations in the aid field, but in 1964 it evolved a systematic programme aimed at winning better public understanding of what aid is about. The most noticeable characteristic of this programme is the way in which it skims over the fundamental questions of whether or why Germany should give aid, concentrating instead on the technique of giving aid and on a demonstration of the kind of thing it can be expected to do. One gathers from officials that this emphasis was not deliberate, and has still not been consciously formulated. Its effectiveness will clearly depend on the extent to which the authorities can exhibit the results of giving aid in a way that makes their value self-evident. That means, essentially, being able to cite conspicuously successful projects.

The current public relations programme is therefore likely to have a reflexive influence on aid policy itself. In trying to explain the aid programme to an unreceptive public, the authorities find themselves defending incongruities which might otherwise not have come up for examination at all. Where aid policy is proving itself inadequate, it has to be revised in order that it may be made explicable to the German public.

2 Initial Enthusiasm

Reference has already been made, both here and in Chapter 1, to the prevailing ignorance, in 1960, concerning the countries of Asia and Africa, and to a lesser extent South America. These continents were so remote from German life that their peoples were regarded in an almost mythical light.

Under such circumstances, the reaction to the sudden and massive action of creating a comprehensive aid programme was bound to be extreme – and unstable. As it happened, there were a number of special circumstances which made it likely that the reaction would be one of extreme enthusiasm rather than extreme protest.

First, there had been a hiatus in the progress towards the integration of Europe. The EDC negotiations had collapsed some years previously, and the Common Market had not yet achieved its full public impact. There was perhaps a temporary loss of faith in the future of Europe as an entity.

Secondly, East-West relations seemed to have reached an impasse, and hope for an early re-unification of Germany was virtually at an

end. Herr Ulbricht's East German regime had initiated that process of gradually increasing restriction which was to lead, a year or so later, to the erection of the wall. Since the direct route to re-unification was blocked, it was thought that indirect methods might be worth a try. Lenin's statement that the way from Moscow to Paris lay by way of Peking and Calcutta was frequently quoted, and inverted. To the public it was a simple matter of winning friends, and votes, in the United Nations. The diplomatic manoeuvres involved were hardly considered.

Thirdly, there was Germany's new prosperity, a source of both embarrassment and pride. At that time, a surprising number of Germans seemed to feel that the country had no right to become as rich as it was. The past still had to be obliterated, and present prosperity justified by use in a way which would draw new attention to Germany in a different and warmer context.

Fourthly, aid to developing countries seemed particularly attractive to a people seeking a post-war international role which could be fulfilled without any reference to the past. Since the Suez crisis of 1956, the Germans had felt a certain unaccustomed sense of virtue in their lack of colonial or quasi-colonial entanglements. The countries of Asia and Africa had never been occupied by the Nazis, and could regard the Germans, and be regarded by them, with an open mind.

Fifthly, there was another way in which Germany's new prosperity indirectly stimulated public interest in developing countries. After 20 years in which travel had been difficult or impossible, the Germans were going abroad again. In successive holiday seasons, the waves of German tourists flooding the resorts of Italy, Spain and southern France grew larger and larger. The exotic sprang into fashion. There was a reaction against the discredited myth of Aryan purity, and in a sense the new interest in coloured people was a reflection of this seeking after new standards.

Lastly, and most important, there was in many sections of the German population a genuine desire to find a new and humane mission for Germany, as atonement, as fulfilment of some obligation arising out of Marshall Aid, or simply to mark out the lines of a new beginning. This desire was particularly strong in the universities, and is a partial explanation of the extent to which the academic community has contributed towards the organising of an aid programme.

What was missing, inevitably, was any informed appreciation of the nature or the size of the problems that Germany was setting out to meet. The public reaction to aid arose entirely from Germany's internal social and political dilemma. When the aid programme failed to resolve that dilemma, public support for it cracked and began to crumble.

3 Disillusion and Dismay

When aid became fashionable, the German Press reacted in the natural way, by sending out large numbers of correspondents to the developing countries to discover what it was all about. In 1961, one seemed to come across them in every capital of Africa and Asia –

correspondents, television teams, film units and the like. They gave a cumulative impression that the German Press as a whole had put a great deal of money, as well as some of its best reporters, into a concerted operation to get all the coverage it could.

Developing countries turned out to be a rich source of extremely lively copy, of a kind which had previously hardly been seen in German newspapers. But it was not the kind of copy that could confirm the missionary image in which German aid had been conceived.

