



MINISTRY FOR FOREIGN AFFAIRS

LINKS BETWEEN
DEVELOPMENT ASSISTANCE
AND DONOR COUNTRY EXPORTS

– the Case of Sweden

Ds 1994:58

Report 1

SASDA

Secretariat for Analysis of
Swedish Development Assistance

SASDA

The Secretariat for Analysis of Swedish Development Assistance

The Swedish government has appointed a committee with the task of analysing the results and effectiveness of Swedish development aid. A special Secretariat, SASDA, was set up on 1 March 1993 to carry out the work.

The Secretariat will work until the end of 1994 and will have as its main task to propose to Government suitable mechanisms for evaluations and policy analyses of Swedish aid. In its work SASDA will give priority to carrying out a set of selected studies world-wide, at country, sector and subject level and to studies of individual organisations to provide a basis for decisions on development co-operation in the future and to gain experience on how policy evaluations should be carried out. A major study concerns Sweden's co-operation with Central and Eastern Europe.

SASDA's point of departure is the aim of a better understanding of the mechanisms of development in order to enhance the results and increase the effectiveness of aid in achieving the five goals set by the Swedish parliament: increased resources, economic and social equality, economic and political independence, the democratic development of society, and the long-term management of natural resources and care of the environment.

The studies and analyses will be managed partly by the Secretariat's own staff and will include studies commissioned from different specialists in the committee's areas of priority.

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Thomas Andersson
Håkan Hellström

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FOREWORD

Discussions on the relationships between official development assistance (ODA) and the interests of the donor country, mainly in supporting its exports, have been at the heart of the international debate on development work during the last twenty years.

We have scanty knowledge of the determinants and importance of the link between ODA and exports. This is a consequence of poor data and the absence of an appropriate framework of analysis.

The present study undertakes a broad examination of the Swedish experience during the period 1980-1992 of the connection between aid and exports.

Dr. Thomas Andersson and Håkan Hellström, from the Industrial Institute for Economic and Social Research, in Stockholm, have prepared this study. They suggest a methodology to analyze the net impacts of ODA on the size and composition of exports. Analyzing Swedish aid and exports between 1980 and 1992 they show a notable asymmetry in the geographical distribution of aid and exports. There is room for improvement in aid-trade relations, looking at implications for developing countries as well as for Sweden.

Andersson and Hellström suggest a number of adjustments in reporting and thinking on aid-trade relations and they advance some guidelines for practical measures.

The report has been commissioned by the Secretariat for Analysis of Swedish Development Assistance (SASDA). The opinions and conclusions of the authors of the report are their own.

Stockholm, April 1994.

Ingemar Mundebo
Chairman

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1 Introduction¹

As long as official development assistance (ODA) is provided, questions will be raised regarding its usefulness and effectiveness. The points of concern range from the developmental impacts to the consequences for the donor country. Although the former issue is at the heart of aid, the latter aspect attracts increased attention from time to time, and especially during recessions. Various interests which seek stimulation of the domestic economy question the magnitude of funds transferred abroad. On the other hand, it is commonly argued that aid promotes the interests of the donor country, e.g. by supporting exports, which suggests that the costs are lower than normally perceived.

Indeed, a number of studies have demonstrated positive effects of ODA on exports of goods and services (Grundmann, 1978; Schumacher, 1981; May & Dobson, 1979 and 1982; Jepma & Quist, 1985). The reasons vary from a generally higher demand for imports to a reorientation of demand towards products supplied by a certain donor country. The link to commercial relations is clearly influenced by the design of aid, however, which opens up politically sensitive matters. This regards particularly the tying of aid in terms of procurement, which is commonly argued to be inefficient (Hansen et al., 1989; Jepma, 1991). While DAC (Development Assistance Committee) has successfully limited the formal tying of aid, there are parallel attempts to increase the commercial return of donor countries. The instruments used for that purpose include the extent to which ODA is offered to commercially interesting countries and sectors and provision of information in developing countries as well as among donor country firms about potential business opportunities.

In spite of the substantial gains which are at stake, there is still scanty knowledge on the determinants of the link between ODA and exports. This is partly a reflection of poor data, measurement problems and the prevalence of questionmarks regarding the efficiency of aid in general. Beyond these matters, the present debate is characterized by the absence of an

¹ The authors are grateful for insightful comments on this manuscript given by Pontus Braunerhjelm and Torbjörn Fredriksson, IUI, Jan Rudengren, EPOS, Joakim Stymne, The Prime Minister's Office, and Enrique Ganuza, SAU. Numerous public and private institutions in Sweden and abroad have provided valuable assistance. The authors are entirely responsible for any errors and omissions.

appropriate framework of analysis, which shows up in a preoccupation with the calculation of "return flows". With return flow is usually meant the share of aid disbursements which is used for purchasing of goods and services from the donor country. Being subject to limitations from a theoretical as well as practical view-point, however, the return flow should neither be used as an indicator of commercial impacts nor as a policy-objective.

Against this background, the present study undertakes a broad examination of the Swedish experience 1980-1992 regarding the connection between aid and exports. Like the other Nordic countries, Sweden provides extensive aid compared to the size of the economy, ties relatively little, channels a large amount through multilateral organizations, but has few other linkages to support commercial interactions with developing countries. Surveying trends across countries and sectors, the study focuses on exploring what net impacts aid has actually exerted on exports in the Swedish case. The Swedish aid agencies and DAC have supplied special data-printouts on ODA. Statistiska Centralbyrån (SCB), the African Development Bank, the Inter-American Development Bank, the Asian Development Bank and the Swedish Trade Council have provided data on exports. Additional information has been obtained through a questionnaire sent to the 25 Swedish company groups in manufacturing for which the largest share of exports went to developing countries in 1990, and to ten companies in construction and services. Interviews have furthermore been carried out in Sweden as well as with representatives of about seventy domestic and foreign institutions in developing countries.

Of course, the prime motive for ODA is not to promote exports. However, sound commercial exchange is in the mutual interest of donors and recipients, whereas subsidization of individual firms is in nobody's interest (not even the favored part in the long run). Here, the focus is on the impact on donor country exports, while other aspects of aid are largely left aside. Whether aid can achieve a general stimuli in developmental terms will ultimately determine the consequences for exports, however. Thus, a fullfledged evaluation of aid-trade relations must further examine the effects of aid on infrastructure, capital formation, exchange rates, etc. Although this lies beyond the scope of the present study, the proposals for alterations brought forward are viewed as desirable from an overriding perspective. These target both the adoption of appropriate reporting systems within donor agencies and adjustments in supplementary activities, e.g. in the provision of information that potentially bridges aid and business operations. To the extent that these do

not go hand in hand in the way they ought to, this may be a matter of concern and self-criticism on the part of representatives for various interests, public as well as private. Again, however, the main purpose of this study is to examine how the relationship between aid and exports has actually taken shape.

2 Major Effects and Measurement Problems

2.1 Why Aid and Exports?

International trade is first and foremost determined by fundamental economic factors such as transport costs, market size, exchange rates, complementarity of supply and demand, tariffs and non-tariff barriers, etc. Considering the connection between aid and exports to developing countries, the basic question concerns whether these should be separated as far as possible and trade be left to be handled by markets, with the interference of policy makers kept at a minimum. In the short term, however, aid is inevitably involved in a great deal of commercial transactions. Aid funds represent the *only* source of foreign exchange for many poor countries when debt payments have been made. Administrative and institutional deficiencies within developing countries as well as protectionist policies in industrialized countries have hampered trade and economic growth in most of the developing world. Meanwhile, imperfections in international capital markets due to, e.g., political risk and risk of panic among creditors, have reduced private investment or geared it towards short-term exploitation of gains rather than long term management of resources.²

On the other hand, the advancement of countries which strive for competitiveness in the world market, mostly in East Asia, relative to those which have gone for inward-looking growth strategies, has demonstrated the force of trade in achieving development. Studies such as the World Bank (1983) have underscored the importance of market mechanisms and the damage caused by extensive policy interference. These observations have weakened not only the traditional arguments in favor of massive resource transfers to the developing

² See, e.g., Eaton and Gersovitz (1981), Sachs (1984), Bulow and Rogoff (1989) and Andersson (1991).

world, which were based on secularly falling terms of trade and "dependency theory".³ The inadequacy of domestic capital formation and the presence of structural deficiencies in developing economies have also become less convincing motives for aid, as export-oriented policies have proved more efficient in relieving the obstacles (Little, 1982; Riedel, 1987; Haberleer, 1987). In recent years, however, attention has increasingly been paid to the role of appropriate institutional conditions, basic education and human skills in organization and management. Without satisfactory infrastructure in a wide sense, there are impediments to the establishment of well-functioning markets.

It should further be noted that the traditional kind of inter-industry trade today has been dwarfed by the international flows of goods and services which occur within industries, and partly within individual firms. Explaining such transactions require consideration to oligopolistic markets, asymmetric information, product differentiation, etc (Helpman and Krugman, 1985; Grossman, 1992). Trade between developed and developing countries remains inter-industry to a relatively large extent, but there is still a strong element of such factors and a close connection between trade and investment. The initial stage of business operations within a foreign market typically requires major fixed costs for learning how to operate in that specific environment (Hymer, 1960; Caves, 1982). This amounts to an entry barrier that cannot be crossed by smaller companies operating under fierce competition, putting large, oligopolistic firms in a strong position, as well as those which have an advantage due to, e.g., historical and colonial bonds. Physical distance coupled with very different institutional and cultural conditions magnify the presence of barriers.

Acknowledging the value of an open and fair system for international economic exchange, the paramount influence exerted by market imperfections and institutional conditions provides new arguments both in favor of and against the provision of ODA. In the long run, there can be little doubt that commercial relations ought to replace concessional cooperation altogether. In the short to medium term, however, ODA can play a constructive role in establishing needed infrastructure, upgrading human skills, laying the basis for functioning markets, and so forth. At the same time, aid can also be counterproductive, by delaying necessary structural change, or by impeding or distorting international trade through subsidization of certain firms or activities.

³ See, e.g., Nurkse (1952), Prebisch (1962) and Frank (1978).

Clearly, financing represents only a minor part of the input from abroad which can be encouraged by concessional support. To be successful, external assistance must stimulate those inflows of technology and human skills in organization, management, distribution, etc., which are favorable from the perspective of the recipient country. Far from all such abilities are found inside aid authorities. With the business community possessing a major part of the donor country's resources, private interests play a potentially important role in aid.

It is useful to consider the relative strengths of bilateral and multilateral assistance. Multilateral agencies enjoy a comparative advantage in the coordination of human and financial resources as well as in economies to scale, and can draw on and synthesize the productive capacity of virtually any country. National agencies, on the other hand, have a comparative advantage in locating, adapting and applying skills prevalent in their respective economies. They can also exploit existing bilateral linkages. These differences speak for a certain specialization in aid functions, with bilateral agencies channeling home-country resources and skills to a relatively great extent (Mellor and Masters, 1991). Meanwhile, there is a risk of domination by certain interest groups. The willingness of the private sector to participate in aid does not emanate from altruistic motives, but hinges on the prevalence of financially profitable ventures.

An increase of exports is typically viewed as favorable by the donor country, because it may enable the establishment of new industries or the upgrading of existing ones, strengthen the balance of payments, lead to more employment opportunities, and so forth. While evaluating such propositions in detail lies outside the scope of this study, it may be said that an expansion of commercial transactions is socially desirable to the extent that it occurs through correction of market or policy imperfections, such as those associated with high market concentration, asymmetric information, discrimination in favor of certain commercial interests, etc. An expansion of trade through subsidization of individual firms, and a replacement of commercial transactions by concessional ones, is undesirable, however.

Thus, the connection between aid and trade is potentially important. Beneficial as well as detrimental effects are conceivable, and there may be contradictory influences which are partly intertwined. The impacts on exports from the donor country represent, of course,

only part of the potential role played by aid in commercial relations. However, the special interest attached to it by donor countries makes export behavior the kind of trade aspect which is most often promoted as well as manipulated by ODA.

As will be further discussed below, a distinction should be made between those effects which concern the amount of trade and those which are associated with its composition. Another distinction concerns *financing*. On the one hand, aid may directly finance exports of goods and services from the donor country. This occurs either because funds are *tyed* to such procurement, or because the recipient country chooses to make use of *untied* means for this purpose.⁴ The dividing line is blurred in practice as historical, political or other "invisible" links may lead to informal tying. On the other hand, ODA may raise exports indirectly. For instance, aid may alter basic conditions or attitudes, affecting the scope as well as the character of export opportunities.

It is often difficult to separate different impacts from each other. Beyond this it is far from straightforward to determine the net effect. In order to study the link between aid and exports, an appropriate framework of analysis is needed. There is a gap between the practice which is normally used, and the one which would ideally be desired. Let us start by looking at the kind of measurement which is most frequently used today, the return flow.

2.2 Return Flows

The concept of return flows refers to the share of aid disbursements which is used for payments of goods and services from the donor country. Many aid agencies regularly announce estimates of the return flow, and interpret them as an indicator of the donor country's commercial reward from aid. At first glance, this may appear as a handy yardstick for evaluation.

Based on estimates by respective aid agencies, Table 2.1 presents return flows in the case of a few European countries, as well as the share of aid which is reported to be tied to procurement from them. The tying of aid may be seen as an objective formulated *ex ante* ,

⁴ As elaborated in Bhagwati (1985) and Hamilton (1976), there are various kinds of tying, e.g. to source, goods/services/sectors, or development programmes. Here, tying refers to restrictions on the source of procurement.

regarding how much purchasing should be made from the donor country, while the return flows show the *ex post* result. In practice however, the connection between the two may be diluted for several reasons. Some of the funds recorded as tied are only partly tied, as in the case of the Netherlands. In addition, some funds are used in the handling process, meaning that they need not result in an equally large return flow. Reversely, untied aid, including that which is merely untied in a formal sense, may anyway be spent on goods or services obtained from the donor. Thus, the third column in Table 2.1 includes ratios both above and below one, providing examples of countries in which the return flow does or does not exceed the share of aid which is tied.

There is a certain correlation between the share of aid which is tied and the return flow. Germany and Finland, for example, tie aid the most and also report the largest return flows, even though Germany performs notably better than Finland. Sweden is an extreme outlier, however. The Swedish case is characterized both by a low level of tying, and by a grand ratio between the estimated return flow and the share of aid which is tied. One may wonder what lies behind this "strong" Swedish record. The fact is, however, that calculation of return flows involves plenty of caveats. Partly due to the limited availability of data, estimates tend to be highly uncertain, to say the least. Beyond this matter, the information provided is to some extent irrelevant, and conveys a distorted picture of how aid actually affects commercial relations.

Table 2.1: Return flows and share of tied aid in 1990, selected countries
(percent)

Country	Return flow	Share of aid which is tied*	Return flow/tied share
Sweden	50	21	2.38
Norway	33**	39	0.85
Netherlands	37	49	0.75
Germany	69	66	1.05
Finland	62	72	0.86

* Tied aid includes partly untied funds, as defined by DAC ** Concerns 1989
Source: T&B Consult (1993)

Before further commenting on the figures reported by Swedish aid agencies, let us take a closer look at how the return flow should be interpreted. Although there are varying views of the concept, there appear to be at least three conditions which should be fulfilled for exports of certain goods or services to be reckoned as a return flow from aid:

i) First, payments should concern goods and services supplied by agents domiciled in the donor country. This criterion includes exports from foreign-owned corporations operating in the donor country, and excludes exports from foreign subsidiaries of firms originating in the donor country. In principle, however, it would be correct to control for the origin of *intermediate* goods, which is generally not done in practice. Otherwise, the estimation of the return flow is generally distorted.

By neglecting intermediate products, the return flow tends to be overestimated. The reason is that exports generally comprise of a substantial share of imported value added. This consideration becomes increasingly important as the internationalization of business operations continues, with multinational corporations - i.e. firms which own and control production facilities in more than one country - speeding up their specialization of operations across national borders. In fact, such firms are responsible for the bulk of exports from industrialized to developing countries. However, their prevalence may also lead to an underestimation of the return flow when *intermediate* products are not taken into account. Multinational firms based in the donor country are able to make use of, e.g., source-tied concessionary credits, although exports to some extent are provided from production units located abroad. In many cases, these exports will require intermediate goods from the parent company, resulting in deliveries to the country in which the foreign affiliate is located rather than directly to the aid recipient country.

In spite of these shortcomings, virtually all donor countries presently use the domicile-criterion without consideration to intermediate products. The only known exception is Denmark⁵, which is currently altering its practice. One reason for this change is the difficulties in computing the return flow on an origin basis. Another possible explanation is that the reported return flow was reduced as compared to those of other donor countries,

5 For this reason, Denmark has not been included in Table 2.1. According to T&B Consult (1993), the Danish return flow is significantly larger than the Swedish one. The same applies to the level of tying.

Table 2.2: Distribution of return flow for SIDA, 1992/93

Kinds of costs	Disburse- ments (SEK million)	Return flow (SEK million)	Share of return flow* (percent)	Return flow for kind of cost (percent)
Personnel	332	237	10.0	71.4
Consultants	1116	980	41.2	87.8
Other costs	131	106	4.5	80.9
Provision of cash	2000	145	6.1	7.2
Provision of goods	401	242	10.2	60.3
International organizations	2156	669	28.1	31.0
Total	6136	2379	100.0	38.8

* Not summing up to 100 due to error in summation.

Source: Calculated from Ekonomibyrån, SIDA (1993a)

and that Denmark has stipulated that it should amount to at least 50 per cent (T&B Consult, 1993).

An additional implication is that *all* goods and services are encompassed, including salaries in aid agencies. Although this is correct in a literal sense, it hardly conveys relevant information on commercial relations. Among other things, a costly bureaucracy shows up as a large return flow. Personnel and consultants accounted for more than half of the total return flow reported by SIDA, the main organizer of Swedish ODA, for 1992/93 (Table 2.2). For the provision of cash, the estimated return flow was only 7 percent. A certain overlapping is known to prevail between cash and goods, however. The total in Table 2.2, 38.8 percent, is lower than that in Table 2.1 partly because the latter includes all Swedish aid agencies, and partly due to a smaller return flow in 1992/93 than in 1990.

ii) Second, exports included in the return flow should be financed by resources raised for aid purposes. This implies that exports financed by concessionary credits as well as grants should be taken into account. In the case of the former, questionmarks arise regarding how and when the return flow ought to be calculated. The grant element, that is, the *a priori* perceived cost of aid, constitutes only a minor part of the credit. Credits, however, involve risks which may not show up as actual costs until many years later, and which are not foreseen at the time when the return flow is estimated. Thus, the costs may in the end turn out to be considerably higher than expected, which then reduces the actual return flow.

