

# **A Long Term Approach To Bilateral Aid: The Case of Germany**

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## **ABSTRACT**

*This paper deals with the long term pattern of international aid and in particular bilateral aid from Germany. The main question is whether German bilateral aid has been a true instrument of development and welfare for developing countries. We try to answer this question by using data over the 1960-2008 period.*

## **INTRODUCTION**

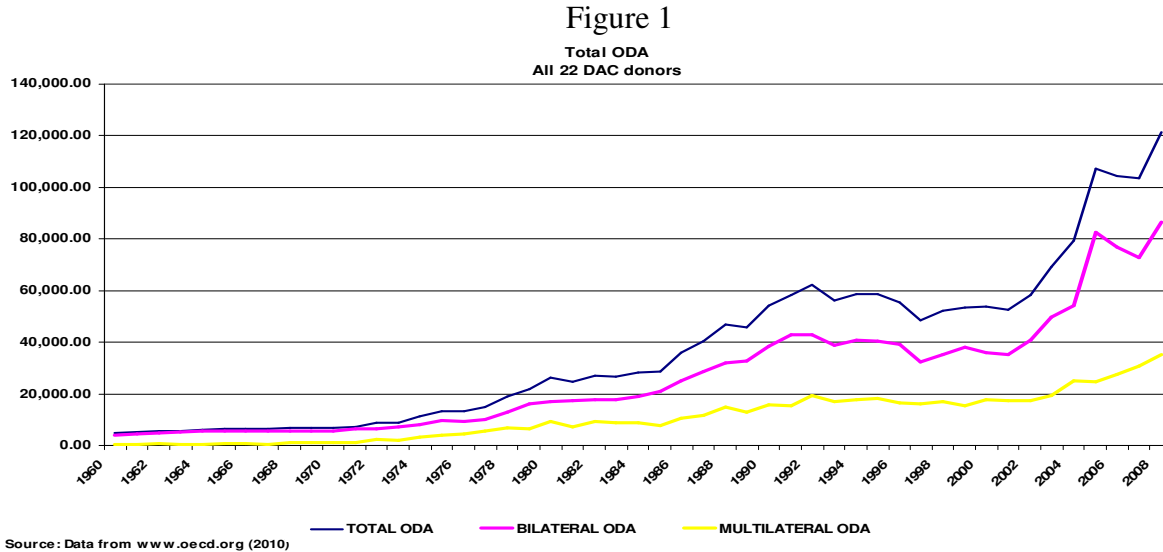
International assistance/foreign aid is one of the most discussed topics in development economics, politics, and international affairs. This is a reflection of the major transformation in the international system since the end of World War II; as one analyst has correctly noted, foreign aid as we know it today is clearly a post-1945 development (Lancaster, 2007). Usually the literature on aid emphasizes the receiving countries, Easterly (2006, 2008), Moyo (2009) and Sachs (2005, 2008), and is based on limited empirical evidence. Our approach is different: it discusses aid from the point of view of the donor countries and it is heavily based on data. Interesting examples of our approach can be found in the earlier contributions of Alesina and Weder (1999) and Alesina and Dollar (2000). Our investigation focuses attention to the case of Germany and refers to the whole period 1960- 2008.

The outline of the paper is as follows. Section one provides an introduction, section two deals with the long term approach to bilateral aid, section three discusses Germany as the current main European country donor, section four provides an answer to the main question whether bilateral aid from Germany has been a true development aid, and section five summarizes the main conclusions.

## **A LONG TERM APPROACH TO BILATERAL AID**

We first analyze total Official Development Assistance, ODA, ([www.OECD.org](http://www.OECD.org)) coming from all 22 DAC (Development Assistance Committee) donors over 1960-2008 period. For this purpose we use comparable data from OECD. ODA simply means aid from the governments of the wealthy nations and does not include private contributions or private capital flows and investments. The two main objectives of ODA are to promote development and welfare for developing countries.

Figure 1 below presents total ODA divided into bilateral and multilateral flows measured in millions US\$.