There was the apparent disaster of Rourkela, which produced stories of Indian incompetence and obstruction, of the failure of the Germans on the site to adapt to the different conditions, of mounting confusion, of new slums springing up around the plant (vivid photographs – ‘This is German aid!’), and always the rumbling undertone of the alleged double-dealing of the Russian and their Indian fellow-travellers.

There were stories, with pictures, of the sillier kind of German ambassador, rather fat, disporting himself in singularly unflattering tropical clothes. (‘Is the Ugly German replacing the Ugly American?’).

There was the story of the German ambassador who was said to have been eaten by crocodiles.

There was the story of the rather ludicrous pavane constantly being performed by the West German embassy and the East German consulate in Accra.

There were innumerable stories of ill-conceived and ill-executed projects, nearly all with a disturbing degree of truth in them.

And from that point the picture began to be filled in with more general stories of the prevailing incompetence and corruption in many developing countries, with pictures of African ministers in large American cars, of presidential palaces and luxury hotels.

For a climax, there was the story of Mrs Edusei’s golden bed, which was repeated again and again until it had become a symbol for the whole of Africa, and for the whole of aid.

The Federal Government found itself caught in the toils of its own initial enthusiasm. It had presented its aid programme to the German public as a mission of care, and the recipients now appeared to be either past caring for, or perfectly well able to care for themselves. In order to demonstrate the scale of this new activity, the Federal Government had emphasised the size of the new *commitments* it had undertaken, which gave a false impression that Germany had actually *spent* 8,500m DM in the first two years. ‘This is too much!’ was the cry. To set the German contribution up beside what other donors were doing, the Government had made use of the DAC figures, which include private investment and guaranteed export credits. For Germany, this meant an annual total of about 2,000m DM, which was taken by the public to represent the amount of the taxpayers’ money that was still being handed over each year to these ungrateful people, money which flowed, or so it was supposed, into the pockets of corrupt politicians.

At the same time, there were new and greatly increased domestic demands on the Federal Budget – the Berlin crisis, increased defence commitments, and so on – which seemed more urgent than the claims of developing countries. Besides, the progress of the Common Market

and Franco-German reconciliation had given Germany a more intelligible role as a pillar of the new Europe. The picture of Germany as the world-wide dispenser of funds was beginning to look more and more artificial. 'That is all money thrown out of the window' was a comment that was heard with increasing frequency.

Still there was little familiarity with the real circumstances of developing countries, with the needs which had to be satisfied if the process of development was to gain any momentum. Aid was money, and the volume of aid was thought of purely in money terms.

4 Loss of Interest

In spite of the outcry, expenditure on most forms of German aid continued to increase, largely because of the pressure of existing commitments. Eventually, the controversy died away, leaving behind it a backwash of boredom. The foreign correspondents and the camera teams were brought home, leaving the literary field open to the numerous semi-academic institutions which had sprung up in response to public interest and the availability of Government funds. What the well publicised early mistakes in the aid programme had begun, this new kind of publicity finished off. Aid acquired a reputation as the special interest of hangers-on who had a personal stake in its continuation. The most damaging result of the enormous volume of second-rate literature on aid that has appeared in Germany is that it has made aid and development look ridiculous.

The continuous inter-ministerial wrangling was another target for ridicule. In a capital so small as Bonn, with an introverted and enclosed official community, wrangles of this kind are bound to assume larger proportions than they would in a capital in which Parliament, the Administration and the Press operated within a more varied and spacious framework. In long analyses of inter-ministerial disputes, aid was represented as a counter, and a costly counter, in the internal tactics of a coalition government.

By the beginning of 1964, public interest had begun to look as if it might vanish completely. Even *Der Spiegel*, a magazine noted neither for its brevity nor for its reluctance to probe in sensitive corners, devoted no more than half a column to an exclusive story on the federal auditors' confidential report on the faults of the existing system of aid administration, a report which had caused considerable dismay among some of the officials to whom it was addressed.

5 Government Publicity

In 1963, the BMZ set about improving the public's understanding of aid. It had a budgetary allocation of 6m DM for public relations (1964: 4m DM). The spending of this allocation is, in fact, almost entirely in the hands of the Federal Press and Information Office, which is directly responsible to the Chancellor, but the BMZ is responsible for laying down general guidelines. In theory, the allocation is split evenly between publicity in Germany and publicity overseas, but in practice the emphasis is within Germany.