Among the other consequences of the requirement regarding financing, it should be stressed that indirect effects are excluded, i.e. exports caused by aid projects although not directly financed by them. Another complication, which leads to substantial problems in terms of measurement, is that capital tends to be *fungible*. As it is difficult to earmark money for a particular purpose, it is often impossible to determine what certain funds have actually been used for.

iii) Third, there should be a causal effect in the sense that exports included in the return flow would not have come about without the aid in question. If the return flow is to be relevant as a policy indicator, it must measure the value of exports that occurs as a *result of* ODA. Failure to control for this matter typically results in a serious distortion of the actual impact of aid on trade performance. For example, the reported return flow may include exports that would have taken place anyway, meaning that commercial financing has merely been replaced by concessional. This is most likely when ODA is tied to sectors where the donor country is competitive.

The question of causality is of more than marginal significance in the present context. It may be noted that May & Dobson (1979), based on a questionnaire sent out to British firms, found "normal export business" to be the most common reason for firms to receive aid orders. The market that firms exported to was generally an already established one, and it was expected that the orders would have been obtained irrespective of aid, meaning that aid typically was not trade-creating. Although this finding cannot be generalized, it draws attention to the importance of considering causality.

Table 2.3: SIDA's estimation of return flows 1985/86-1992/93

Year	Percent
1985/86	50.0
1987/88	39.0
1990/91	42.5
1991/92	43.5
1992/93	38.8

Source: SIDA (1989 and 1993a)

In spite of these difficulties in measurement and interpretation, there has been an increasing demand for estimation of return flows. From fiscal year 1992/93, SIDA is requested to make a yearly calculation, which it previously did only occasionally. According to SIDA, the total return flow amounted to 50 percent 1985/86, but has declined to some 40 percent in recent years. As in most other donor countries, however, the Swedish reporting system is subject to shortcomings, not least in regard to aid-trade relations.⁶ In fact, the present routines do not permit any in-depth analysis of the return flow, although some revision is currently being undertaken. For example, there are:

- no real definition of what comprises a Swedish good or service,
- application of dubious assumptions in order to estimate the return flow, and
- an exclusion of aid to NGOs (non-governmental organizations), which accounted for some 20 percent of the total disbursements by SIDA in the early 1990s.

For such reasons, and because indirect effects and the presence of causality are not considered, the figures reported in Tables 2.1-2.3 do not convey satisfactory information on the impact of aid on exports. The same applies to the individual components in Table 2.2. Still, the table indicates in which categories we may expect to detect most financing of exports by Swedish aid funds.

To sum up, the return flow represents a questionable indicator. The above reflections leave little doubt that the concept itself is subject to severe shortcomings. It remains both interesting and important to develop accurate reporting routines for the destination of aid disbursements, but the return flow does not provide an understanding of how aid affects exports. Thus, the concept should not serve as a policy objective.

2.3 Net Impacts

Rather than estimating the return flow, an investigation of how aid affects commercial relations should aim at a satisfactory evaluation of net impacts. This should take account of influences on trade in terms of both size and composition. Broadly speaking, the impacts of aid on exports from the donor country can be divided into two main categories:

⁶ Criticism in this regard has been put forward in various contexts. See, for example, SOU 1993:1.

1) *Creation or contraction*

This fundamental effect is associated with the overall impact of aid on the economy of the recipient country. In spite of a wealth of literature on this matter, many questionmarks remain regarding the consequences of aid for developing countries. It is obvious, however, that the outcome strongly hinges on the policy regime of the recipient country itself, and whether aid is conducive to a sound development process (Krueger et al., 1989; Lele and Nabi, 1991). Given favorable circumstances, aid may facilitate a general expansion of the recipient economy, resulting in a greater demand for imports. This may follow from a contribution of technology and skills in organization, leading to, e.g., larger and more efficient industrial, agricultural and financial sectors. This, in turn, may raise domestic savings or enhance the ability to borrow in the international capital markets. The provision of aid may also lead to an overvaluation of the exchange rate in the recipient economy, typically referred to as the "Dutch disease", which bolsters imports.

When aid is provided under unfavorable circumstances, it may preserve structures which hamper development. Aid may then, in effect, reduce trade. On the whole, it has not been possible to establish any direct causality between aid and development (Cassen and Associates, 1986). It is even difficult, in practice, to distinguish between expansionary and contractionary impacts. Unless the economy is permanently restructured, for example, the "Dutch disease" risks leading to an accumulation of foreign debt and strengthening of unfavorable consumption and investment patterns which eventually generate recession and causes a general contraction of purchasing power.

2) *Reorientation*

There may not only be an expansion or a contraction of trade, but the composition is likely to be affected too. An altered productive capacity may change the terms of both supply and demand. Certain firms may obtain a gateway to the market through the establishment of valuable contacts and build-up of goodwill, with benefits spilling over to networks of related subcontractors, while others will lose their competitive edge. The redirection may have geographical as well as sectoral dimensions, and either augment or reduce the potential opportunities for trade between the donor and the recipient country.

In the presence of trade-creating activities which draw on the specific abilities of the donor country, aid is likely to strengthen complementary economic activities on the two sides,

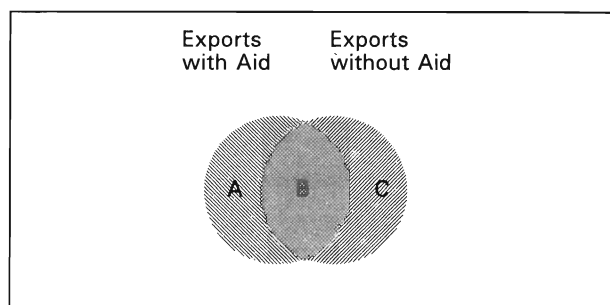
stimulating larger exports of finished as well as intermediate products. With aid raising the productive capacity in goods which the recipient country used to import from the donor, however, there will also be a substitution effect. The net effect will depend on the direction as well as relative strength of the various impacts.

An illustration of the outcome is presented in Figure 2.1. The right-hand circle represents exports in the absence of aid, while the left-hand circle shows exports in the presence of aid. The net impact is A-C, exports induced because of aid minus exports which cease due to the provision of aid. The effects may occur through various mechanisms. The area A may increase because:

- by fostering a higher rate of growth and capital accumulation or an overvalued exchange rate, aid may increase the demand for imports,
- the recipient country may lack foreign exchange from other sources than development assistance, adding new resources available for financing of imports,
- by allowing a firm to enter a foreign market, aid makes potential customers acquainted with the donor country's products. This paves the way for, e.g., an adoption of suitable standards and services which facilitate continued exports.

The area C, on the other hand, may expand due to:

Figure 2.1: Size of exports with and without aid



Note: The proportions are purely imaginary.

- a reduced demand for imports because of a negative impact of aid on growth, or because the recipient country is helped to establish operations which substitute for previous imports,
- the availability of aid from the donor makes the recipient country expectant of such funds, leading to resistance against projects on commercial terms, more time-consuming negotiations and, thereby, prevention of projects altogether.

These lists do not in any way include all possible influences. The outcome cannot be generalized but will depend on the circumstances prevalent in the specific case. Jepma & Quist (1985), for example, concluded that the size of the recipient economy crucially influences the relationship between ODA and commercial exports.

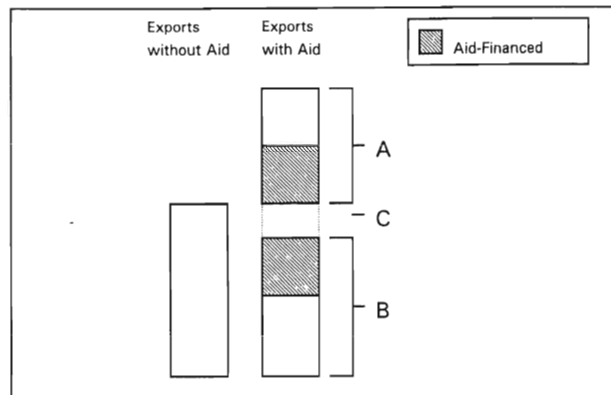
In addition, aid may lead to various changes in the conditions of trade, which is illustrated in Figure 2.2. Of exports present in the absence of aid, some continue to be commercial, other cease altogether, and some occur on concessionary terms instead when aid is provided. To the extent that commercial transactions simply become concessional, this indicates an unsound distortion of market transactions. Whether a loss of exports (C) is to be regretted depends entirely on why it occurs. The emergence of new exports (A), finally, is typically viewed as favorable by the donor country. If not aid-financed, and given the absence of other market or policy failures, it should be in everybody's interest. Aid-financed imports, on the other hand, may or may not be socially desirable. In order to be so, it should initiate activities which will later become sustainable on commercial terms.

As noted below the figures, the illustrated proportions of effects are highly imaginary, and all kinds are far from always prevalent. However, we argue that a practically useful analysis of the link between aid and exports needs to be alert with respect to the presence of all these possible effects. The purpose should be to form a satisfactory base for an understanding of the net impacts of aid on trade.

2.4 The Design of Aid

The design of aid crucially influences how the resource base of the donor is linked to the needs of the recipient country. As discussed above, the most common way of promoting commercial interests is the practice of tying funds with regard to the source of

Figure 2.2: Shifting terms of exports



Note: The proportions are purely imaginary.

procurement. This may ensure a certain impact on export performance in the short term, which was indicated by the inter-country comparison in Table 2.1. The ensuing changes in trade patterns may or may not, however, favor activities in which the donor country is competitive. Jepma (1991) and others have argued that tying damages the allocation of resources, leading to inefficient pricing and distortions in sectoral priorities and/or choice of technologies. Hansen et al. (1989), for example, estimated that tying of aid is accompanied by prices which exceed the internationally competitive level by 15-30 percent.

Against this may be argued that tying prevents mismanagement of funds due to inefficiencies on the recipient side, including asymmetric information. Odén (1986) reports that tied import support has diversified trade patterns inherited at independence in the case of Zimbabwe. Tying of aid by one country may neutralize formal or informal tying by other donors, thereby levelling out the terms of competition. For such reasons, it cannot be generalized how tying of aid by an individual donor affects trade. However, a number of restrictive conditions should be fulfilled if tying is to promote efficient exports. Consider the following⁷:

⁷ For an analysis of conditions that determine the costs of tying, see Bhagwati (1985). See Andersson and Johansson (1993) for further discussion about the points listed here.

- Procurement from the donor country must not be made an objective in itself.
- The special competence of the donor should be upgraded and transferred as efficiently as possible.
- Aid disbursements must be directed to countries, sectors and activities where they are expected to be used efficiently.
- Aid should not be tied in forms which unnecessarily reduce flexibility.
- Aid should be tied in ways which improve and facilitate market mechanisms, not counteract them.
- Competitive pressure must prevail to ensure adequate pricing.

These factors bring attention to the importance of information, the recipient's administrative capacity and bargaining position, as well as evaluation and co-ordination. When the working practices of aid agencies secure competition between national or international competitive firms before funds are made available, this typically supports a favorable trade creation. There are also ample examples of rivalry between donor countries to finance exports with mixed credits, especially in those developing countries which are interesting from a commercial perspective. Such countries are today demonstrating a great ability to play potential donors against each other as a means of obtaining favorable conditions. The availability of tied funds here provide certain firms with an advantage which allow them to enter and develop the skills and positions which lead to long term expansion. Under these circumstances, there is less of a risk that tying results in higher costs for the recipient side. Less developed countries with weak bargaining power, on the other hand, are likely to suffer severe losses due to misuse of tying by donor countries. The more room there is for arbitrary tying, the greater the risk for abuse in order to boost short term interests. In the long term, all parties will lose from subsidization of certain activities.

As will be further discussed in the next chapter, there is a general trend towards less formal tying in bilateral aid. On the other hand, conditionality may be imposed in a number of ways with the explicit purpose of increasing the return flow to the donor country. In practice, the distinction between tied and untied aid can only be made with respect to intentions, not to actual results. While formal source-tying refers to contractual arrangements where it is explicitly stated that procurement must be made from the donor country, informal restrictions secure source tying through other means, such as political pressure, historical ties, traditional links, etc. It is difficult to assess the extent of informal

tying, since far from all reflows from aid are a consequence of tying practices. Some aid-related exports simply reflect competitiveness, information advantages or interlinkages between recipient and donor which prevail in ordinary commercial relations as well.

Furthermore, by directing the use of untied aid funds to areas (sectoral and/or geographical) where the donor country has a competitive advantage, the donor may raise the probability of exports in return of aid. ODA may be paralleled by other supportive activities which enhance the potential for commercial output. Trade relations between developed and developing countries are strongly impeded by the mutual lack of information about firms, products, distribution channels, etc. Provision of adequate information, e.g. reaching out to the private sector on both sides rather than limiting the exchange to government-to-government relations, may consequently be a prerequisite for a broadened commercial exchange. The influence of this factor will, again, depend on various conditions, such as the sophistication of the private sector in the recipient country, the complementarity of the business sector in the two countries, etc.

Before turning to the empirical analysis, the following chapter briefly presents the organization of Swedish development assistance as well as the international trends in aid-trade relations.

3 Organization of Swedish Development Assistance

Following a brief introduction of the Swedish aid system and its gradual change over time, this chapter briefly describes the individual aid agencies in terms of recipient countries, aid instruments, target sectors and commercial links. The countries receiving aid on a long term basis are referred to as "cooperation countries", or "programme countries" in the case of SIDA. In addition to the aid agencies, we point out a few complementary organizations whose activities may also influence the link between aid and exports. The chapter ends with a brief discussion on international trends in the management of aid-and-trade relations.

3.1 Gradual Change in the Organization of Swedish ODA

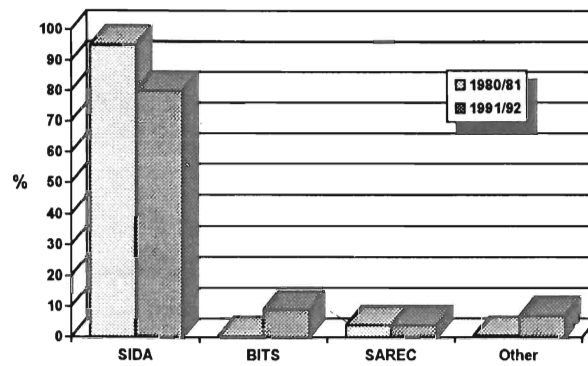
In fiscal year 1991/92, Sweden transferred SEK 13.7 billion to developing countries in the form of ODA (SIDA, 1992). About one third was multilateral, which is fairly much by international standards (Cf. Figure 3.6). Sweden stands out as one of the most generous donors as measured from the magnitude of ODA, which amounted to some 0.9 percent of GNP in the 1980s. Only some of the other Nordic countries and the Netherlands provide ODA on a comparable scale. The DAC average corresponded to 0.33 percent of GNP in the 1980s, well below the UN recommendation of 0.7 percent. For several individual countries, such as Vietnam and Tanzania, Sweden has been the largest donor among the market economies for a long time. On the whole, Sweden financed about 3.7 percent of total ODA from DAC as of 1991 (OECD, 1992).

Over time, there has been a gradual change in the organization of Swedish ODA. This partly reflects a shift in the view of how aid should relate to commercial activities. In the early days, there was more or less an ethical barrier between aid policy and Sweden's own economic interests. In order not to risk to taint the purpose of aid, commercial interests were set out to be subordinated. In the 1970s, however, the boundary between the two started to become blurred. Partly due to worsened economic conditions, but also the recognition that commercially motivated transactions may facilitate development assistance, there was a change in official attitudes (SOU, 1977:13).

The Concessionary Credit Bill (Proposition 1980/81:41) stated "*Our programme countries ought to be not only recipients of aid but also trading partners... The credits may make it possible for Swedish firms to compete on new markets and thereby affect Swedish exports positively*" (transl.). Accordingly, steps were taken to broaden the cooperation, with attention paid to the potential linkages between aid and exports. In particular, new instruments were introduced, such as soft credits and equity capital. These were handled by the new agencies BITS and SWEDFUND. The introduction of "return flows" in the political vocabulary was yet another manifestation of the new focus on the relationship between aid and exports.

The Swedish aid system is organized in a way which resembles that of Germany and Italy. A single ministry is in charge, i.e. the Department for International Development

Figure 3.1: Distribution of Swedish bilateral aid disbursements (percent)



Source: SOU 1993:1

Cooperation within the Ministry for Foreign Affairs, while management is taken care of by several agencies. The Ministry handles virtually all multilateral aid and decides about special financial support to highly indebted developing countries. Planning and implementation of bilateral aid, however, is delegated to SIDA, BITS, SAREC, SWEDECORP and SWEDFUND. Figure 3.1 shows that the dominance of SIDA has decreased somewhat since the early 1980s. Particularly BITS has gained in importance, reflecting a certain tilt towards more commercially oriented aid. In the following, we briefly discuss the institutions one by one.

3.2 The Swedish Institutions

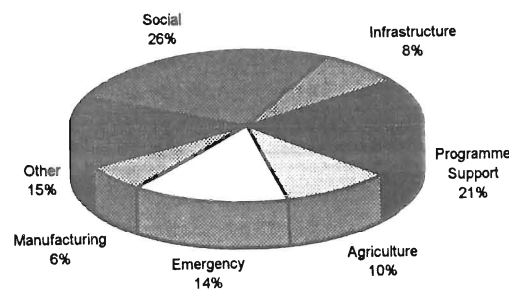
SIDA

SIDA (Swedish International Development Agency), the oldest Swedish aid agency, was established in 1965. Above all, it handles support to countries selected for long-term cooperation, the so-called programme countries (see Appendix 1). In addition, SIDA is responsible for emergency aid, assistance to Non-Governmental Organizations (NGO), humanitarian aid and regional cooperation, as well as administers a special fund for environmental projects.

The amount of financing available for each programme country, the "country frame", is determined by the Parliament. These funds finance either "project support" or "programme support", with import support the major component in the latter category. The weight of import support varies between countries from virtually zero to almost 100 percent. It used to be partly tied to procurement in Sweden, but is now untied. Allocation systems of foreign exchange have been revised as well. These differ between recipient countries, but there has been a general shift from centrally administered systems towards liberalization. "Non-administrative" systems have been adopted, meaning that priorities regarding importers are lacking ex ante the provision of funds (Larsson, 1992).