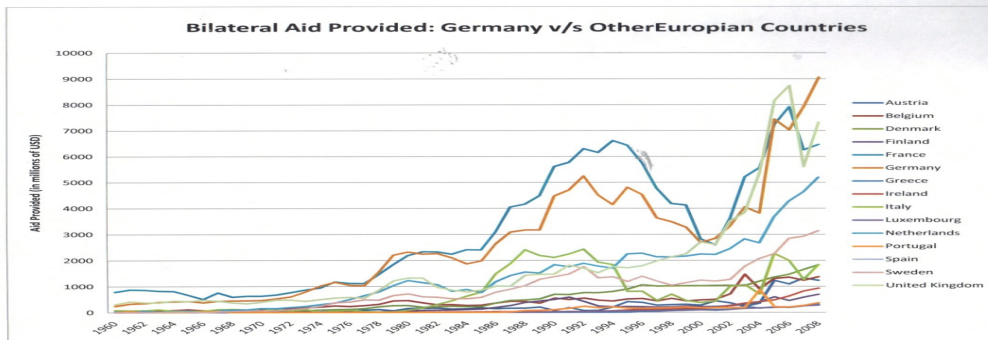
Two main observations can be made by looking at figure 1:

- A higher level and a faster growth of bilateral relatively to multilateral aid
- A drop in bilateral aid over the 1992-2002 period

By looking at the level of aid donated in 2008 it emerges that 71% (over \$86 billion) was given in form of bilateral aid and 29% (\$35 billion) in form of multilateral aid. Thus, bilateral aid is much more important than multilateral and for this reason our investigation focuses on the bilateral component of aid.

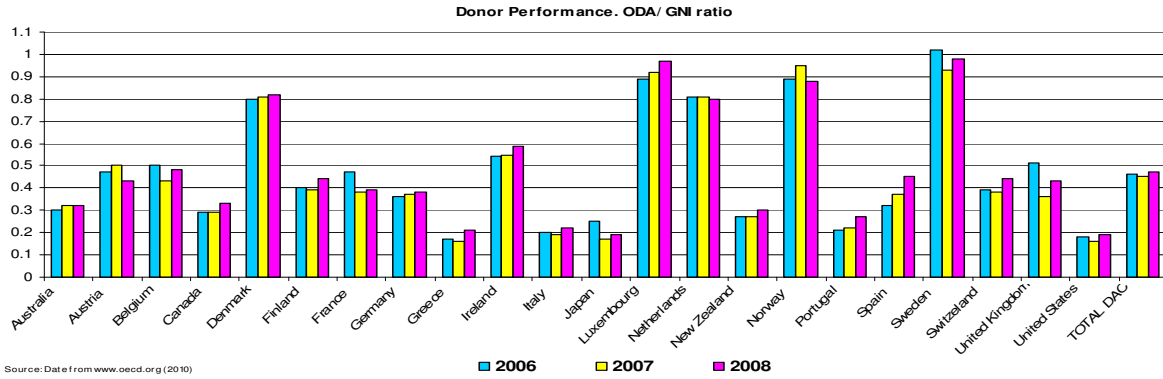
Our previous investigation, Andreopoulos et. al (2010), showed that the US has been for many years the main country donor. The scope of this research is to look at the main European countries and to find out the top donors. Donors' performance can be measured by two indicators: the total amount of aid, at current prices, transferred each year and/or total aid as percentage of Gross National Income. Figures 2 and 3 present both performances for selected European countries.