According to a public opinion poll taken in the middle of 1963, the question whether Germany should give aid brought favourable responses from 46% of those questioned: 38% were definitely opposed to aid.

This was generally regarded as indicating stronger support for aid than might have been expected. The principal reason given by those in favour was 'humanitarian'. Economic reasons came next, followed by political reasons. The age group with the highest proportion of favourable answers was the group under 25 years old. Among those with higher education, the proportion of favourable answers was twice as high as among those without.

The official conclusion appears to have been that a massive and all-embracing publicity campaign was neither necessary nor desirable. What has subsequently developed is a public relations programme in which special attention is given to specific points which have figured in arguments about aid. The following are among the most frequent points made in official speeches and other published material:

1. The fact that there are *nouveaux riches* in developing countries, who live in conspicuous luxury, is no reason for sweeping condemnation or for withholding aid. *Nouveaux riches* exist in Germany also.
2. If aid is, as alleged, being poured into a bottomless pit, this has to be explained in terms of population increase, not of corruption or inefficiency. It may seem that we are running to stay in the same place, but what would happen if we stopped running?
3. There is a widespread impression that Germany is just giving money away. This is false. On the contrary, only a small proportion of German aid is in the form of gifts. The rest is in loans, and the developing countries have turned out to be more punctilious as debtors than might have been expected.
4. There is also an impression that the Federal Government is financing the purchase, with untied aid, of exports from Germany's competitors. This is equally false. More than 80% of German capital assistance is immediately spent on German goods and services. In addition, about 20% of the finance provided by the IBRD has been spent on German goods and services, a higher percentage than Germany's share in total contributions to the IBRD. If the volume of ordinary guaranteed export credits is also taken into account, it can be seen that to talk of aid as if it were causing German producers to lose orders is totally misleading.
5. It is sometimes argued that in giving aid we are helping the developing countries to achieve a position in which they will be able to compete with our own producers. This argument fails to take account of the fact that our competitors of tomorrow are also our markets of tomorrow. By encouraging them to develop those industries in which they have a relative advantage, and in which our own industries are becoming less and less competitive, we create new markets for those of our industries which are more efficient and in which expansion makes sense.

6. Many developing countries have adopted systems of economic planning which seem to be out of tune with our own. It is alleged that the Federal Government is promoting planned economies, to the disadvantage of private enterprise. But in most developing countries the means of autonomous capital formation simply do not exist. German firms should realise that the economic circumstances of developing countries are necessarily different from those of Europe. If German private enterprise is to gain a foothold in these countries, it must allow for the differences. The export salesman must be replaced by the consulting engineer.

This is the negative side of the Federal Government's public relations campaign, aimed primarily at de-fusing the protests of senior age groups, among which the main resistance to aid lies. But there is also a positive side to the campaign, in which an attempt is being made to stimulate among the younger sections of the German population an attitude of active support for the aid programme and acceptance of its fundamental objectives.

To this end, a key role is assigned to the Development Service. It is assumed that returning volunteers will increasingly disseminate among their colleagues in Germany an understanding of and sympathy for the aspirations of developing countries. Officials, particularly the administrators of the Development Service itself, seem to have taken into account the risk that volunteers may return in a state of disillusion and revulsion, thereby merely reinforcing the criticisms. One of the main reasons for the intensive training course which volunteers undergo before setting out for the project to which they have been assigned is to shape and refine the idealism which is the essential motive of these people in such a way that it can be applied realistically. This is in marked contrast to the British practice of sending volunteers overseas with little specific preparation, a practice which occasionally has brilliant results, but which equally often produces volunteers who do not realise what they are up against until it is too late.

The Federal Government has devoted special attention to discussion of developing countries in schools. New textbooks and visual aids have been prepared, which depart from the traditional presentation of geography. Among the techniques which have been tried, the most effective appears to be the devotion of an entire week or fortnight to a particular region, which is made the object of study from as many viewpoints as possible in all parts of the school timetable, in lessons on geography, history, politics, biology, religion, and art.