Most aid from SIDA is directed to the social sector, including health, education and various projects with low capital intensity. Figure 3.2 provides a rough illustration, although it should be emphasized that problems arise in the division, since different categories may not be mutually exclusive. In chapter 5, we investigate aid and exports to the programme countries, while other kinds of assistance offered by SIDA are dealt with in chapter 7.

Figure 3.2: Disbursements by SIDA, per sector 1991/92 (percent)



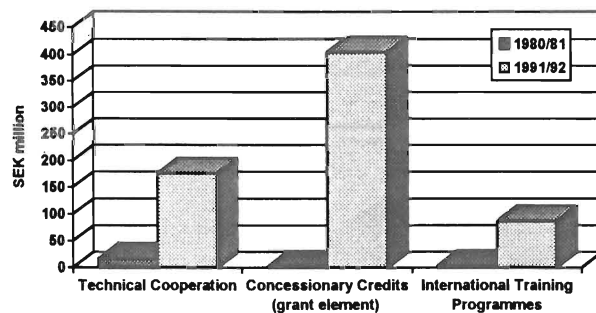
Source: SIDA (1992)

BITS

BITS (Swedish Board for Investment and Technical Support) was established in 1979 with the purpose of promoting economic and social development in developing countries as well as strengthening the commercial relations with Sweden.⁸ BITS has grown considerably from the early 1980s onwards, as indicated by Figure 3.3.

BITS focuses on promoting transfers of technology and know-how for which the main instruments are technical cooperation, concessionary credits and international training programmes. The technical cooperation includes local training, consultant studies and provisions of test equipment. Concessionary credits take the form of so-called mixed credits, i.e. credits on soft terms with procurement tied to Sweden, while the order must be won in international competition. The international training programmes are carried out in Sweden with participants from developing countries. Furthermore, BITS is responsible for the main Consultancy Trust Funds (CTF), which are at the disposal of multilateral organizations for hiring of Swedish consultants. A new area under BITS' governance is the concessional relations with Central and Eastern Europe.⁹

Figure 3.3: Disbursements by BITS (SEK million, current prices)



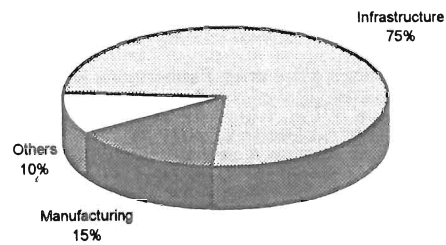
Source: SOU 1993:1

8 The original name was the "Swedish Agency for International Technical and Economic Cooperation".

9 As this has been introduced only in the last few years, it is only briefly commented on in this report. See further Chapter 7.

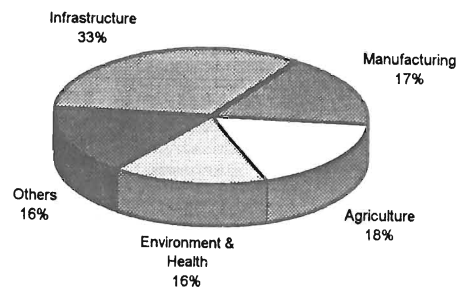
Although some countries receive parallel aid from BITS and SIDA, BITS is active mainly in low- and middle-income countries which have already achieved a certain degree of industrialization (see Appendix 2). The upper limit of GNP for cooperation countries is about three times the average of SIDA's programme countries. Most activities belong in sectors where Sweden is competitive, such as infrastructure and manufacturing (see Figures 3.4 and 3.5).

Figure 3.4: Concessionary credits by sector 1979/80-1988/89 (percent)



Source: BJTS

Figure 3.5: Technical Cooperation by sector 1979/80-1988/89 (percent)



Source: BITS

BITS responds to requests from recipient countries, deciding on the basis of the merits of each proposal, but does not participate actively in the actual aid effort. Thus, the executing parties are private Swedish firms and the governments of cooperation countries. Overseas, BITS is represented by the Swedish embassies, and has no local personnel of its own. The total administration is small, 1.9 percent of total disbursements 1991/92 compared with 3.4 percent for SIDA (SIDA, 1992).

By the nature of its mandate, BITS is more closely linked to export activities than SIDA. Its instruments are designed so as to initiate cooperation between Swedish firms and customers in developing countries. In the case of concessionary credits, for which the major part consists of commercial borrowing, the direct purpose is to pave the way for export deals, often large ones. The credits which were contracted in 1985/86 represented 7 percent of total Swedish exports to developing countries in 1986. Up to 1993, about SEK 12 billion of credits had been provided, corresponding to contracts for SEK 18 billion for Swedish companies.

SAREC

SAREC (Swedish Agency for Research Cooperation with Developing Countries) was established in 1975 with the purpose of promoting research in the third world, to some extent in cooperation with Swedish institutions. Most resources have been spent on public health, science, technology, natural resources/environment and political science. SAREC presently operates agreements with 16 countries, which generally have a low income level. Effects on exports are discussed in chapter 7.

SWEDECORP/SWEDFUND

SWEDECORP (Swedish International Enterprise Development Corporation) started in 1991 when SWEDFUND, IMPOD and SIDA's industrial division merged. It is primarily concerned with promotion of industry and trade, with a responsibility for institutional development in cooperation countries. Of special interest in the present context is SWEDFUND, which again became an independent organization in July 1993. Its overriding objective is to stimulate transfer of technology, know-how and skills in corporate management from Swedish firms to the private sector in developing countries. The focus has been on promoting joint ventures in manufacturing and service industries, through partial financing of equity capital as well as concessional loans. At present, the

investment portfolio contains 48 contracted projects with a turnover of SEK 1.5 billion and 13 000 employees in 25 countries. See further chapter 7.

EKN

EKN (Swedish National Export Credit Guarantee Board) is a public authority promoting Swedish exports by issuing guarantees that protect Swedish exporters from losses due to political and commercial risk. EKN advises BITS regarding risk-taking in developing countries, and administers the guarantees issued by BITS. The final responsibility rests with BITS, however, and losses are covered by the overall aid budget.

The Swedish Trade Council

The main purpose of the Trade Council is to assist small and large Swedish companies to increase their exports. It has about 350 full time employees, of which approximately 50 percent are stationed abroad. The organization has offices of its own in 34 countries, and cooperates with Swedish embassies, consultants and chambers of commerce in another 101 countries. With respect to developing countries, it has local representation only in China and Brazil.

The Trade Council provides advice about conditions in foreign markets and arranges conferences and other business meetings around the world. In the past, most of the budget was financed by the public sector, and aimed at spreading information as widely as possible free of charge. Following new directives in the late 1980s, however, there has been a shift towards greater financing through customer fees. Almost 50 percent is today covered this way, which is set out to increase further in the following years.

3.3 International Patterns and Trends

The link between ODA and exports partly depends on the performance of other countries, including other donors. Thus, let us briefly review international patterns and trends in aid-trade relations.

Together with the other Nordic countries, Sweden stands out as a large donor country relative to the size of the economy. Moreover, compared to the DAC average, these countries distribute a large share of aid to very poor countries, practice little tying, and

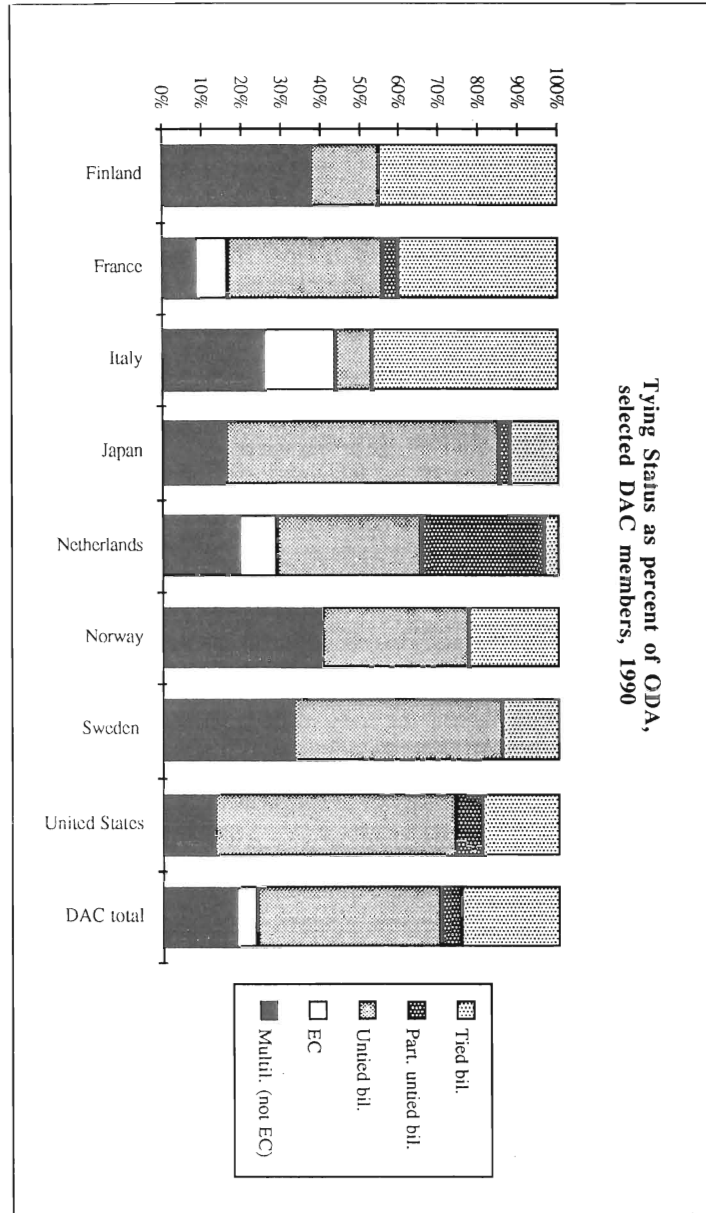
direct a relatively large proportion to multilateral organizations. Figure 3.6 shows that especially European continental countries tie aid to a large extent. Only the US and Japan practice as little tying as the Nordic countries. However, they provide a much smaller share multilaterally and channel the bulk of their bilateral support to medium income developing countries with which they have a wealth of complementary relations supporting commercial exchange.¹⁰

Aid practices are subject to constant review by DAC. By defining a set of rules to be commonly applied by all members, the work focuses on ensuring efficient and transparent ODA practices. Examples are the DAC Principles on Good Procurement Practices, which serve as guidelines for efficient procurement in tied and untied bilateral aid. Furthermore, the so-called Consensus Agreement on subsidized export credits includes rules for associated financing. At the end of 1991, the parties agreed to further limit such practices. The new measures aim at limiting distortions by restricting soft credits in the main target group for associated financing, i.e. low income countries other than the poorest ones. "Commercially viable projects", meaning projects with a sufficiently high expected return, should be financed on market conditions. Each party can call for exceptions, but are then expected to officially explain and justify its reasons for doing so.

The new restrictions have limited the scope of soft financing in fields such as telecommunications, energy and other forms of infrastructure. While the concept of "commercial viability" is transparent and easy to grasp in theory, its practical application is more complicated. Concerns have been raised that projects with a positive social return are treated as commercially viable on the basis of unrealistic calculations of tariffs and pricing. More seriously, both firms and governments have been innovative in finding ways around the restrictions. This applies not only to the donor side but also to commercially interesting recipient countries which are in a strong bargaining position - particularly China - which demand at least as favorable terms for certain projects as in the past. Meanwhile, some donor countries, notably France, have made relatively frequent use of the possibility to escape the rules, further impairing the credibility of the agreement (DAC, 1993).

¹⁰ For the US, the major recipient countries are located in the Middle East and in Latin America. Most of Japanese aid is provided to rapidly developing economies in East Asia.

Figure 3.6: Tying status of selected DAC member countries, 1990 (percent)



Notes: Tied bil. = Tied bilateral aid, Part. untied bil. = Partially tied bilateral aid, Multil. = Multilateral aid
Source: OECD (1992)

In the wake of changing attitudes, bilateral aid policies are undergoing substantial revision. The level of formal tying, as reported to DAC, has declined markedly. This development is mainly urged by the United States, which tie grants but not concessionary credits, and Japan which has untied more than 80 percent of its bilateral aid in response to previous criticism. Italy, for example, has recently abandoned a procurement system which had become entangled with corruption. At the same time, there are strong indications of a reorganization towards aid activities which are of greater commercial value to donor countries. To present some anecdotal evidence, Canada is reorienting its official aid programme towards more or less explicit support of commercial relations with Southeast Asia. The US is emphasizing "capital export projects", referring to large and capital intensive ventures, and has proclaimed that aid funds are not to be made available for activities which directly or indirectly could have negative effects on employment at home. The formal untying of Japanese aid is counterbalanced by the remaining emphasis on support to countries in which Japanese commercial interests are paramount already, and heavy focus on infrastructure rather than, e.g., the social sector. Meanwhile, smaller donor countries, such as Denmark and Finland, are explicitly seeking ways to intensify the participation of domestic industry in bilateral as well as multilateral aid (T&B Consult, 1993). Interviews in developing countries point towards intensified efforts to improve the exchange of information between firms and aid agencies, and a more active participation by the private sector in decision making on multilateral procurement.

There are several factors creating a pressure for new links between aid and trade. Among them can be mentioned the economic problems in donor countries and disappointment with the development impact of much ODA. Concerns over rising unemployment and burdened public finances in donor countries coupled with a greater awareness of the importance of conditionality and monitoring for beneficial results, are inducing a more pragmatic approach.

Summing up, there is a tendency towards less formal tying in aid, most notably led by DAC. On the other hand, there are attempts to promote involvement by the private sector in ODA through other means.

4 Links at the Aggregate Level

The reporting systems of Swedish aid agencies, particularly SIDA, have not been designed to measure the return flow from aid payments. Beyond this matter, we argued in chapter 2 that the concept of return flows is unsatisfactory for evaluating the impact of aid on commercial relations. Calculating net impacts raises difficult problems, however. To obtain useful policy implications, it is still necessary to complement calculations of return flows with evaluations of the trade performance as a whole.

Against this background, this and the ensuing chapters explore the effects of ODA on the size and composition of exports to recipient countries, as well as to multilateral institutions, in the Swedish case. The analysis is undertaken both at the aggregate level of country groups, and at the level of individual countries and sectors. Since exports are determined by many other factors besides aid, the study is not concerned with the absolute value of trade. Rather, attention is primarily paid to changes over time, including the performance of Swedish market shares relative to those of comparable countries. The following aspects are brought up:

- developments of aid and exports,
- comparisons of exports to countries which receive aid with exports to developing countries in general,
- comparisons of exports to countries at varying income levels,
- comparisons of exports to countries which receive different kinds of aid,
- evaluations of the Swedish performance relative to the total for OECD, and compared with individual countries which are useful as points of reference,
- enquiries about developments within individual key companies and purchasing organizations in recipient countries, and
- comparisons of capital contributions and exports to various multilateral organizations, including evaluations of the Swedish record relative to that of other donors.

It should be noted that the focus is on trade in goods, although services account for the bulk of the return flow reported by SIDA. The reason is the lack of an accountancy system which would allow for a distinction between domestic and foreign consultancy services. It

may also be argued that Swedish expert services involved in ODA are of little commercial interest. There are, however, strategically important connections between consultancy services and trade in goods. This has been observed in, e.g., connection to multilateral aid agencies, which is further commented on below.

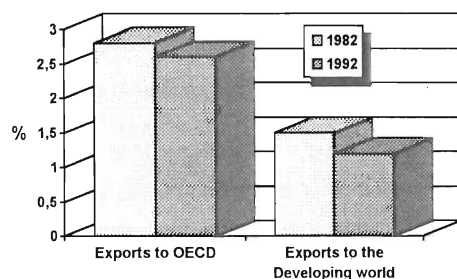
Among other things, we separate between exports financed by tied aid, and exports financed by other sources. Although there is no distinct dividing line, it may be said that the former do not convey information about competitiveness, but may still create opportunities for an upgrading of the resource base. If measured correctly, the latter consist of market transactions and, to the extent that they are related to aid, represent either direct or indirect effects.

4.1 Survey of General Trends

In contrast to many other industrialized countries, Sweden has no colonial past and, hence, limited historical and commercial links with developing countries. Between 1982 and 1992, Swedish exports lost market shares in developing countries compared to OECD. Although Sweden's share of OECD exports actually fell in the world as a whole, the decline was particularly large in developing countries (Figure 4.1). This partly reflects that differentiated products fared especially badly in Swedish exports, while basic industry products - especially pulp and paper - defended their market shares (Andersson et al, 1993). Ohlsson (1993) points out that Swedish trade with developing countries has become more complementary in recent years, meaning that imports are geared towards labor-intensive products and exports towards research- and knowledge-intensive ones. Capital-intensive products, on the other hand, have become less prevalent in Swedish exports to the developing world.

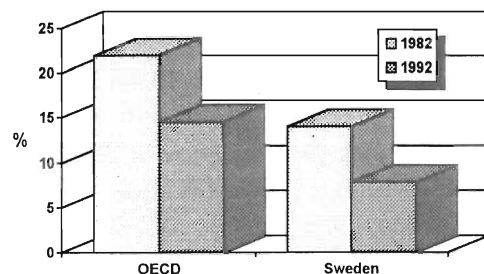
The developing countries became less important actors in world trade in general between 1982 and 1992. Figure 4.2 shows that they received a considerably smaller share of total OECD exports at the end of the period. Again, the reduction was even more pronounced for Swedish exports, which also started out from a low level. The Swedish record in exports to developing countries can be contrasted with the advancement of Sweden as a supplier of ODA. Figure 4.3 illustrates that the Swedish share increased in both bilateral and multilateral aid.