Figure 2



Source: data from OECD

Figure 3



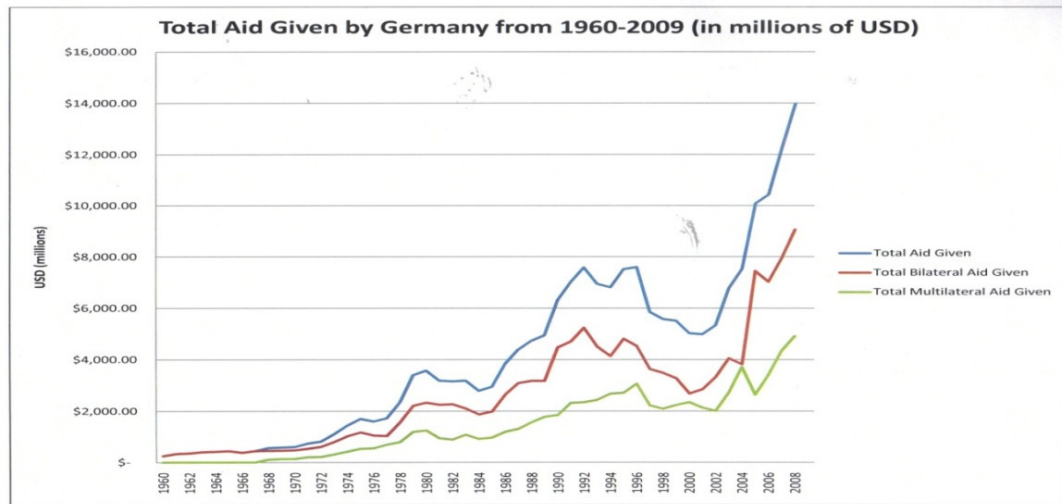
As figure 2 shows, Germany is currently the top European country donor. However, by looking at the long term perspective over the 1960-2008 period, we see an alternation in the leadership position between France and Germany. Specifically, during the 1980-2000 period, France clearly surpassed Germany as the leader European country donor.

The picture which emerges from figure 3 is quite different because both France and Germany do not rank very high in terms of ODA/GNI; they donate not even 0.4% of their GNI, which is way below the target of 0.7%. At the same time, Sweden, Norway, Luxemburg, Netherlands and Denmark were at the top, donating almost 1% of their GNI.

### GERMANY AS THE MAIN EUROPEAN DONOR

From now on, we concentrate our investigation on Germany, since it currently represents the largest European country donor. Figure 4 presents the data for total, bilateral and multilateral aid, given by Germany over the 1960-2009 period.

Figure 4



Source: data from OECD

The three following observations can be made:

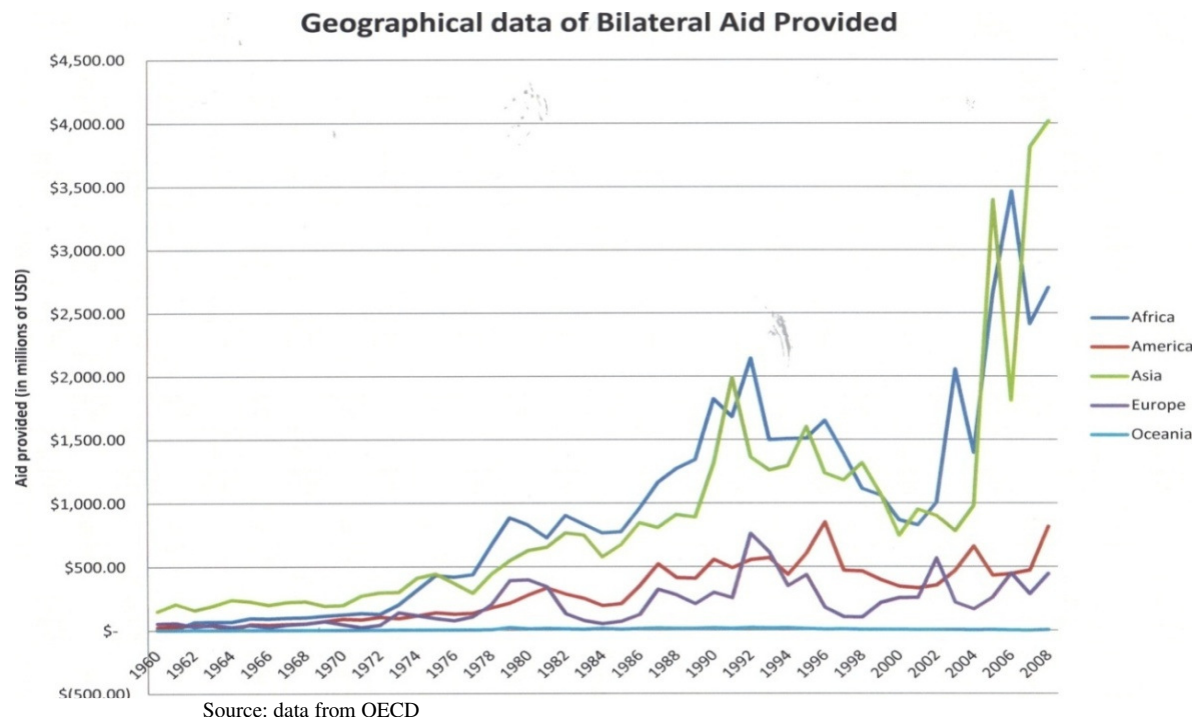
- Once again there is a higher level and faster growth of bilateral relatively to multilateral aid
- Compared to all 22 DAC countries, there is an even greater drop of bilateral aid over the 1992-2002 period
- Multilateral aid shows fluctuations with sustained growth over the whole period.