There are signs of a renewal of interest. One sign of some significance is the publication by one German firm of a series of translations of novels by African, Asian and Latin American authors. Among the older generations, the Federal Government seems to have accepted the likelihood that the attitude to developing countries will remain at best reserved. Among the younger, who were not initially so caught up in the belief that German skills could be exported wholesale, and would be gratefully received, support for aid is moderately steady. Provided that aid policy is kept within certain limits, and can soon begin to show at least some specific results, there is a strong chance that a return to the revulsion of 1962 and 1963 can be avoided.

6 Aid in Practice

It should be clear from the preceding section that the official presentation of aid policy in Germany is tending more and more to take the form of a detailed description of the obstacles to progress which developing countries have to overcome, of how foreign aid may help them to overcome these obstacles, of precisely what it is that the German aid programme is intended to achieve, and of how this programme fits in with other aspects of Germany's position in the world.

In view of the prevalence of public criticism of aid, this is a bold stroke – perhaps rather bolder than it may seem at first sight. The shift of emphasis in official exposition, from indiscriminate proselytising to detailed explanation, is of some significance for the future of the German aid programme.

There were two other courses that the defenders of German aid policy might have adopted. Either they could have lain low, hoping that the waves of hostility to the aid programme would pass, or they could have continued to concentrate on the basic moral, political and economic arguments that have been advanced in justification of aid to developing countries, in an effort to re-furbish the zeal in which the aid programme had been founded.

Superficially, either of these courses might have seemed a more natural response to the kind of criticism to which aid policy was being subjected. In Germany, as elsewhere, the critics of aid were essentially protesting against the whole business, even though their criticisms may take the form of derisive attacks on specific and obvious failures. Criticism to the effect that aid is being mishandled is often only the outward expression of a conviction that aid is in principle a bad thing.

In the face of this onslaught, government officials might well have felt tempted to avoid a sterile controversy by saying nothing: or they might have felt themselves obliged to make a direct bid for public support. But there would have been serious objections to either of these courses. The first would have ignored the essential oddity of economic aid. Although other motives creep in, aid still represents an attempt to conduct international relations in accordance with some fixed, universal principle of goodwill. It represents the final departure from the practice of conducting foreign policy in tactical terms, a departure which was rendered inevitable by the Cold War, and perhaps before that by Hitler's bid for world domination. It is not something that can be conducted out of the public eye, in some quiet back-alley of government, as if it were a form of counter-intelligence.

The second course, of defending aid in general terms, might very quickly have done serious damage to the coherence of the aid programme. It is perfectly possible to conduct a national policy in the light of some moral principle. It is less easy to elevate that moral principle itself as an item of policy. It has been demonstrated again and again, in other kinds of national activity as well as aid, that arguments about the moral worth of an objective lead eventually to stalemate.

The Federal Government has chosen to devote its greatest effort to rebutting actual criticisms, rather than to resolving the underlying doubts. If it can consistently produce rebuttals that are detailed and

convincing, if it can produce actual achievements in the aid programme which give the lie to allegations of waste and failure, while continuing to state boldly and factually that these achievements are measured by the yardstick of the economic development of the recipients of aid, the underlying doubts may in time resolve themselves.

It is a case of the old truism, 'Nothing succeeds like success'. What the Federal Government has done is to ensure that it fights the battle in defence of aid policy on its own ground. By justifying its aid policy within the aid programme's own terms of reference, it may in time create an understanding within which aid, or whatever comes after aid, is accepted as a normal item of government expenditure, to be criticised or praised in the light of practice rather than of principle. In other words, it is trying to stimulate the emergence of a consensus in favour of aid, pieced together from a variety of public attitudes, rather than present aid as a package deal that the public has to accept or reject.

It may be noted here that the Federal Government is not alone in this attempt. The Government of the United States appears under President Johnson to have adopted a somewhat similar solution. In general, however, the governments of aid-giving countries appear to have given little thought to the problem of how to build aid into the national consciousness. In the day-to-day business of departmental administration, it is sometimes difficult to see beyond the immediate vulnerability of aid to attack. Well-disposed officials in several of the main aid-giving countries are sometimes inclined to suggest the less said about aid the better.

By choosing to keep aid fully and minutely publicised, the administrators of German aid are taking a gamble, which depends for its success on the proof of material achievement. Throughout this study of German aid policy, frequent references have been made to the tendency to tabulate sectors of policy in precisely and systematically correlated sets of principles. As experience is accumulated, there is a growing preference for presenting the aid programme in terms of specific examples. At the beginning of 1965, the dominant trend in German aid policy is the gradual abandonment of absolute principles, general criteria and comprehensive assumptions, and an ever-increasing attention to local detail.