Figure 4.1: Sweden's share of DAC exports to OECD and the developing world (percent)



Note: DAC countries exclude Portugal and Spain. Developing countries do not include the Asian Newly Industrialized Economies (ANIEs): Hong Kong, South Korea, Taiwan and Singapore.
Source: OECD (1982-1993)

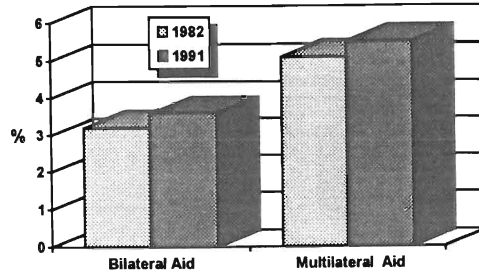
Figure 4.2: Exports from OECD and Sweden to developing countries as share of their total exports (percent)



Note: Developing countries exclude the ANIEs
Source: OECD (1982-1993)

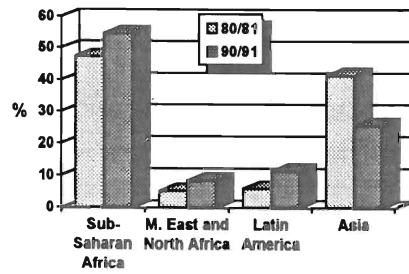
The pattern of commercial and concessional relations presents quite dissimilar features and development paths across regions. In fiscal year 1990/91, Africa, the Middle East and Latin America received a larger share of Swedish ODA compared with 1980/81. At the same time, there was a decline in the share of aid which went to Asia (Figure 4.4). Measured as a share of total ODA from DAC, the pattern is the same, meaning that Sweden's importance as a donor fell in Asia and rose in the other regions (Figure 4.5). Compared with the export performance (Figure 4.6), a conspicuous asymmetry emerges. In regions where the Swedish share of ODA expanded, exports retreated, and vice versa.

Figure 4.3: Sweden's share of total ODA from DAC (percent)



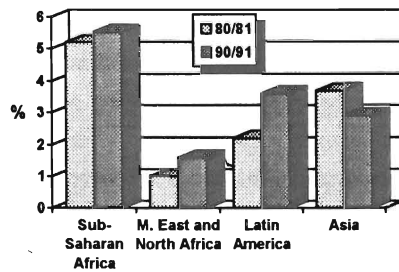
Note: Multilateral organizations exclude EC organizations. Portugal and Spain are not part of DAC.
Source: OECD (1992)

Figure 4.4: Swedish ODA by region (percent)



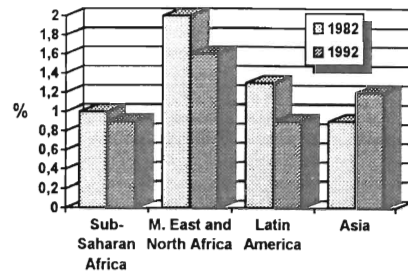
Note: Including imputed multilateral flows, calculated using the geographical distribution of disbursements.
Source: OECD (1992)

Figure 4.5: Swedish share of total ODA from DAC, by region (percent)



Note: Including imputed multilateral flows, calculated using the geographical distribution of disbursements.
Source: OECD (1992)

Figure 4.6: Swedish share of DAC exports to developing countries by region (percent)



Note: Asia does not include the ANIEs
 Sources: OECD (1982-1993) and Swedish Trade Council

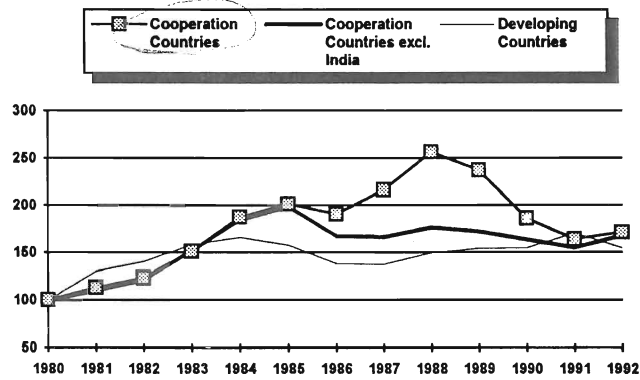
It should be stressed, however, that these observations do not permit any conclusions regarding the relationship between aid and exports. Has Swedish support simply been provided to those countries which need it the most, and exports been successfully reoriented to the most promising markets? To what extent has aid made exports larger than they would otherwise have been, or a reduction of aid enabled exports to expand? Before seeking answers to such questions, let us explore differences in performance between groups of countries.

4.2 Country Comparisons

It turns out that, since 1980, exports to cooperation countries have very much followed the same path as that to developing countries in general. Figure 4.7 shows that exports to the latter grew somewhat faster in the early 1980s, and those to the former more rapidly 1982-1984 as well as 1986-1988. Between 1980 and 1992 as a whole there was not much of a difference, however. Partly due to the strong variation in exports to India, a separate graph has been constructed for cooperation countries excluding India. As can be seen, the path of export growth to these countries then resembles that to all developing countries.

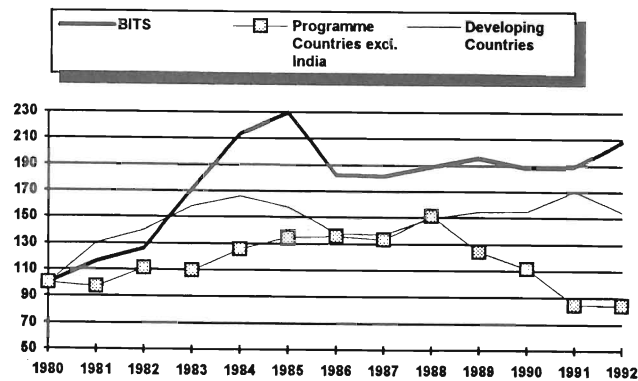
As noted, the two major aid agencies, SIDA and BITS, provide the bulk of their aid to different countries. To obtain further information, we separate between exports to the two groups of cooperation countries (cf. Appendix 1 and 2). Note that India is not included in

Figure 4.7: Swedish exports to developing countries
(index 1980=100, current prices)



Source: SCB

Figure 4.8: Exports to groups of developing countries
(index 1980=100, current prices)

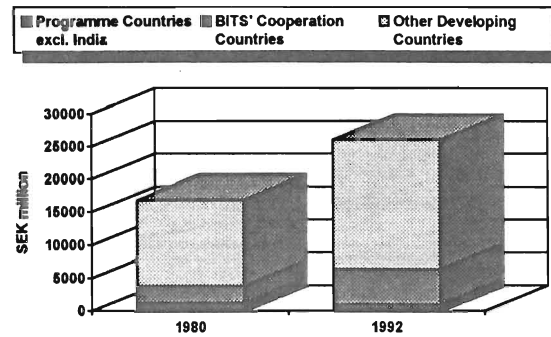


Source: SCB

any group, since the country has received considerable assistance from both agencies. Again, the exclusion of India leaves us with a more stable export trend, but does not alter the rate of growth 1980-1992 compared with other cooperation countries.

In the period studied, Swedish exports to these two groups of countries displayed notably different trends. Exports developed more favorably to the cooperation countries of BITS than to the programme countries, which in turn performed worse than the developing

Figure 4.9: Swedish exports to developing countries (SEK million, current prices)

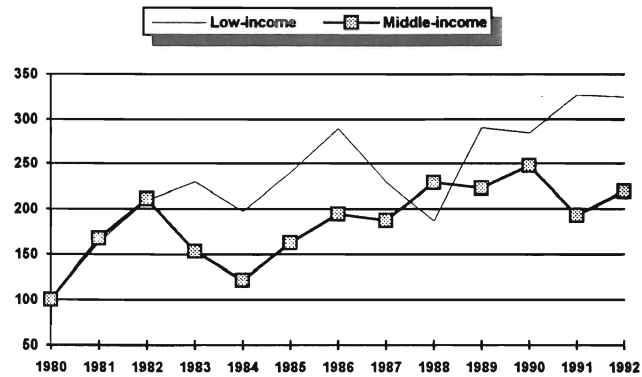


Note: Other developing countries exclude ANIEs
 Source: SCB

world as a whole (Figure 4.8). Figure 4.9 shows the absolute value of Swedish exports to BITS' cooperation countries, programme countries and other developing countries as of 1980 and 1992. The programme countries remained a minor destination throughout. BITS' cooperation countries also started out at a low level but became more important towards the end of the period. Still, other developing countries continued to account for the bulk of Swedish exports outside the industrialized world.

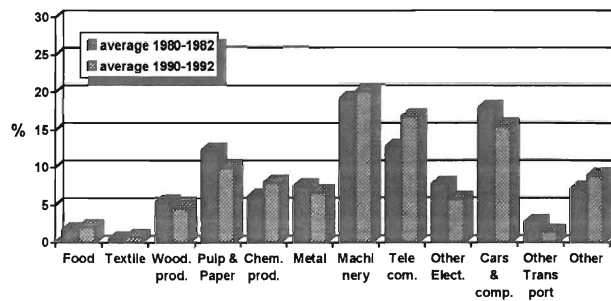
It may be argued that the varying record in exports to the cooperation countries of SIDA and BITS can be explained by a major difference in sales opportunities between countries at dissimilar income levels. As already noted, BITS' cooperation countries have a higher income level on average. However, even though the *level* of exports may well be expected to differ, this need not apply to the growth rate. Comparing Swedish exports to a number of arbitrarily selected middle- and low-income countries which have *not* received ODA, Figure 4.10 demonstrates that the rate of growth between 1980 and 1992 was somewhat higher for the poorer group. If the series had been indexed a few years later, exports would have grown about equally fast in the two groups of countries. Thus, the graph refutes any simple explanation for the difference between exports to BITS' and SIDA's cooperation countries based on dissimilar incomes.

Figure 4.10: Swedish exports to non-cooperation developing countries
(index 1980=100, current prices)



Note: Low-income countries are: Haiti, Indonesia, Paraguay and Zaire. Middle-income countries are: Brazil, Cameroon, Chile, Guatemala, Senegal, and Venezuela
Source: SCB

Figure 4.11: Sectoral composition of Swedish exports to developing countries (percent)



Source: SCB

All in all, there is a reverse relationship between aid and exports on the aggregate level, at least as far as the programme countries are concerned. On the other hand, it is natural that aid is offered to poor countries which have difficulties in financing imports, while exports are much greater to those societies which are more affluent.

Again, Swedish exports to developing countries are dominated by manufactured goods. Figure 4.11 shows how the industrial composition changed between the early 1980s and the early 1990s. Particularly telecommunications, chemical products and machinery gained larger weights, while cars & car components, pulp & paper, wooden and metal products accounted for shrinking shares of the total. In the following, we examine developments in individual countries and sectors more closely.

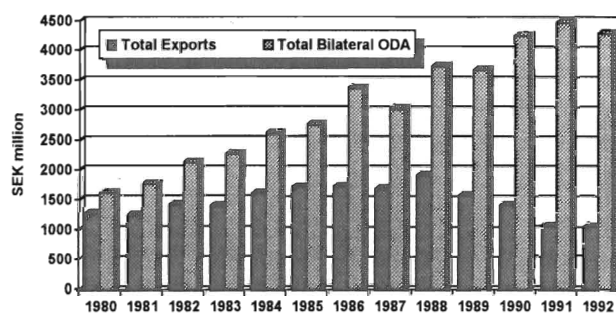
5 Programme Countries

5.1 General Performance

Figure 5.1 provides a rough illustration of trends in ODA as well as exports to programme countries. See Appendix 1 for a list of the countries included. Clearly, concessional cooperation has become dominating in the interactions with Sweden. Exports increased, though at a slower rate than ODA, until 1988. After that time, exports declined every single year even in nominal terms.

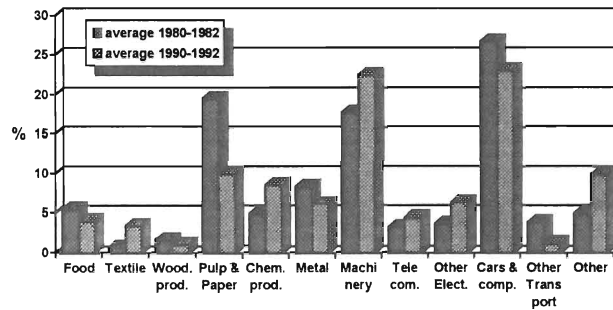
As seen in the previous chapter, the programme countries are of negligible importance for Swedish exports in absolute terms. Nevertheless, it remains a relevant question why trade

Figure 5.1: Swedish exports and bilateral ODA to programme countries
(SEK million, current prices)



Sources: SCB and SIDA (1992)

Figure 5.2: Sectoral composition of Swedish exports to programme countries (percent)



Source: SCB

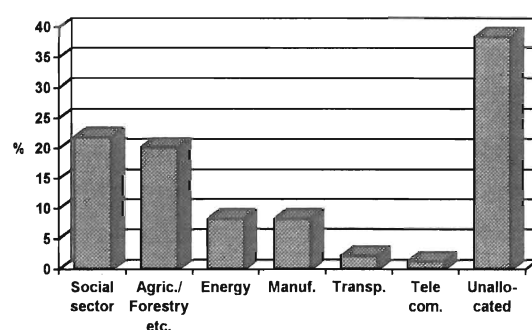
has developed so poorly with these countries which have been specially selected for long-term cooperation. Part of the explanation has to do with their generally weak economic performance. The choice of programme countries has not coincided with regimes whose domestic policies have induced economic efficiency and growth, see e.g. Karlström (1991). In some cases, the recipient countries have also been the prey of harsh circumstances, such as civil war or natural catastrophes. This has made it difficult for aid as well as exports to achieve grand results.

The sectoral composition of exports to programme countries, presented in Figure 5.2, displays a greater concentration than in developing countries on average, and also more drastic changes over time (cf. Figure 4.11). Cars & car components account for a larger share in the programme countries, though they have diminished in importance, while wood and telecommunications are relatively insignificant. The most conspicuous shift has taken place in pulp & paper, which declined from 20 percent in the early 1980s to about 10 percent in the 1990s, thereby attaining the same share as in developing countries on average. Meanwhile, chemicals, machinery and electrical exports have expanded in the programme countries over time, and have attained somewhat larger shares of total exports than in the group of all developing countries.

Figure 5.3 shows how SIDA's aid to programme countries has been distributed by sector. Unfortunately, almost 40 percent is impossible to allocate this way, as SIDA is lacking information about the destination of import support. In recent years, it appears to have been weakly related to purchasing from Sweden, as indicated in Table 2.2. In the early and mid 1980s, tied import support did boost exports of certain products. On the whole, however, it has mostly not been sufficiently linked to procurement from Sweden to significantly alter the main sectoral impacts on exports exerted by ODA.

SIDA's engagement has primarily focused on the social and agricultural sectors, where exports of chemicals (medicals and fertilizers) and paper products (school books, packaging etc.) have been spurred. As noted, chemicals have indeed attained a larger weight in exports to programme countries, while the weight of pulp & paper has declined. For the latter, ODA has exerted a counteracting influence by supporting the establishment of plantations as well as paper mills, which supply domestic raw material and processing capacity, reducing the demand for imports. The orientation towards exports of machinery and electrical products in programme countries compared to the developing world as a whole is in line with SIDA's emphasis on energy and manufacturing in the field of infrastructure.

Figure 5.3: Disbursements by SIDA to programme countries, by sector 1979/80 - 1991/92 (percent)



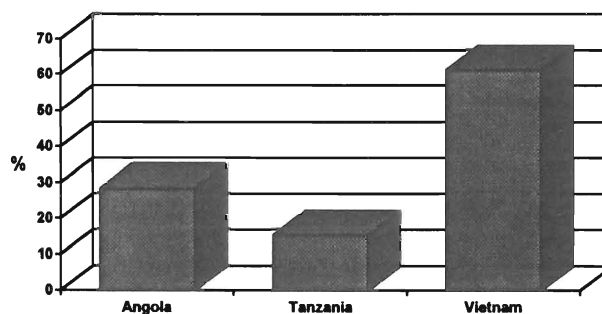
Source: SIDA

In order to further examine possible links, we consider three programme countries, Angola, Tanzania and Vietnam, in some detail. The choice is motivated by the Swedish position as leading supplier of foreign development assistance in these countries (Figure 5.4). In addition, the Swedish share is the largest in Vietnam and Angola, about 60 and 28 percent respectively of all bilateral ODA from market economies between 1980 and 1991 on average. Meanwhile, Tanzania is the country which has received most Swedish aid in absolute terms, corresponding to 15 percent of all bilateral ODA provided to the country. To the extent that SIDA's assistance has exerted an impact on exports, one might expect this to be particularly visible in these three programme countries.

5.2 Angola

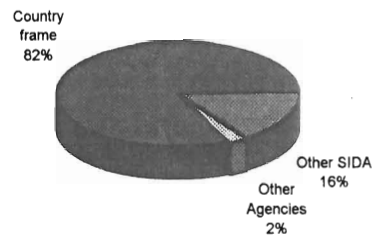
Angola has been a programme country since 1977, with most support financed within the country frame (Figure 5.5). Apart from SIDA's activities, four projects were financed by BITS. The profile of the Swedish aid to Angola is further depicted in Figure 5.6. Important components are support to the social sector, agriculture, forestry, energy and transports. A substantial part has taken the form of import support, about 35 percent since 1980. Of this, 85 percent has been tied to procurement in Sweden. During the period 1980-87, more than 50 percent of import support went to transports, and 29 percent to energy (Narrowe, 1989). This type of aid was phased out in the beginning of the 1990s. Through concessionary credits, BITS financed two projects in transports and two in energy.