At this point, it is quite natural to ask where this aid went and whether it has been a true instrument of development and welfare for poor countries. We try to answer these questions by looking at German ODA by main sectors, continents, and top receiving countries over the whole period 1960-2008. Let see whether the data supports the view that German bilateral aid went mainly to the poorest countries in Africa and South and Central Asia.

Starting with the main sectors, data show a substantial amount of aid going to education, economic infrastructure and other social infrastructure. By looking at the long term performance, all of these components show a very rapid increase. However, we should add that at the beginning of 2000 approximately thirty percent of German aid went to action related to debt relief.

Turning to the distribution of German aid by main continents, figure 5 shows a higher level of aid for Asia and Africa relatively to the rest of the continents over the whole period 1960-2008. In addition, Africa and Asia aid show a similar trend until 2001 and then the trend diverges, particularly in 2003 and 2006.

Figure 5



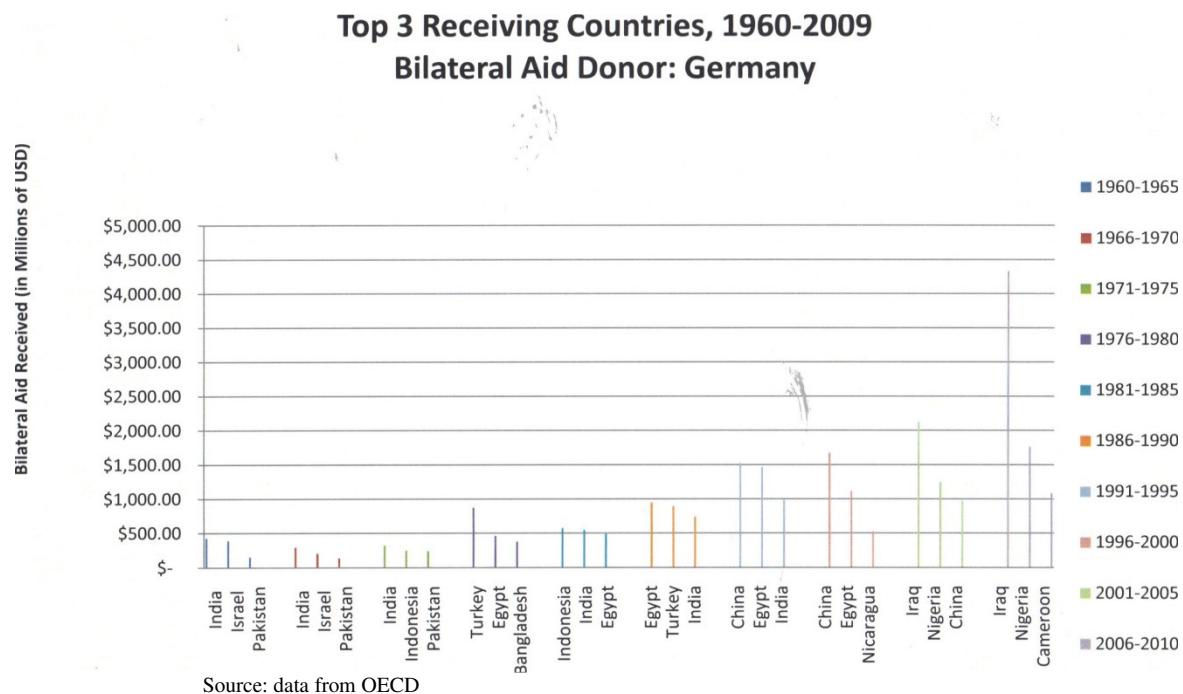
From this preliminary investigation, the data seems to support the view that Germany gives aid to poor countries in Africa and Asia. However, by looking at the recent data of German aid divided by income group it emerges that more than fifty percent of German aid goes to lower

middle income countries. Thus, we decided to conduct a further investigation by top receiving countries.