This is a natural development, which puts the German aid programme in a rather different light. It must occur to anyone who looks at German aid policy to wonder whether all those neatly tabulated principles work out quite so tidily in practice.

The answer, of course, is that they do not. Throughout this survey of German aid, there have been constant references to areas in which policy and practice diverge, or in which official principles have turned out to be impossible to apply. The forms of aid, as outlined in Chapter 6, may here be briefly re-capitulated:

(a) Financial Assistance

- (i) Bilateral capital assistance: the core of the German aid programme. It is characterised by an overwhelming emphasis on project-tying. In theory, capital assistance is tied to the

foreign exchange content of specific projects, but not to the purchase of German goods and services. In practice, the Germans are increasingly willing to cover local costs, but they have developed a number of methods of ensuring that the bulk of the orders in connection with German-financed projects go to German suppliers.

The terms have improved gradually, but remain fairly hard for so-called commercial projects. The Germans stick to the principle that the terms should be fixed primarily in accordance with the nature of the project.

- (ii) Other forms of bilateral financial assistance are approved in special circumstances, particularly in order to relieve a strain on the recipient's balance of payments. The official attitude towards the balance of payments difficulties of developing countries, however, remains distinctly reserved.
- (iii) Multilateral financial assistance appears to be of decreasing interest to the Federal Government as an instrument of aid policy. Germany remains one of the most important contributors to multilateral funds, largely for economic and foreign policy reasons not directly connected with aid.

(b) Promotion of Trade and Investment

- (i) Measures to encourage private investment are an area of aid policy in which the Federal Government has made special efforts to devise new and more effective techniques. Private investment has come to be regarded as a preferable substitute for capital assistance, and the Federal Government would like to shift some of the burden of the capital assistance programme on to the private sector. But the extreme reluctance of German investors to go to developing countries has meant that there has been little progress in this direction so far. It is still argued that, in the long run, this should be one of the most fruitful areas of German policy.
- (ii) The opening of the German market to exports of developing countries, and projects which encourage trade between developing countries, are regarded in theory as an essential part of any aid programme. The Federal Government has so far failed to devise any effective form of action in this field.

(c) Technical Assistance

- (i) Technical assistance in the narrow sense (training institutes, pilot projects, and the provision of experts and advisers), together with related projects in developing countries in the fields of social and educational assistance, is the area in which the Federal Government currently sees the most promising scope for immediate expansion. So far, the technical assistance programme has been characterised principally by a search for the most effective techniques, and the devising of new categories of assistance to meet new problems as they become apparent. The long-term development of the technical assistance programme appears at present to be hampered by

the theoretical maintenance of a principle that projects must have the character of pilot projects. This principle conflicts with a number of other stated aims of technical assistance policy, and seems to serve little practical purpose except as a means of limiting commitments.

- (ii) Technical training in Germany is one of the most firmly established, and perhaps most smoothly functioning parts of the German aid programme. The principal difficulties from which it has suffered are weakness in the selection of trainees and differences between conditions in Germany and in developing countries. For these reasons, the Federal Government would like to reduce this form of aid in favour of training in the developing countries themselves, but it has had difficulty in putting this intention into effect.
- (iii) Educational co-operation, or the granting of scholarships and bursaries for studies at German institutes of higher education, is administered more or less in isolation from the rest of the aid programme. It has attracted surprisingly little interest in discussions of aid policy.

There are also several aspects of general policy in which principle and practice conflict. The administrative structure has proved a constant cause of friction and delay, although it was devised with the intention of co-ordinating and consolidating the entire aid programme. The principle that Germany does not favour any particular country or region has proved unworkable in practice: there are all sorts of factors which have brought about an increasing tendency to concentrate. The principle that Germany does not interfere in the recipient's planning has also proved unworkable. Unwilling to stimulate appropriate requests, the Federal Government has found itself compelled to exercise a measure of selectivity through the rejection of projects of which it does not approve. This negative attitude in the selection of projects has occasionally produced a less effective application of resources than would have been possible with positive selection machinery.