Figure 5.4: Swedish share of total bilateral ODA from DAC to programme countries, average 1980-1991 (percent)



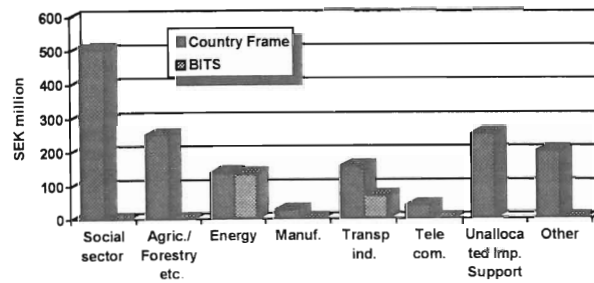
Source: OECDb

Figure 5.5: Swedish ODA to Angola by source 1979/80-1991/92 (percent)



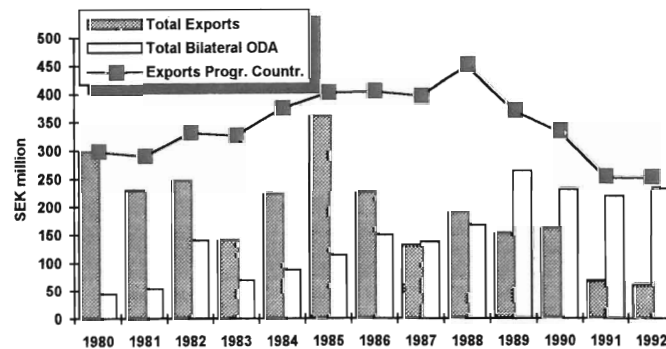
Source: SIDA (1992)

Figure 5.6: Swedish aid disbursements to Angola by sector and agency 1979/80-1991/92 (SEK million, current prices)



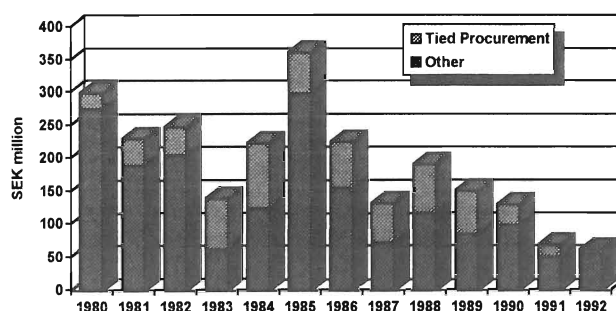
Note: Import support during the period 1983-88 is allocated to respective sector.
Source: SIDA

Figure 5.7: Swedish exports and bilateral ODA to Angola, and Swedish exports to all programme countries (indexed) (SEK million, current prices, index 1980=297.1)



Sources: SCB and SIDA (1992)

Figure 5.8: Swedish exports to Angola by source of financing
(SEK million, current prices)



Sources: SCB and SIDA

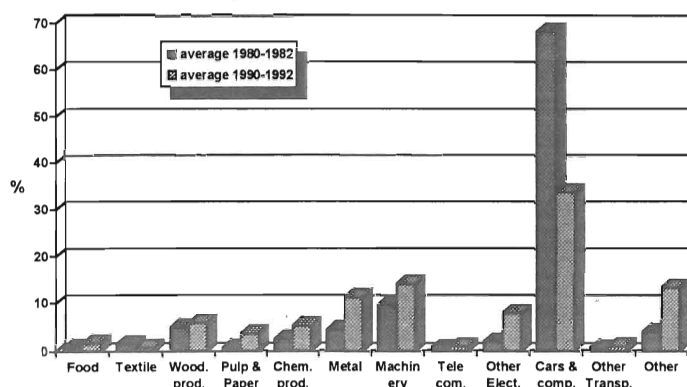
While ODA increased from SEK 44 million in 1980 to 232 million in 1992 (Figure 5.7), exports declined dramatically. From an average export value of 258 million per year in the early 1980s, it fell to SEK 86 million in the 1990s. The trend in exports to Angola is more downward-sloping than in programme countries on average, which is seen from a comparison with the indexed series of exports to all those countries.

Figure 5.8 illustrates to what extent exports have emanated from tied aid, mainly import support and to a lesser degree BITS projects. From 1983 until the end of the decade, tied aid constituted an important source of financing for Swedish exports to Angola. At one point, almost half of the total was financed this way. From 1990 onwards the import support has been phased out, however, and virtually no funds have been tied. As can be seen, Swedish exports have shrunk to a very low level.

In the early 1980s, Swedish exports to Angola were dominated by cars, which amounted to SEK 527 million in 1980-82. This was twice the value of the *total* Swedish aid provided at the time. The major source of financing was the commercial export-credit system, which was no longer available when Angola ceased to be creditworthy a few years later. The car exports subsequently plummeted. As of the early 1990s, the value of Swedish car exports had fallen to SEK 88 million, which corresponded to approximately 10 percent of the value of the Swedish aid. Still, Figure 5.9 shows that cars remained dominant in Swedish exports to the country. Of course, it may be questioned whether an emphasis on vehicles represents a sound commercial orientation in regard to a country at Angola's income level.

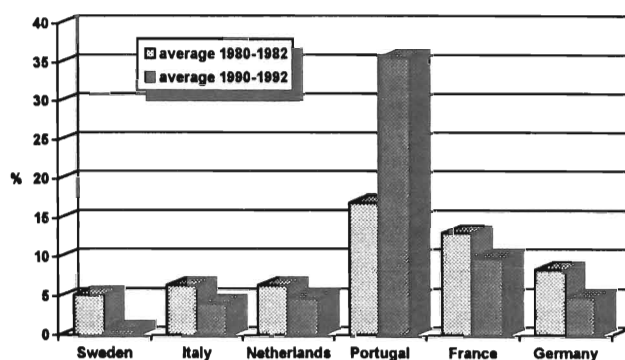
The weak performance of Swedish exports in absolute terms may to a great extent be attributed to the civil war, which has complicated ordinary commercial activities. A comparison with other major European donor countries is consequently of major interest. The second most prominent donor country has generally been Italy which, together with Sweden, has accounted for more than 50 percent of the bilateral aid. They were followed by the Netherlands, Germany and France. Portugal, not a member of DAC at the time, provided less support (OECDb). Figure 5.10 shows that all the major European donors lost market shares in Angola between the early 1980s and the 1990s, while Portugal

Figure 5.9: Sectoral composition of Swedish exports to Angola (percent)



Source: SCB

Figure 5.10: Shares of OECD exports to Angola, selected European donor countries (percent)



Source: OECD (1982-1993)

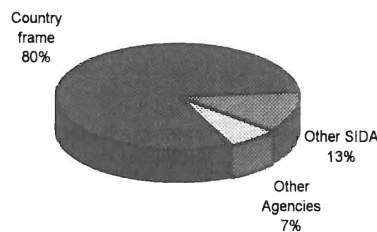
advanced strongly. However, Sweden experienced the by far largest reduction. On the whole, the figures indicate no positive relationship between aid and exports. Superior knowledge of the local market, including the language and the nature of decision-making, enabled the Portuguese, representatives of the former colonial power, to strengthen their position.

Thus, Sweden's role as a leading benefactor has not led to any commercial advancement. This might have been expected, due to the political and economic hardships endeavoured by Angola. In spite of this situation, however, the country has increased the total value of external trade in the period studied. The Swedish performance is particularly weak when compared with other European donor countries. The kind of exports supported by tied aid, such as cars and car components, later crumbled when aid became untied.

5.3 Tanzania

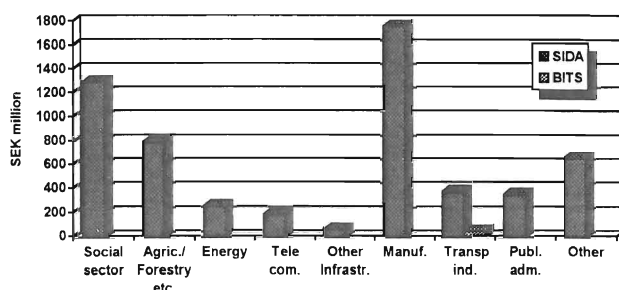
Tanzania has been one of the major programme country since the early 1970s. Although all Swedish aid agencies have been active in the country in recent years, Figure 5.11 shows that SIDA has financed more than 90 percent of the total. As seen from Figure 5.12, manufacturing has been the largest recipient. Similar to the other programme countries, the social and agricultural sectors have also obtained extensive aid. Import support has been directed to transports (e.g. spare parts) and agriculture (fertilizers). There has also been

Figure 5.11: Swedish ODA to Tanzania by source 1979/80-1991/92
(percent)



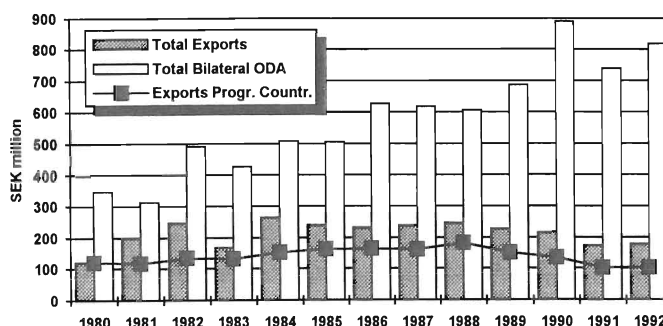
Source: SIDA (1992)

Figure 5.12: Swedish aid disbursements to Tanzania by sector and agency 1979/80-1991/92 (SEK million, current prices)



Note: Import support for 1980-88 allocated by sector.
Sources: SIDA and BITS

Figure 5.13: Swedish exports and bilateral ODA to Tanzania, and Swedish exports to all programme countries (indexed) (SEK million, current prices, index 1980=120.4)



Sources: SCB and SIDA (1992)

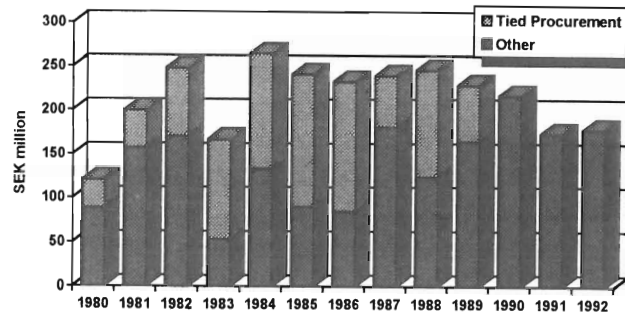
significant support of public administration. BITS has financed one transport project through a concessionary credit. SWEDFUND is involved in five projects, and SAREC has supported research on medical and environmental issues since 1976/77.

On the whole, Swedish aid has aimed at a larger industrial sector, an upgrading of human skills and improved knowledge in public administration. The way aid has been organized one might expect that, to the extent that the support has succeeded in raising efficiency,

there would have been a stimulation of greater imports in general through increased demand and improved purchasing competence. As in so many of the programme countries, however, domestic policies pointed in another direction during the period studied.

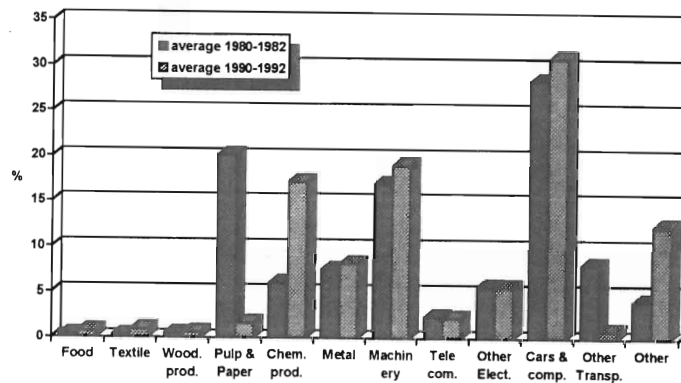
Looking at the main trends, Figure 5.13 shows a steady increase in the provision of aid, with some interruption in the early 1990s. The trend in exports, on the other hand, has been sluggish, although slightly better than for the average programme country. Figure

Figure 5.14: Swedish exports to Tanzania by source of financing
(SEK million, current prices)



Sources: SCB and SIDA (1992)

Figure 5.15: Sectoral composition of Swedish exports to Tanzania (percent)



Source: SCB

5.14 shows to what extent Swedish exports to Tanzania have been financed by tied import support. As can be seen, a strong increase in tying in the mid-1980s failed to exert any major impact on exports, and a sharp decline followed in the early 1990s. Thus, tying did not lead to any lasting increase, although it is possible that continued tying would have prevented the subsequent drop in exports.

Observations of individual companies have shown that foreign exchange, following the untying of assistance, became almost unattainable for imports from Sweden. Swedish multinational companies have reported that imports of spare parts were obtained from subsidiaries in the European Community, where tied import support was available, instead of from Sweden. The magnitude of this effect may be sufficient to account for the whole decline in total Swedish exports in the last two years. It has been partly compensated by exports of intermediate products from Sweden to subsidiaries in the EC.¹¹

The sectoral pattern of Swedish exports to Tanzania displays two interesting shifts (Figure 5.15). First, there has been a major decline in pulp & paper and, second, a substantial increase in chemicals. The former can to a large extent be attributed to the influence of aid which, in the early 1980s, provided the means to import paper products. Gradually, extensive Swedish support of forest plantations and industrial development, including the establishment of a large paper mill - the Mufindi project - contributed to the substitution of imports by local production. Accordingly, "positive" direct effects were replaced by "negative" indirect effects.

Concerning chemical exports, there is clearly a connection with the provision of import support for fertilizers and insecticides. In 1983-87, about 20 percent of the Swedish import support financed chemicals. Even after funds became untied, exports of such products continued to grow. Cars & car components were also supported in the early 1980s. The advancement of this sector is above all related to the local presence of Scania, which indirectly is connected to the Swedish aid programme. With the untying of import support, Scania's operations have become independent, however, and the company has had to use a variety of channels to secure foreign exchange for imports from various plants abroad.

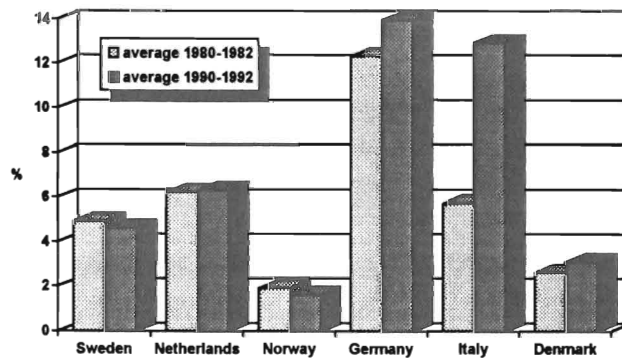
¹¹ Extremely tentative estimates suggest that these imports correspond to about one third of the decline in exports to Tanzania which resulted from the absence of import support tied to procurement in Sweden. These figures should not be taken literally, but merely illustrate the magnitude of possible effects in trade of intermediate products.

other things, the difficulties have forced Scania to build up an extremely large local stock of spare parts, contributing to unduly high prices and many vehicles which stand idle in the countryside short of cash for repair.

A crucial question concerns to what extent the massive aid to Tanzania has created goodwill, facilitated the establishment of business contacts, helped to expose Swedish products in the local market, etc. To seek an answer, let us compare the Swedish performance with that of other European donor countries. Following Sweden, the largest European donors were the Netherlands, Norway, Germany, Italy and Denmark (OECDb). The export performance of these countries is shown in Figure 5.16. Particularly Italy and Germany increased their shares of OECD exports. Denmark and the Netherlands also recorded some growth, while the market shares of Swedish and Norwegian exports declined. In absolute terms, Sweden increasingly fell behind the Netherlands but remained ahead of Denmark.

Although the performance is less weak than in Angola, it can again be concluded that the Swedish position as a major donor has not resulted in a particularly strong export performance. This prevails in spite of SIDA's support of manufacturing, where complementarity might have been expected with the Swedish resource base. As noted, this is partly related to the overriding deficiencies of the assistance to Tanzania. The Basic Industries Strategies, pursued by the government and supported by Sweden, has largely

Figure 5.16: Shares of OECD exports to Tanzania, selected European donor countries (percent)



Source: OECD (1982-1993)

failed. A more favorable economic record would have required macro-economic adjustments (Collier, 1991; Radetzki, 1992). Moreover, SIDA has sought to delegate responsibilities to the recipient side, at the cost of a substantial mismanagement in government-controlled institutions. This has not least been visible in small-scale projects (Swedish Development Consulting Partners, 1991). In recent years, SIDA has become aware of the difficulties, and made substantial demands for restructuring on the local side, e.g. concerning privatization.¹² The change has come late, however. There are strong signs of "aid-dependent" attitudes in Tanzanian relations with representatives of Sweden.

A sharp contrast to the Swedish performance is provided by that of the Japanese. While active on a much smaller scale in Tanzania than Sweden, the Japanese have focused on achieving palpable and conspicuous results, e.g. in the form of financing and efficiently implementing the construction of new roads. Without reflection on the general usefulness of either approach, it can be stated that the Japanese way has awarded their business interests considerably more visibility, and perhaps goodwill, than the much larger and more enduring Swedish effort to cultivate domestic skills and resources.

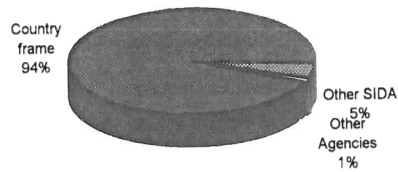
5.4 Vietnam

In Vietnam, Sweden has been the by far largest donor among the market economies since the early 1970s. Virtually all Swedish ODA has been provided by SIDA, mainly within the country frame (Figure 5.17). Apart from this, SAREC has been active in the country since 1977, and SWEDECORP opened an investment office in Ho Chi Minh City in 1993. Like Angola and Tanzania, Vietnam is a very poor country which has been subject to difficult external and internal circumstances. In contrast to the two others, however, the Vietnamese economy has developed favorably during the period of study, and has become notably interesting from a commercial perspective since the late 1980s.

In Vietnam, most Swedish ODA has taken the form of import support and support of agriculture (Figure 5.18). A fairly large amount has also been provided to manufacturing

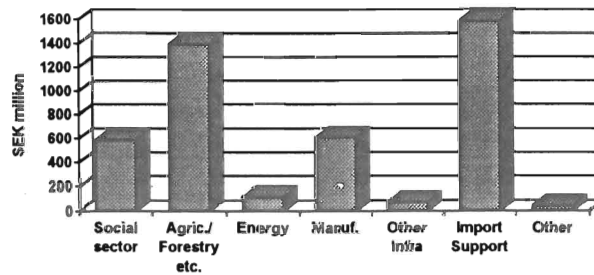
12 The few projects that have become sustainable on their own tend to be characterized by some lasting foreign involvement, as in the case of joint-ventures mediated by SWEDECORP.

Figure 5.17: Swedish ODA to Vietnam by source 1979/80-1991/92
(percent)



Source: SIDA (1992)

Figure 5.18: Swedish aid disbursements to Vietnam 1979/80-1991/92
(SEK million, current prices)

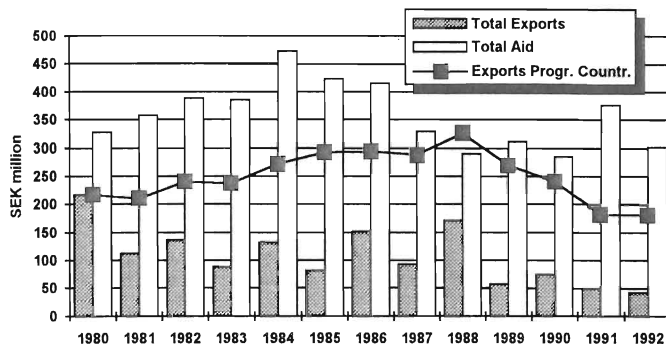


Source: SIDA

and the social sector. In manufacturing, the assistance has more or less been confined to the Bai Bang-project, i.e. the construction of a large paper mill. Regarding energy, support has been directed to generation and distribution of power. SAREC has focused on agriculture and medicine.