Figure 6 below shows German aid to the top three receiving countries over the period 1960-2009. The following trends can be observed:

- From 1960 to 1985 India was one of the top receiving countries followed by Pakistan until 1975.
- China became the major receiving country in the 1990's.
- With the beginning of the new millennium Germany, focus moved towards the Middle East, mainly Iraq and the total amount they received was astonishingly high.

Figure 6



## WAS GERMAN BILATERAL AID A TRUE INSTRUMENT OF DEVELOPMENT?

Figures 5 and 6 raise the question on the true purpose of German foreign aid. The pattern of German aid seems to be more dictated by political and strategic considerations rather than development purposes (while the latter are not inconsiderate). Assistance over the whole period 1960-2008 seems to be concentrated heavily in certain countries reflecting both international political and security developments (Cold War), as well as domestic pressures. More specifically, in the international arena, German foreign aid was determined by the need to contain the East German challenge and the concomitant repercussions from the country's division. For example, until the end of the Cold War, Germany expected all countries seeking aid to recognize that West Berlin was part of West Germany; countries that refused to do so, like Angola and Mozambique, did not receive such aid (Lancaster, 2007). Concerning the domestic pressures, often aid packages were devised in response to political lobbying by local commercial and business interests, as well as public opinion (Ehrenfeld, 2004). In this context:

- the provision of assistance to India reflected the country's early prominence within the Non-Aligned Movement (NAM) and the German concern to ensure that India would not gravitate toward its cold war adversary. The subsequent shift to Pakistan during the 1960's was a reaction to India's increasing proximity to the Soviet Union;
- the increasing aid provided to Egypt reflected an endorsement of Anwar Sadat's break with what the West considered as the pro-Soviet policies of his predecessor (Nasser), and a response to Egypt's willingness to sign the first peace accord between Israel and an Arab country (Camp David in 1979);
- the emergence of Turkey as a major recipient of aid reflected domestic political developments, and in particular the growing impact of the Turkish lobby on German parliamentary deliberations. To be sure, Germany was not unique on the role of such lobbies in addressing key foreign policy issues: the Jewish lobby in the United States, the Indian lobby in the United Kingdom, as well as African lobbies in France have played an important role in the determination of aid allocation (Mearsheimer and Walt; Lahiri and Raimondos-Moller, 2000);
- the end of the cold war led to a substantial reduction in the overall amount of bilateral aid;
- the increasing aid to China is part of a more comprehensive approach towards a growing interaction with the East Asian superpower. In 2000, Germany launched a "rule of law dialogue" with China as part of an ongoing effort, spearheaded by several Western countries, to identify a rather neutral entry point for greater cooperation (Woodman, 2004). Given the contentious nature of the human rights discourse, China has agreed that law and legal reform do constitute acceptable vehicles for an ongoing interaction, with potentially beneficial spill-over effects in other areas of cooperation, including trade and investment;
- last, but not least the amount of aid devoted to Iraq and Afghanistan clearly reflected Washington's strategic priorities in the context of the global "war on terror." In this context, it is worth noting that Washington's stance has also conditioned the general trend towards the bilateralization of aid in multilateral organizations. This refers to the increasing tendency of donor governments to dictate to a multilateral agency (e.g. a UN agency) how the money is to be spent, as opposed to granting the multilateral agency complete discretion in the allocation of the donated funds (Barnett, 2005).

This result is even more surprising considering the fact that OECD data on international aid do not include military assistance.

## CONCLUSION

In this paper we studied the long term pattern of German bilateral aid since currently Germany represents the most important European country donor (in terms of total aid). The main scope was to see whether German bilateral aid has been a true instrument of development and welfare for poor countries. The sectoral composition of German ODA shows growth of many components particularly education, economic and social infrastructure, and debt relief. However, the investigation by continents and by top receiving countries shows quite a different story. Assistance over the whole period 1960-2008 seems to be concentrated heavily in certain countries reflecting both international political and security developments as well as domestic pressures. In particular, at international level, the focus of the assistance programs seems to

reflect Germany's political and economic interests as conditioned first by the cold war and then by the global campaign against terror and the need to ensure greater cooperation with the East Asian superpower.

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