These are among the most important points that have been made in the preceding chapters, in discussing various aspects of policy. Most of the points involve criticism, but the criticism is directed at techniques rather than at fundamental concepts. One of the purposes of this study has been simply to exhibit the fundamental concepts of German aid, which have a clarity which makes them valuable as a standard of comparison for donors. That the objectives inherent in these concepts are all too often obscured, in practice though not in theory, by devious or inappropriate techniques, is a fact to which specialists in Germany have drawn attention far more fiercely than has been thought necessary here.

At this point, it is right to repeat a statement that was made in the Introduction. There is a lot that is wrong with German aid, but the faults are nearly always faults of prescription, rather than of diagnosis; and the search for more effective prescriptions is unremitting.

Among the German critics of German aid, officials figure prominently. The difficulties and the conflicts to which attention has been

drawn in these chapters are difficulties and conflicts which have not gone unnoticed by the administrators of German aid. It is a general characteristic of the activities of governments that policy lags behind events, and is shaped by events. Although the formal presentation of aid policy contains elements which have caused raised eyebrows in discussions between German officials and the representatives of other donors, the more obviously desirable changes of policy which have been urged upon the Federal Government are already to a large extent foreshadowed in the practice of day-to-day administration. Presumably, they will eventually be incorporated in official policy, but that takes longer.

The claim that policy is shifting in favour of efficiency is difficult to prove, particularly in view of the many practical obstacles to efficiency in the administration of German aid to which attention has already been drawn. It can only be said that the attitude of recipient countries to German aid, in spite of many specific reservations and qualifications, has on the whole been favourable. Principles which in a discussion of policy look bleak may in practice take on quite a different air. To take one example – the principle of project-tying – the Germans have begun to offer to finance complete projects, including local costs and with the necessary technical assistance tied in. With only a few exceptions – India being perhaps the most notable – most recipients do not have the level of planning which drives them, out of pride, to insist that tying to specific projects is damaging to their overall objectives. This is not nearly of such immediate concern as the cost of aid, or the burden of having to supplement the donor's contribution from other sources. The Germans appear to have made no more than a few experiments in the direction of taking responsibility for the entire project, but even that much is a striking departure from the principle that the recipient must participate in the project by contributing a significant share.

The fundamental mistake that the Germans made initially was perhaps to suppose that all things could be measured – not only the cost of a project, but also its impact on the recipient's economy, its effect on the recipient's balance of payments position, the proper proportion of responsibility for the project that the recipient should carry, and so on. Many of these things cannot be measured, not, at any rate, in any way that permits the formulation of general principles. This is what the Germans discovered, as difficulties in the administration of aid multiplied. In a situation in which less credit is usually given to the giver than is perhaps his due, recipients have given to the Germans fair recognition of the sincerity of their attempts to make a real contribution to the process of development.

To give a full and fair description of the practice of German aid, one would have to take the German aid programme project by project. That in itself is a measure of the distance that Germany has travelled from the first seemingly self-confident – but in fact very tentative – formulations of policy: and it is a measure of the extent to which the makers of German aid policy can be expected to continue to take the lessons of experience and practice into account. This is perhaps the most important element in the image of German aid that is presented to the

German public. In the long run, therefore, the extent to which aid can be presented in terms of specific successes is likely to be the determining factor in fixing economic aid to developing countries as an integral part of German overseas policy.

Germany started late as an aid-giver, and the aid programme, in its short history, has demonstrated the giver's problems with uncluttered clarity. It is this, more than anything else, that has brought the Germans so near to a resolution of some of the ambiguities of aid, so rapidly.

Appendices

Appendix I Currency Equivalences in Round Figures

DM	£		\$	
	Up to 5.3.61 £1=DM 11.75	After 5.3.61 £1=DM 11.20	Up to 5.3.61 \$1=DM 4.2	After 5.3.61 \$1=DM 4
100,000	8,500	8,900	24,000	25,000
200,000	17,000	17,800	48,000	50,000
300,000	25,500	26,800	71,000	75,000
400,000	34,000	35,700	95,000	100,000
500,000	42,500	44,600	119,000	125,000
600,000	51,000	53,600	143,000	150,000
700,000	59,500	62,500	167,000	175,000
800,000	68,000	71,400	191,000	200,000
900,000	76,500	80,400	214,000	225,000
1,000,000	85,000	89,300	238,000	250,000
10,000,000	851,000	893,000	2,381,000	2,500,000
50,000,000	4,255,000	4,464,000	11,905,000	12,500,000
100,000,000	8,511,000	8,929,000	23,810,000	25,000,000

Appendix II Developing Countries

The OECD's regional classification of developing countries is used throughout, as follows:

Europe (5 countries): Cyprus, Greece, Spain, Turkey, Yugoslavia.