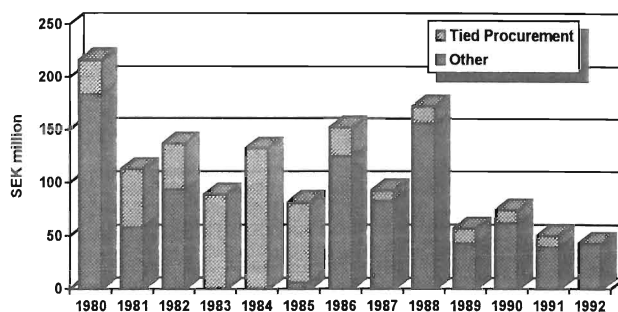
While the level of ODA has remained high throughout the period studied, exports have stagnated gradually (Figure 5.19). The trend is much weaker than that in programme countries in general. At the same time, Vietnam's favorable economic record has led to a substantial expansion of the country's external trade as a whole. Due to the US embargo, Sweden started out in a special position as one of the few friendly inclined western

Figure 5.19: Swedish exports and bilateral ODA to Vietnam, and Swedish exports to all programme countries (indexed)
(SEK million, current prices, index 1980=120.4)



Source: SCB

Figure 5.20: Swedish exports to Vietnam by source of financing
(SEK million, current prices)



Source: SIDA

countries. This unique status gradually eroded towards the end of the 1980s, when the Vietnamese economy turned market-oriented and a number of others stormed in to exploit the commercial opportunities, particularly from neighboring countries in Southeast Asia.

The share of Swedish exports financed by tied aid is depicted in Figure 5.20. In the early 1980s, it represented as much as 100 percent during a couple of years. From the middle of the decade, the tied component dwindled, followed by a big drop in total exports from

1989. Table 5.1 reports how much purchases from Sweden which resulted from the import support during 1987/88-1991/92. A mere 21 percent of total disbursements gave rise to Swedish exports. Viewed from the other side, 31 percent of exports were financed by the import support scheme.

Looking at the fiscal year 1991/92 in greater detail, Sweden exported goods for SEK 47 million, of which 65 percent involved import support. Meanwhile, this scheme accounts for about one third of the total Swedish ODA to Vietnam. Evidently, the declining exports were directly financed by aid to a very large extent, leaving little scope for indirect effects in the period studied.

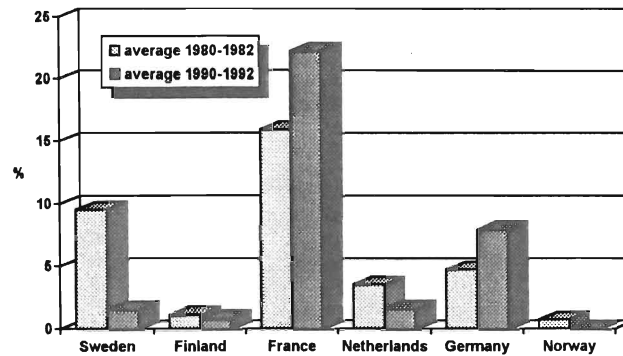
Sweden provided more ODA to Vietnam than all other members of OECD together in the period of study. In OECD-Europe, Finland, France, Germany and the Netherlands followed suit. Compared with all these countries, the Swedish export performance is bleak (Figure 5.21). The country's share of OECD exports declined from 10 percent in 1982 to less than 1 percent in 1992. France and Germany recorded major advancements. Although ODA remains of great importance for financing Vietnamese imports, the figures speak for a conspicuous absence of favorable indirect effects from Swedish aid to Vietnam on commercial relations.

Table 5.1: Letter of credits associated with Swedish import support, 1987/88-1991/92 and Swedish total exports to Vietnam
(SEK million)

Category	1987/88-1991/92
Amount disbursed	609.8
Financing exports from Sweden	130.6
Of which tied to Sweden	56.3
untied	74.3
Total Swedish exports to Vietnam	419.8

Sources: SIDA (1992, 1993b) and SCB

Figure 5.21: Shares of OECD exports to Vietnam, selected European donor countries (percent)

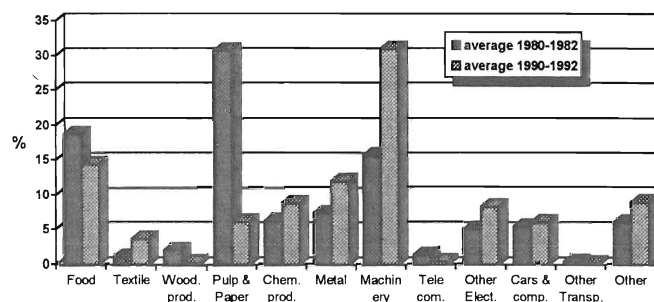


Source: OECD (1982-1993)

In the early 1980s, the composition of Swedish exports to Vietnam differed markedly from that to programme countries in general. The shares of food and pulp & paper were significantly larger, together accounting for almost 50 percent of exports (Figure 5.22). Over time, these sectors have obtained "normal" shares, especially pulp & paper, reflecting a shift in demand from basic to more technically advanced products. Thus, in spite of a changed orientation in exports towards growing sectors, the Swedish record was weak across-the-board.

Explanations behind this performance are to be found both within SIDA and other public agencies on the Swedish side, and within private companies. The latter have been late in realizing the business potential of Vietnam, which is now widely expected to become a new "economic dragon" in the rapidly expanding East Asian region. Their local presence is meagre, putting Sweden down in 13th place among foreign investors as of 1993. Moreover, public and private organizations from countries such as France, Germany, Britain, and Australia have been more effective in establishing cooperation with key business organizations and providing information about opportunities for commercial exchange. The Swedish Trade Council, on the other hand, has done little to promote

Figure 5.22: Sectoral composition of Swedish exports to Vietnam (percent)



Source: SCB

business relations with Vietnam. In 1993, SWEDECORP made an effort to fill the gap by setting up an investment office in Ho Chi Minh City, which represents the first Swedish presence in the economic heart of the country.

5.5 Overall Picture in Programme Countries

This section has been concerned with those countries which are the main target of Swedish ODA, although they are of virtually negligible importance for Sweden's foreign trade. Furthermore, we have seen a weak development of exports over time. There has not only been a decline in markets plagued by detrimental domestic policies or unfavorable conditions, such as Tanzania and Angola. In Vietnam, where policies have been relatively successful, exports have performed even worse.

These observations hold not only in absolute terms. The impression of a weak record becomes striking when the Swedish experience is contrasted with that of other European donor countries. In programme countries, exports are falling behind in terms of market shares compared not only to larger European economies and former colonial powers such as Germany, France and Italy, but also relative to a small country such as

Denmark. Other donors appear to make more conscientious efforts to provide information in cooperation countries about their products and firms.

It deserves to be asked why the aid agencies and private firms have been unable to achieve more mutually beneficial cooperation in the programme countries which, after all, have been selected for long term cooperation. When a great deal of import support was tied during the early and mid-1980s, it did not generate any major increase in exports, or stimulate any substantial local presence by private firms. When the support became untied towards the end of the decade, exports declined. Cars & car components and machinery are the main sectors which have attained a larger share of exports to programme countries than to developing countries on average. On the whole, however, the export performance is bleak throughout the industrial spectrum.

6 BITS' Cooperation Countries¹³

6.1 General Performance

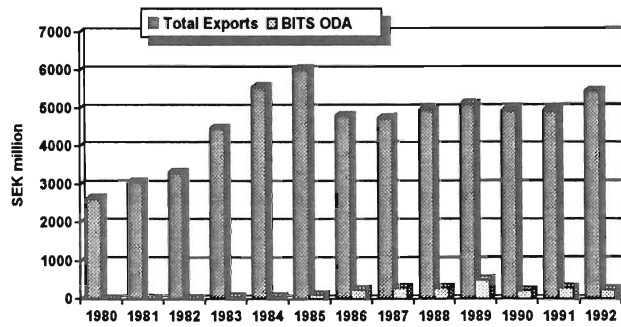
As seen from Figure 6.1, exports developed favorably to the cooperation countries of BITS over the period of study, although the level was stagnant after a peak in 1985. Compared to the programme countries, the relationship between concessionary and commercial flows is the reverse one, with a strong emphasis on ordinary trade.

Not only the magnitude of exports, but also the sectoral composition, differs from the programme countries. There is rather a resemblance with the composition observed for developing countries in general, although the changes over time are more conspicuous in the cooperation countries of BITS (Figure 6.2). The most notable is the spurt recorded in telecommunication exports, which makes almost all other sectors decline in relative terms. Electrical products only just defend their position.

13 The choice of countries to be included in this chapter is less straightforward than in the previous one. Appendix 2 presents those countries considered by BITS as regular partners as of 1988/89. Of these, we have excluded those which joined the group during the second part of the 1980s, as well as countries for which only insignificant funds have been provided.

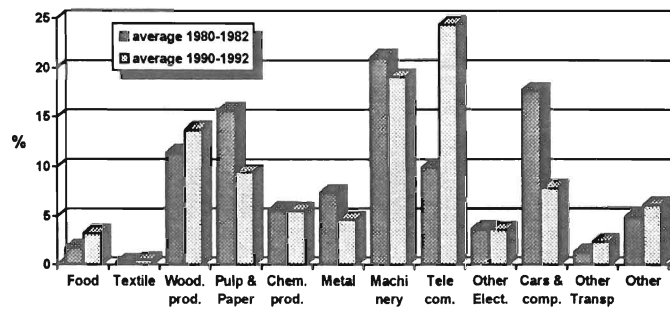
The pattern should be viewed in light of the aid profile of BITS, which emphasizes infrastructure, especially telecommunications (Figure 6.3). Less weight has been put on energy and manufacturing as far as soft credits to the cooperation countries are concerned.¹⁴ Figure 6.4 shows that these activities instead have been awarded the bulk

Figure 6.1: Swedish exports and bilateral ODA to the cooperation countries of BITS (SEK million, current prices)



Source: SCB

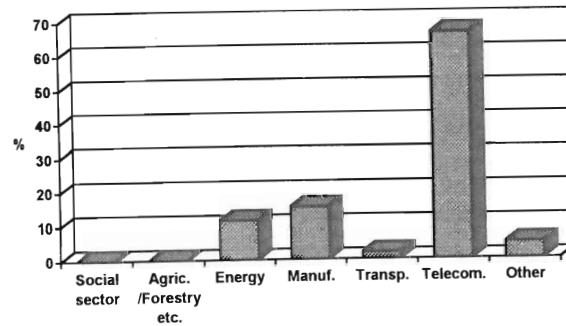
Figure 6.2: Sectoral composition of Swedish exports to the cooperation countries of BITS (percent)



Source: SCB

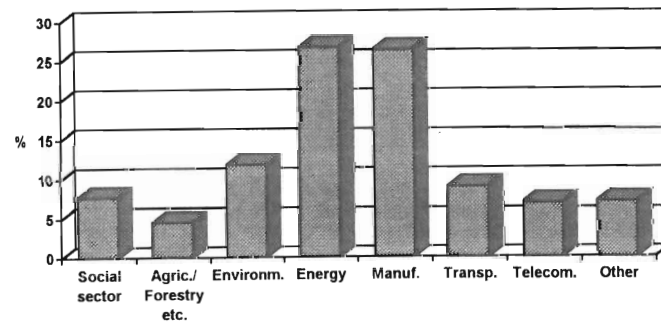
¹⁴ In India, however, energy has been the largest recipient of concessionary credits. Again, India has been excluded here, since it has received extensive support from both SIDA and BITS.

Figure 6.3: BITS' concessionary credits to the cooperation countries, by sector 1981/82 - 1992/93 (percent)



Source: BITS

Figure 6.4: BITS' technical support to the cooperation countries, by sector (percent)



Source: BITS

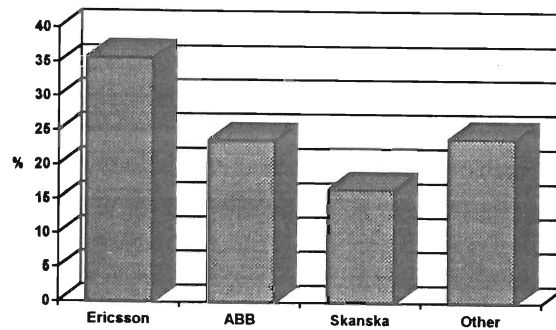
of technical support, which involves much smaller funds than the grant element of the concessionary credits (see chapter 3).

Machinery and electrical products account for somewhat smaller shares of exports to the cooperation countries of BITS than in the case of programme countries, where ODA to a greater extent has been directed to manufacturing and energy. The major difference,

however, concerns the much greater weight of telecommunications in exports to the cooperation countries of BITS. Evidently, there is a connection between the sectoral focus of aid and export performance.

Let us consider how the support of BITS is distributed among firms? About 35 companies have been involved in exports related to concessionary credits, of which 3 account for 76 percent of the total (Figure 6.5). Ericsson's and ABB's share of concessionary credits can be compared with their share of total exports to developing countries in the period studied.¹⁵ Their exports to developing countries, of which less than 20 percent has been financed by ODA, represent about 50 percent of the Swedish total to these countries. Thus, even though they receive almost 60 percent of the total amount of concessionary credits, this allocation shows no bias in their favor, given their position in the relevant markets. The third major company, Skanska, is of less relevance in this context, due to its substantial element of subcontracting.

Figure 6.5: Concessionary credits by contracted firms 1981/82-1992/93 (percent)



Source: BITS

¹⁵ Here, only exports to sectors related to BITS' activities are considered, i.e. metal products, machinery, electrical products and transports.

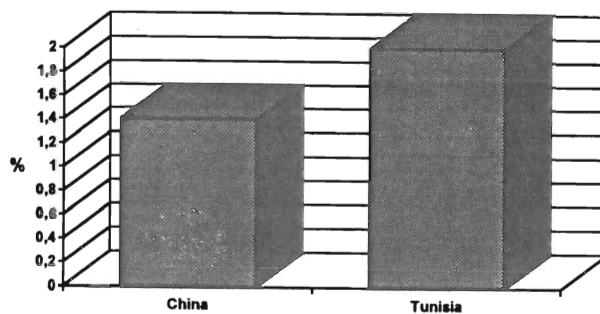
Several respondents of our questionnaire indicate that provision of aid has not only facilitated entry in new markets, but in several cases been the critical factor which has made it possible. At the same time, there are several examples of cases in which ODA offered to competitors by other donor countries has been a critical factor obstructing entry. Limiting the discussion to the most relevant companies, it is claimed that aid has made entry possible in 15 markets. In about 10 others, the activities of other donors are reported to have been the hindering factor. Looking at the different companies, there is a mismatch between countries in which aid has been the factor enabling or preventing entry. The questionnaires further show that some markets are totally aid dependent, i.e. practically all exports are financed by ODA.

In the following, we consider the development in China and Tunisia somewhat more closely. Figure 6.6 shows the Swedish share of bilateral ODA. Of BITS' cooperation countries, Tunisia is the one in which Sweden has provided the largest share of aid, while China is the major destination in absolute terms. It may be noted that Tunisia was a programme country in the 1960s and early 1970s, making it an interesting example of a country which has moved from one kind of cooperation to another.

6.2 China

China, the world's most populous nation, is currently the fastest growing export market for Swedish companies. BITS is the dominating Swedish aid agency, with the other ones playing only a marginal role (Figure 6.7). The cooperation started in 1979, when an agreement was made regarding technical support. It entered a more dynamic stage when the first concessionary credit was granted in 1982. These credits have expanded over the years, focusing primarily on telecommunications (Figure 6.8) and, to a lesser extent, manufacturing. The technical cooperation has been dispersed more equally between sectors (Figure 6.9). Note the difference in the magnitude of funds associated with credits and technical cooperation respectively.