Africa (35 countries):

North of the Sahara (5 countries): Algeria, Libya, Morocco, Tunisia, UAR.

South of the Sahara (30 countries): Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Ethiopia, Gabon, Gambia, Ghana, Guinea, Ivory Coast, Kenya, Liberia, Madagascar, Malawi, Mali, Mauritania, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Tanganyika and Zanzibar, Togo, Uganda, Upper Volta.

Asia (26 countries):

Asia (26 countries):

Middle East (9 countries): Iraq, Iran, Israel, Jordan, Kuwait, Lebanon, Saudi-Arabia, Syria, Yemen.

Southern Asia (7 countries): Afghanistan, Bhutan, Burma, Ceylon, India, Nepal, Pakistan.

Far East (9 countries): Cambodia, Indonesia, Laos, Malaysia, Philippines, South Korea, South Vietnam, Taiwan, Thailand.

Latin America (21 countries):

Central America (11 countries): Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Trinidad and Tobago.

South America (10 countries): Argentine, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela.

Appendix III Abbreviations of Organisations

AA	Foreign Ministry
AKA	Export Credit Company
BAW	Federal Office for Manufacturing Industry (Bundesamt für Gewerbliche Wirtschaft)
BMWi	Ministry for Economics
BMZ	Federal Ministry for Economic Co-operation (Bundesministerium für Wirtschaftliche Zusammenarbeit)
CDC	Commonwealth Development Corporation
CDG	Carl-Duisberg-Gesellschaft
DAAD	German Academic Exchange Service (Deutscher Akademischer Austauschdienst)
DAC	Development Assistance Committee
DEG	German Development Company (also GDC)
EDC	European Defence Community
EEC	European Economic Community
ERP	European Recovery Programme
FEDOM	Special Development Fund of the European Economic Community
GARIOA	Government and Relief in Occupied Areas
GAWI	German Company for the Furtherance of Developing Countries (Deutsche Förderungsgesellschaft für Entwicklungsländer)
GDC	German Development Company (also DEG)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
KW	Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau)
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
UNEPTA	United Nations Expanded Programme of Technical Assistance

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Investment and Development

In 1962/3 British private investors put £150m into developing countries – as much as the Government's aid programme. Though the total has declined since then private investment remains of very great importance to the poor countries' development programmes.

Because of the importance of this subject, the ODI is issuing four articles on the role of private investment in developing countries by: J. H. Loudon (Managing Director, Shell Petroleum Co. Ltd.), Sir Jock Campbell (Chairman, Booker Bros. McConnell Ltd.), Arthur Gaitskell (Board of Commonwealth Development Corporation), and William Clark (Director, ODI). The articles have previously appeared separately in different publications; they are brought together in this pamphlet with an Introduction by Sir Leslie Rowan (Managing Director, Vickers Ltd. and Chairman, ODI) in order to promote public discussion both in Britain and in developing countries.

The articles are controversial (the authors do not always agree with each other) but they are interesting whether or not they coincide with the reader's own views – because they are written by people with experience of investment, of its importance and of its problems.

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French Aid

In preparation

French Aid in proportion to national income is the highest in the world. Almost all of it is concentrated in Africa.

This study begins with a general description of French aid — its administration, distribution and the amounts involved. It goes on to examine the character of French aid and the French desire to 'deploy' its aid outside Africa; as well as the motives compelling France to continue the high level of aid to Africa.

A section on the historic background discusses the peculiar features of French colonialism and the special nature of France's relationship with her past colonies to whom the bulk of her aid is given.

The economic background to the French aid programme is described in detail: the mechanisms of the Franc zone and its effects on aid; special trade arrangements; the association of Madagascar and the African States with the European Common Market; the advantages derived from this aid programme by French private firms and individuals.

The study is concentrated upon French aid to ex-colonies in Africa south of the Sahara. (Only Algeria receives substantial aid outside this area.)

French aid to Africa south of the Sahara has been the subject of much interesting study in Paris, but comparatively little of this is known in Britain. Much, however, is relevant to what Britain is doing elsewhere in Africa and the author points to the absurdity of Britain and France working in separate compartments when both could learn much from each other.

This study is being prepared by Teresa Hayter, a research officer of ODI.