Figure 6.6: Swedish share of bilateral ODA to China and Tunisia 1990 (percent)



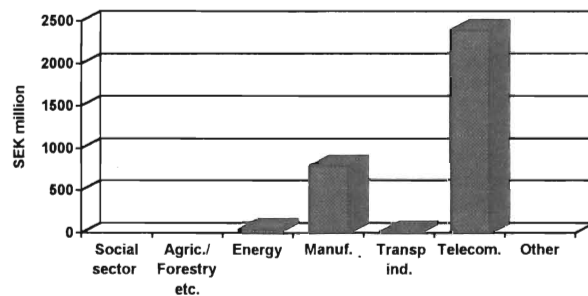
Source: OECD (1992)

Figure 6.7: Swedish ODA to China by source 1991/92 (percent)



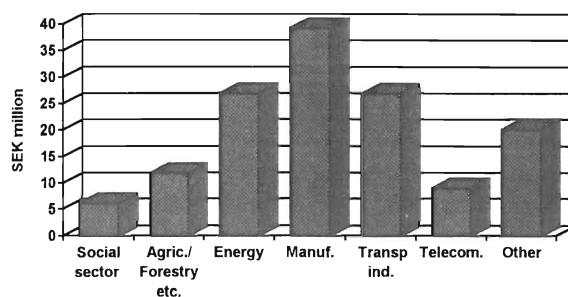
Source: SIDA (1992)

Figure 6.8: Concessionary credits to China by sector 1979/80-1991/92 (SEK million, current prices)



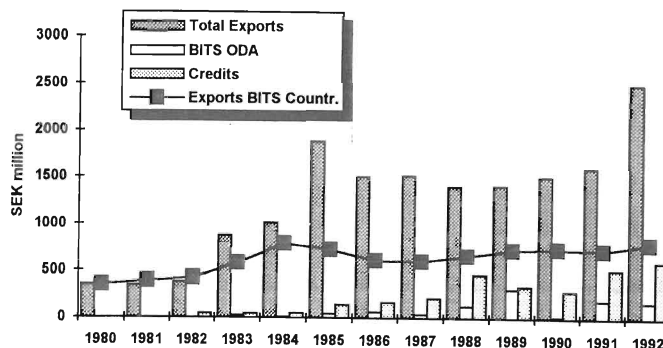
Source: BITS

Figure 6.9: Technical cooperation with China by sector 1979/80-1991/92 (SEK million, current prices)



Source: BITS

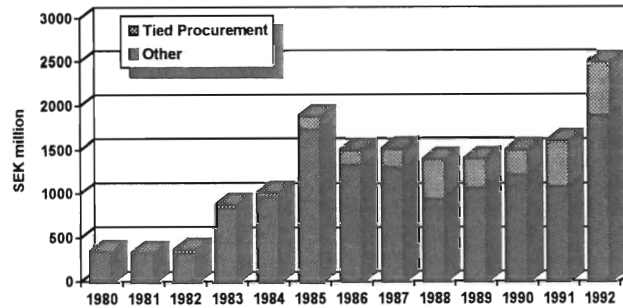
Figure 6.10: Swedish exports and bilateral ODA to China, and Swedish exports to the Cooperation Countries of BITS (indexed) (SEK million, current prices, index, 1980 = 349.3)



Source: SCB

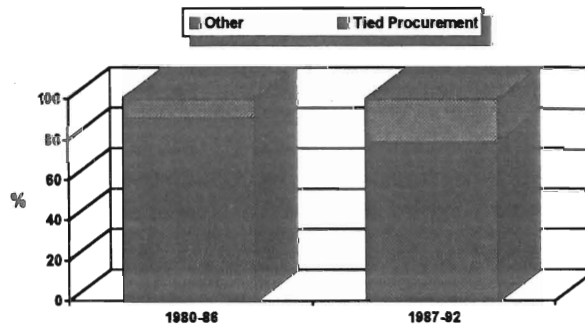
Figure 6.10 illustrates the dramatic increase which has taken place in Swedish exports to China. From the time when the concessionary credits were first introduced, exports display a much stronger record than for BITS cooperation countries on average. As for other BITS' countries, exports are still mainly financed on commercial rather than concessionary terms (Figure 6.11). This is a natural consequence of the significantly higher income level in the cooperation countries of BITS. In the case of China, the size of the domestic economy, rising exports and a large inflow of private capital, especially

Figure 6.11: Swedish exports to China by source of financing
(SEK million, current prices)



Sources: SCB and BITS

Figure 6.12: Swedish exports to China by source of financing
(SEK million, current prices)

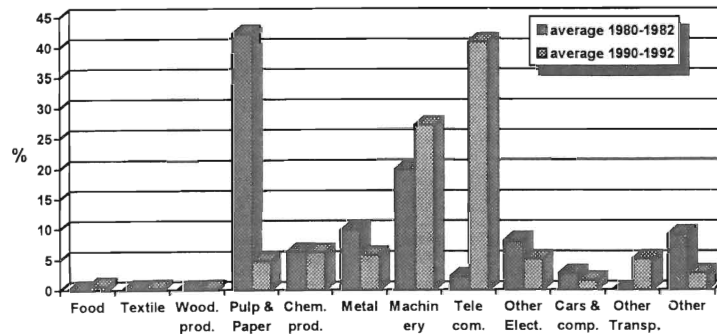


Sources: SCB and BITS

from Hong Kong and Taiwan, have drastically increased purchasing power. Soft financing remains important, however. Figure 6.12 shows that the concessionary element actually *increased* from 10 percent in the early 1980s to some 20 percent in the latter half of decade. This change is a direct reflection of the expansion of soft credits which, between 1988 and 1991, financed a third of total Swedish exports to China. Meanwhile, the composition of Swedish exports changed markedly (Figure 6.13).

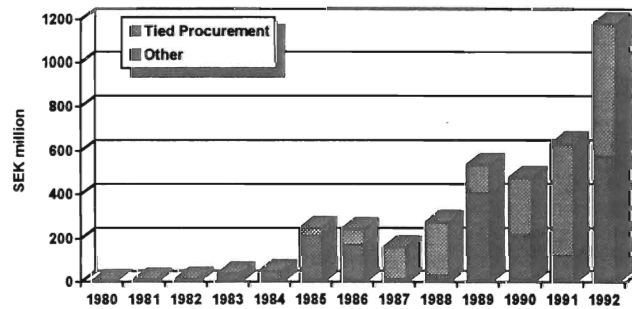
In the early 1980s, pulp & paper accounted for more than 40 percent of Swedish exports to China, with telecommunications at about 2 percent. By the early 1990s, these two sectors had changed places in terms of magnitude. There is a general shift towards more technically advanced products, reflecting the altered structure of demand for imports. The declining share of pulp & paper corresponds to a reduction even in the nominal value of such exports. Again, this is partly an indirect effect of aid contributing to

Figure 6.13: Sectoral composition of Swedish exports to China
(percent)



Source: SCB

Figure 6.14: Swedish exports of telecommunication equipment to China by source of financing (SEK million, current prices)



Sources: SCB and BITS

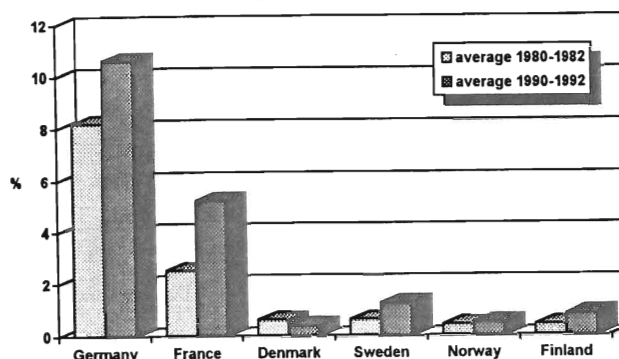
import substitution. Sweden has supported the establishment of several large paper mills. Altogether, the Chinese paper sector received concessionary credits amounting to SEK 145 million in the period studied.

It is evident that telecommunications have propelled most of the increase in exports to China. In this field, as in the case of environmental projects, the availability of concessionary credits appears to have been crucial for advancement. The result has been a mixture of direct and indirect effects. As shown earlier, the bulk of aid has directly financed exports of telecommunications. Figure 6.14 illustrates the huge rise in such exports to the country from 1985 onward. In 1987 and 1988, almost all exports in this category were financed by concessionary credits. It appears plausible that some substituted for transactions which would otherwise have taken place on a commercial basis, particularly in 1987-88 and 1990-91. On the other hand, the record of various companies, as well as several interviews on location, suggest that official support may have been a prerequisite for any advancement in the market, applying more or less to all foreign companies in telecommunications. In 1992, there was a large increase in exports financed by other sources than concessionary credits, which speak for substantial indirect effects from previous aid efforts.

Figure 6.15 compares the Swedish export performance with that of other European donor countries as of the early 1980s and 1990s. Germany and France, which were the largest European donors in China, strongly advanced their shares of OECD exports. The same applies to Sweden, which was the largest donor among the Nordic countries in 1990-91. Denmark, which was also a fairly large donor throughout the 1980s, lost market shares, however, while Finland and Norway improved their positions.

The standards imposed by DAC, coupled with intensifying competition to enter the Chinese market, have strongly affected the conditions for entry, not least in telecommunications where projects normally are deemed commercially profitable. A growing resistance against the use of concessionary credits puts Sweden in a painful dilemma, which should be further commented on.

Figure 6.15: Shares of OECD exports to China, selected European donor countries (percent)



Source: OECD (1982-1993)

The Chinese authorities have undoubtedly become skillful in pressing for favorable prices and financial conditions. While this in itself is beneficial for the country's economic return, competition between foreign governments in boosting their national interests has spurred subsidization of their respective industrial champions. In addition to a distortion of competition, this induces a replacement of commercial financing by concessionary, and threatens to redirect aid funds from poor countries to those which are more interesting from a commercial perspective. Although DAC is trying to discipline the use of aid to promote exports, the Helsinki agreement has not led to any satisfactory situation. The playing rules remain uncertain, with governments supporting business through a variety of overt or covert instruments, including provision of grants instead of loans, special contract clauses which in effect provide soft financing, and so forth.

In this situation, those with limited political clout or shrewdness risk being side-stepped by those who are more pragmatic and less concerned with fair play. The situation is worrisome especially for small countries, such as the Nordic ones, which have few alternative means to counter hidden subsidization by others. In the case of China, the national authorities confront Ericsson, as well as Swedish authorities, with tough demands in return for contracts. Firms and governments elsewhere are queuing up to fill the gap if the required concessionary terms are not complied with. In the worst of

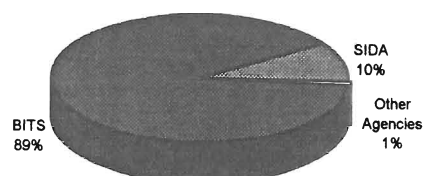
scenarios, the Swedish telecommunication company would be ousted from the market as a victim of the political game. This, in turn, would be a major blow to Swedish exports to China in general due to the exposure brought about by the presence of Ericsson.

It can be concluded that China represents a clearcut case in which Swedish ODA has exerted a major positive impact on Swedish exports. Above all, concessionary credits offered by BITS have been the key factor enabling Ericsson to enter the country's vast telecommunication market. As seen from the company's success around the world, it is internationally competitive, and the Chinese have obtained highly favorable terms. Some small- and medium-sized Swedish companies have also been able to enter due to concessionary credits, e.g. in the environmental field, which is promising for the future. While there are prospects for more indirect effects from soft financing in the years ahead, however, the present situation is a delicate one.

6.3 Tunisia

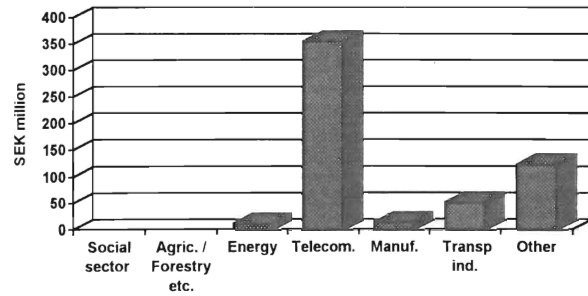
Through SIDA, which was engaged especially in education, water supply and agriculture, Sweden provided ODA to Tunisia from the early 1960s. As the country developed, this assistance was phased out in the late 1970s. Since 1977, BITS has taken up technical cooperation, and a first concessionary credit was offered in 1983. BITS' dominating role in the period studied can be seen from Figure 6.16. The focus has been on telecommunications and sewage systems (Figure 6.17-18).

Figure 6.16: Swedish ODA to Tunisia by source, 1990/91 (percent)



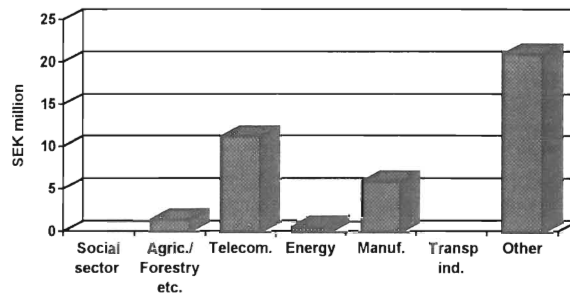
Source: SIDA (1992) and BITS (1991)

Figure 6.17: Swedish concessionary credits to Tunisia by sector 1979/80-1991/92 (SEK million, current prices)



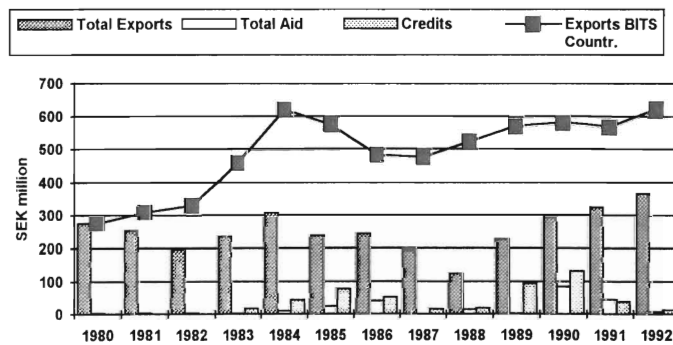
Source: BITS

Figure 6.18: Technical cooperation with Tunisia by sector 1979/80-1991/92 (SEK million, current prices)



Source: BITS

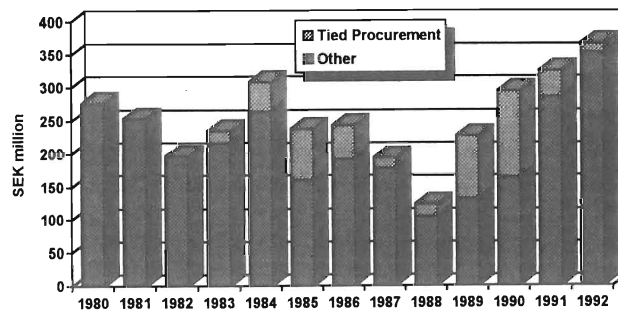
Figure 6.19: Swedish exports and bilateral ODA to Tunisia, and Swedish exports to the Cooperation Countries of BITS (indexed) (SEK million, current prices, index, 1980 = 349.3)



Sources: SCB and BITS

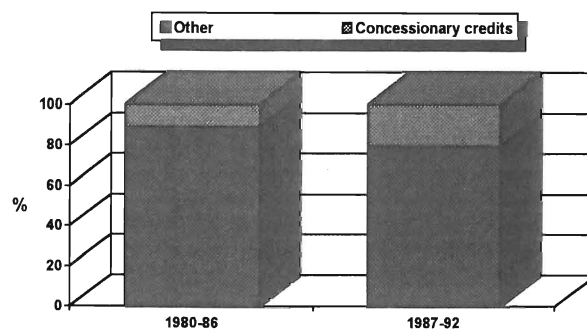
Compared with other cooperation countries of BITS, Swedish exports have grown at a relatively low rate in Tunisia (Figure 6.19). There has been a revival after the downturn in 1988, however. The increase recorded in 1989 and 1990 was financed by concessionary credits, as indicated by Figure 6.20. In 1991 and 1992, these credits again diminished in importance while the total value of exports continued to rise. On average, concessionary credits still financed a larger share of exports in 1987-1992 than in the first half of the 1980s (Figure 6.21).

Figure 6.20: Swedish exports to Tunisia by source of financing
(SEK million, current prices)



Sources: SCB and BITS

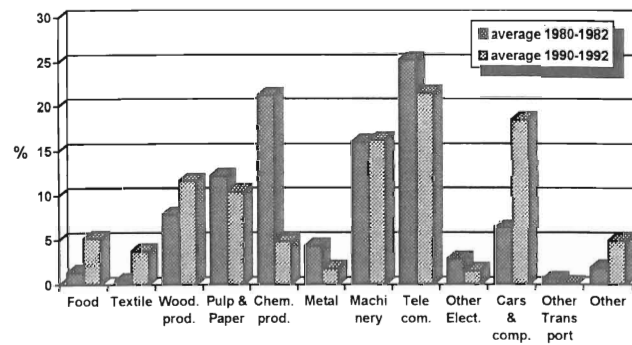
Figure 6.21: Swedish exports to Tunisia by source of financing
(percent)



Sources: SCB and BITS

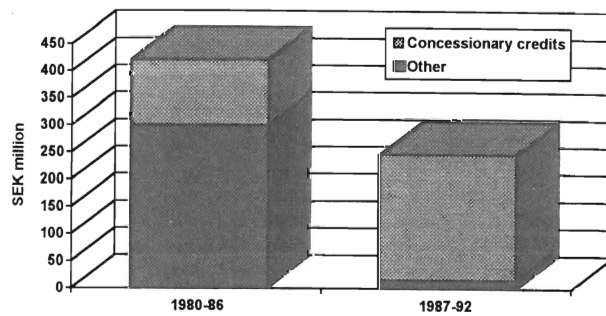
Over time, there has been a substantial reorientation in the sectoral composition of Swedish exports to Tunisia, as depicted in Figure 6.22. The pattern contrasts with that for BITS' cooperation countries in general. Chemicals have contracted while cars & components account for a sharp increase. Telecommunication exports remain important, but their share has shrunk. Figure 6.23 shows that concessionary credits financed practically all telecommunication exports in the period 1987-1992. The growth in non-concessionary exports 1991 and 1992 emanates from other sectors, especially cars.

Figure 6.22: Sectoral composition of Swedish exports to Tunisia
(percent)



Source: SCB

Figure 6.23: Swedish telecommunication exports to Tunisia by source of financing (SEK million, current prices)



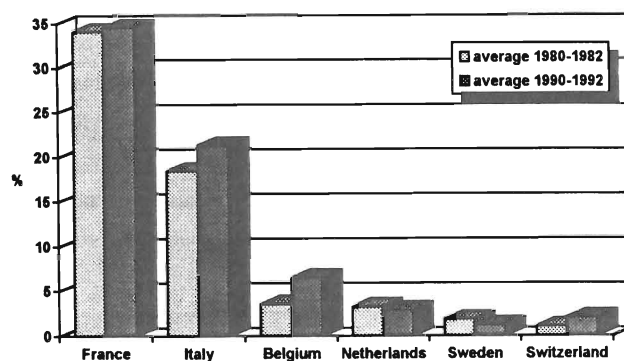
Sources: SCB and BITS

In the case of Tunisia, France has been the by far largest donor country in DAC, followed by Italy. Figure 6.24 shows that these countries dominate exports as well, and strengthened their grip on the market in the period studied. Belgium, the Netherlands, Switzerland and Sweden provided about the same amount of ODA to Tunisia. Belgium and Switzerland display a remarkable advancement in market shares, while both the Netherlands and Sweden experienced marginally weakening positions.

As in China, the Tunisian authorities have become highly capable of negotiating favorable outcomes, and provision of concessionary credits became a major competitive instrument in the 1980s. In this situation, the Swedish position would undoubtedly have weakened more than it actually did without the availability of such credits. In the environmental field, long-term cooperation has awarded goodwill and also generated an expansion of exports. Still, the Swedish market share declined while some other donors of comparable size, like Belgium and Switzerland, were able to advance. In vehicles, where Swedish exports did rise considerably, this was not attributable to aid.

The success of Swedish firms in Tunisia is hampered by a combination of limited knowledge about local business practices, including too poor linguistic ability, and fierce

Figure 6.24: Shares of OECD exports to Tunisia, selected European donor countries (percent)



Source: OECD (1982-1993)

competition which involves formal and informal tying practices by some other European donor countries. Although Sweden has had long-term cooperation with Tunisia, which has moved from being a programme country to cooperation mainly with BITS, private firms have achieved rather modest results.

6.4 Overall Picture in the Cooperation Countries of BITS

Unlike the programme countries, the cooperation countries of BITS are important destinations for Swedish exports. This is natural, given the greater strength of their economies and higher creditworthiness. In contrast to SIDA, support of commercial interactions is a major objective of BITS' activities.

Exports to the cooperation countries of BITS increased in the early 1980s, but have been fairly stagnant since then. In China and Tunisia, the Swedish market shares have grown and diminished marginally respectively. As might have been expected, Swedish ODA has played a more positive role for exports in the cooperation countries of BITS than in the programme countries, which is not least visible from the spurt in telecommunication exports. Nevertheless, there are some weaknesses:

- First, the concessionary credits are extremely concentrated to a few companies. Although the performance of these firms in total exports well motivates their share of credits, the lack of newcomers and pluralism is conspicuous. There are a few promising exceptions, as in the environmental field, but they are few and far in between.
- Second, similar to the situation in the expansionary Vietnamese economy, interviews in Tunisia, Thailand and China unisonly point towards limited visibility and, perhaps, a "too low" profile on the Swedish side. In key business organizations, there is a genuine lack of knowledge about Sweden and Swedish products, except for the few mentioned large companies. In some cases, the recipient side proclaims that such information has been requested without much response.
- Third, questionmarks prevail regarding the extent to which concessionary financing has expanded exports indirectly and/or replaced commercial transactions.

7 Other Bilateral Aid

This chapter brings up some activities by SIDA and BITS which have not been dealt with in the preceding chapters. SAREC and SWEDECORP/SWEDFUND are discussed here as well. Except for SIDA's regional cooperation with Southern Africa, the chapter is concerned with case studies and qualitative evaluations rather than analyses of Swedish exports. In the support to Southern Africa, relatively large sums have been paid to a few countries, whereas the remaining activities are of modest size.

7.1 Other SIDA Aid

Regional Cooperation

Sweden is involved in regional cooperation in Asia, Latin America and Africa (Table 7.1). The cooperation with Asia has so far led to quite small disbursements. While the effects on exports of goods have been insignificant, there has been a more notable engagement of services. For example, SIDA finances the salaries of three Swedish employees at the Mekong Committee, and further, a tied consultancy fund. Since 1988, it has disbursed some SEK 4.5 million to Swedish consultants (SIDA 1993c). The regional support to Latin America is mainly directed to "soft" issues, such as health care, refugees, education, etc. Here, the Swedish participation has been almost nil since the bulk of aid has financed local costs. The major activities belong in the cooperation with the Southern African Development Community (SADC) which focuses on investment in physical infrastructure (Table 7.2).¹⁶

The Nordic countries account for a third of the bilateral aid offered to SADC, and Sweden is the most important donor. Since the beginning of the 1980s, Sweden has disbursed about SEK 1.2 billion. Some two thirds have gone to Mozambique, Tanzania and Zambia. Swedish exports to these three countries have increased somewhat faster than to the programme countries, while exports to developing countries performed better on average (Figure 7.1).

By nature of the support to infrastructure, there is a potential for Swedish commercial participation in SADC, especially in telecommunications and energy. However, while telecommunication equipment has gained less weight in the exports to these SADC

¹⁶ Former South African Development Coordination Conference (SADCC). The members are: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

members than for the whole group of programme countries, it is true that machinery and electrical exports, which are related to the energy sector, have increased somewhat in importance. On the whole, however, the regional cooperation with Southern Africa has resulted in limited exports.

Table 7.1: Regional cooperation by region (SEK million, current prices)

	up to 1989/90	1990/91	1991/92	Total
Africa	842.0	254.5	217.7	1314.2
<i>of which to SADC</i>	<i>773.3</i>	<i>237.7</i>	<i>206.6</i>	<i>1217.6</i>
Asia	96.8	16.1	18.0	130.9
Latin America	660.3	67.4	150.3	878.0
Total	1599.1	338.0	386.0	2323.1

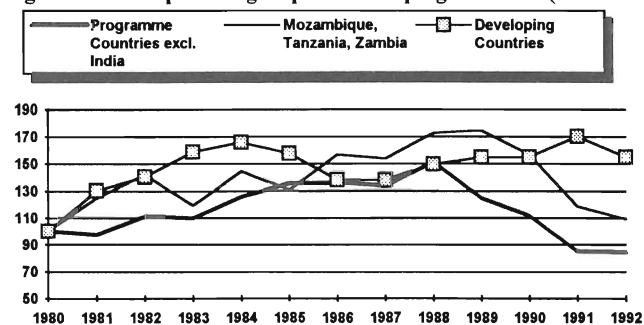
Source: SIDA (1992)

Table 7.2: Regional cooperation with SADC by sector (SEK million, current prices)

	1981/82-89/90	1990/91	1991/92
Transports	434.7	107.7	100.2
Telecommunications	166.2	10.4	2.6
Energy	67.4	39.6	37.7
Other	105.0	80.0	66.1
Total	773.3	237.7	206.6

Source: SIDA (1992)

Figure 7.1: Exports to groups of developing countries (index 1980=100, current prices)



Source: SCB

Non-Governmental Organizations

The handling of an important part of ODA resources channelled through SIDA is delegated to so-called Non-Governmental Organizations (NGOs). In many cases, these have a long historical record in aid activities, which have been directed to catastrophes, support of democracy, humanitarian rights and project support. SIDA has limited information about the use of funds, which is the reason why these agencies have been neglected in return flow calculations, as in Table 2.2.

Generally, the accounting systems of the NGOs are not designed to keep tabs of the origin of procured goods and services. However, let us take a closer look at PMU (Pingstmissionens U-landshjälp), being the only major organization which has been able to present satisfactory data (Table 7.3). PMU is one of the largest NGOs cooperating with SIDA, which finances the bulk of its activities. Indirect effects of aid on exports are not expected to be particularly important in the case of NGOs. Thus, only direct effects are considered in the following.

Table 7.3: Financing and use of PMU funds 1987/88-1992/93 (current prices)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	Total
SIDA funds (SEK mill.)	63.6	102.5	97.1	106.8	154.8	140.7	665.5
SIDA funds of total turnover (%)	66	71	68	69	77	78	73
Personnel (SEK mill)	21.1	26	25.1	21.3	41.4	22.9	157.8
Estimated Swedish share of total (%)	50	50	50	50	50	50	50
Procurement of goods (SEK mill.)	32.0	59.5	55.0	69.8	95.0	92.7	404.0
Procurement from Sweden of total (%)	36	35	26	20	23	29	27
Procurement of services (SEK mill.)	7.9	13.4	12.7	10.7	12.9	18.1	75.7
Procurement from Sweden of total (%)	59	66	41	30	47	42	47
Administration*	2.6	3.6	4.3	5.0	5.5	7.0	28
Total from Sweden	29.3	46.4	36.5	32.5	54.0	49.3	248.0
Swedish share as % of SIDA funds	46	45	38	30	35	35	37

* Swedish share estimated to be 100%.

Source: PMU (1993)

During the observed period, PMU procured about SEK 500 million in goods and services. The goods consisted of construction material, tools, machines, vehicles, medicals, office equipment and white goods. Local procurement concerned timber, bricks, reinforcement bars, cement, etc. Services included personnel, freights, feasibility studies, and so on.

Note that the estimated percentage coming from Sweden is higher in the case of services, but that the total value is still much larger for the procurement of goods. The figures also show a rising trend for the share of Swedish goods in recent years, whereas Swedish services have retreated somewhat.

According to statements from several major NGOs, there is generally a preference for local procurement. Purchases from Sweden will be considered only if:

- The good/service is not available locally,
- local quality is unsatisfactory or
- the price is more favorable in Sweden.

The last point may explain the notable increase of the share in 1992/93, as the depreciation of the currency made Swedish goods more competitive. This has been stated as an important point by other NGOs as well (e.g. the Swedish Red Cross). Another vital factor is the relations between NGOs and Swedish companies. PMU reports that the cooperation proceeds very well, while others complain about the unwillingness of companies to comply with special requirements regarding, e.g., special design and size of packages. This is argued to have hampered exports.

Aid projects in Africa have a higher share of procurement from Sweden than those in Asia and Latin America. In the two latter regions it is possible to procure the bulk of what is needed locally. As of 1992, 62 percent of PMU's development projects were located in Africa, compared to 40 percent for all NGOs including emergency aid. Thus, the Swedish share of all procurement by NGOs can be expected to be smaller than for PMU.

The above discussion on PMU concerns the return flow. In the case of NGOs, this concept appears to capture most of the connections to commercial relations. The percentages, though, are generally lower than for other aid provided by SIDA.

7.2 Other BITS Aid

Apart from concessionary credits and technical cooperation, BITS administers International Training Programmes and special support to Central and Eastern Europe. These items are briefly discussed in this section.

International Training Programmes

The international training programmes, which account for some 10 percent of BITS total disbursements as of fiscal year 1990/91, offer participants from developing countries a wide spectrum of courses. As the activities take place within Sweden, most of the resources are spent on Swedish services.

The crucial issue, however, is the extent to which these activities increase knowledge and awareness of Sweden and its special competence in developing countries. Successful training programmes improve the capacity of participants to plan projects and handle procurement. Thus, there is a potential for indirect effects on exports. Most courses deal with export-oriented sectors, such as industry, energy, environment, telecommunications and transports (Table 7.4). Regarding the domicile of the participants, there is a concentration to a few countries (Table 7.5). In each region, five account for 50-60 percent of the total number of participants. While these countries receive a considerable amount of other ODA as well only a few constitute major markets for Swedish exports, or have a tangible presence by Swedish firms.

Hence, the indirect effects on Swedish exports have been limited this far. Still, there appears to be a potentially important link to commercial ventures, not least via technical cooperation and concessionary credits.

Cooperation with Central and Eastern Europe

The cooperation with Central and Eastern Europe was announced by the government in the fall of 1989. It aims at supporting democracy, economic restructuring, and environmental management. Figure 7.2 depicts the sectorial distribution of disbursements, while Figure 7.3 shows the distribution in terms of countries. Poland is by far the most important, followed by the Baltic States.

There is a dominance by a fairly small number of contractors (Table 7.6). Eight companies account for more than 40 percent of the total contracted sum. The two largest firms are ABB and NLK/Celpap, which are involved primarily in environmental and industrial projects respectively.

Table 7.4: International training programmes distributed by sector

	1990/91		1986/87	
	(SEK mill.)	(percent)	(SEK mill.)	(percent)
Industry	20.6	29	11.6	38
Energy	10.4	15	4.8	16
Environment	8.9	12	1.9	6
Telecom.	7.6	11	2.8	9
Transport	6.6	9	2.0	7
Agri./Forest/Fish.	6.2	9	2.8	9
Other	11.1	15	4.5	15
Total	71.4	100	30.4	100

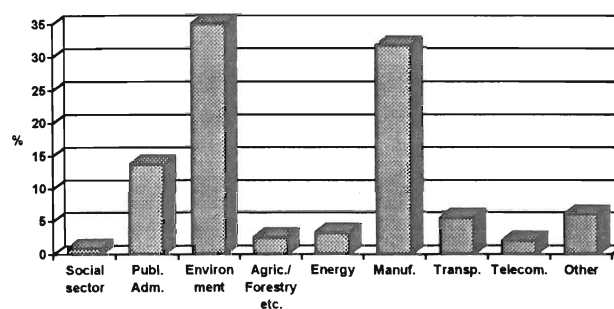
Source: BITS (1991)

Table 7.5: International training programmes, 1986/87-1990/91, number of participants by country

	Number of Part.		Number of Part.		Number of Part.
Africa	1436	Asia	1371	Latin America	740
<i>Tanzania</i>	<i>213</i>	<i>China</i>	<i>199</i>	<i>Cuba</i>	<i>113</i>
<i>Uganda</i>	<i>123</i>	<i>Thailand</i>	<i>183</i>	<i>Mexico</i>	<i>100</i>
<i>Egypt</i>	<i>114</i>	<i>Malaysia</i>	<i>177</i>	<i>Peru</i>	<i>66</i>
<i>Zambia</i>	<i>114</i>	<i>India</i>	<i>158</i>	<i>Ecuador</i>	<i>63</i>
<i>Ethiopia</i>	<i>112</i>	<i>the Philippines</i>	<i>143</i>	<i>Uruguay</i>	<i>56</i>

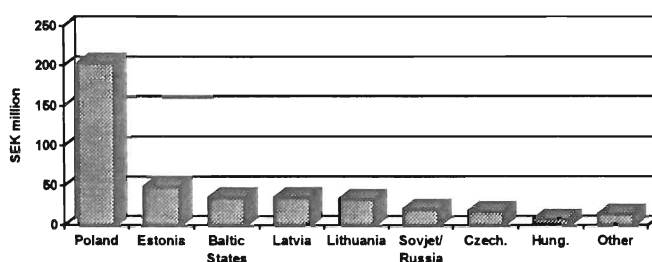
Source: BITS (1991)

Figure 7.2: BITS' ODA to Eastern Europe by sector 1989/90-92/93 (percent)



Source: BITS

Figure 7.3: BITS' ODA to Central and Eastern Europe by country 1989/90-1992/93 (SEK million)



Note: The support to the Baltic States is a regional support covering Estonia, Latvia and Lithuania.
Source: BITS

Table 7.6: BITS' ODA to Eastern and Central Europe by contracted firms and academic institutions, 1989/90-1992/93

Sum of All Contracts, (SEK Million)	No. of firms	Amount, (SEK Million)	Percent of total
> 50	1	66	15.2
25-50	1	29	6.7
10-25	6	84	19.4
5-10	12	92	21.2
1-5	53	117	27.0
<1	>45	45	10.4

Source: BITS

As for direct effects, aid disbursements to the former centrally planned economies have almost exclusively resulted in Swedish exports. The bulk concerns services but some 10 percent is financial support for procurement of equipment. While the direct effects are evident, it is too early to judge the indirect effects and possible contributions to the long term development of commercial relations.

The potential commercial opportunities are of another magnitude in this region compared to, e.g. black Africa. Geographical proximity, cultural kinship and generally higher income levels favor an intensified economic exchange between Sweden and Central and East European countries.

7.3 SAREC

The activities of SAREC are divided into four categories. Bilateral research cooperation, support of international research, regional and special programmes and, finally, development research in Sweden. In 1991/92, the bilateral and regional support accounted for about 40 percent of the total, international research programmes some 30 percent, special research programmes 12 percent and Swedish development research 10 percent (Table 7.7). SAREC's outspoken policy, that of focusing on the poorest developing countries, is reflected in the large share going to Africa.

The distribution by sector is shown in Figure 7.4. One third is directed to health and nutrition, one to rural development and environment issues, and the remaining one to social and natural sciences. Thus, the nature and geographical orientation of SAREC's activities imply a weak link to traditional Swedish exports. There is a potential connection in research-oriented commercial activities however. As in virtually all transfers of knowledge, direct impacts on services abound and there has also been some provision of equipment. In fiscal years 1989/90-1992/93, about a third of the total disbursements by SAREC financed Swedish participation (Table 7.8).

Contributions to international research programmes should be considered as multilateral aid, where the donor has little influence over the use of funds. Support is provided to several organizations of which two are based in Sweden, viz. Internationella Stiftelsen för Vetenskap (IFS), and International Science Programs (ISP). SAREC is the major donor in both cases which account for some 20 percent of total assistance to the international research programmes.

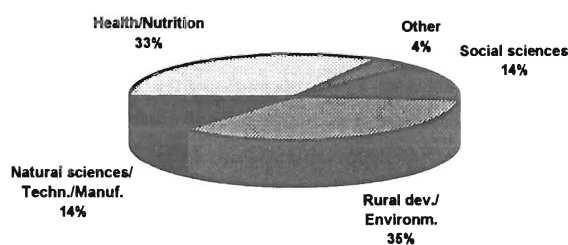
The "Swedish development research" and "special research activities", both provide direct support of Swedish participation. This is most pronounced in the former case, while the latter involves an element of bilateral institutional cooperation. Here, the link between aid and exports differs among nations (Table 7.9). The effects on Swedish exports of services are the largest in Africa, where the Swedish participation is 37 percent. The variation between regions partly reflects local conditions, and particularly the degree to which the existence of local competence diminishes the demand for Swedish input.

Table 7.7: SAREC's economic report* 1991/92

	(SEK million)	(percent)	(percent)
Bilateral and Regional Programmes	155.0	100.0	39.0
<i>Africa</i>	88.0	56.8	
<i>Asia</i>	16.7	10.8	
<i>Latin America</i>	50.3	32.5	
International Research Programmes	125.3		31.5
Swedish Development Research	38.2		9.6
Special Research Programmes	49.6		12.5
Administration etc.	29.3		7.4
Total	397.4		100.0

*Estimated disbursements.
Source: SAREC (1992)

Figure 7.4: ODA commitments by sector, 1990/91



Source: SAREC (1992)

While the direct effects are greater where local conditions require a more profound Swedish participation, the indirect effects are greater in more developed economies. The outcome is also related to the kind of research activity, with exports of laboratory equipment in some cases and pharmaceuticals in others. There may for example be long term effects due to the enhancement of specific skills which are applicable in industrial operations. Further studying is required to verify such effects, however.

Table 7.8: Disbursements by SAREC distributed by destination, 1989/90-1992/93 (SEK million, current prices)

	1989/90	1990/91	1991/92	1992/93	1989/90-1992/93
Total disbursements	334.4	359.4	377.5	409.0	1480.2
Directed to Swedish institutions*	83.9	92.2	92.6	90.9	359.6
Swedish researchers	24.5	30.0	31.8	39.6	125.8
Consultants in Sweden	8.1	5.9	13.6	13.3	40.9
Total from Sweden	116.5	128.1	138.0	143.8	526.3
<i>Swedish share in percent of total</i>	35	36	37	35	36

* Including some funds reallocated to the partner in the developing country.
Source: SAREC

Table 7.9: SAREC's disbursements to bilateral institutional cooperation and the Swedish share, 1990/91 distributed by countries

	Total project (SEK mill.)	Swedish particip. (percent)
Africa	43.3	37
<i>Botswana</i>	4.8	57
<i>Cape Verde</i>	1.0	47
<i>Ethiopia</i>	11.0	29
<i>Mozambique</i>	3.4	22
<i>Somalia</i>	4.7	36
<i>Tanzania</i>	11.8	45
<i>Zimbabwe</i>	6.6	30
America	40.3	30
<i>Argentina</i>	7.9	20
<i>Cuba</i>	6.7	25
<i>Chile</i>	4.3	25
<i>Costa Rica</i>	4.9	31
<i>Nicaragua</i>	10.8	45
<i>Uruguay</i>	5.7	22
Asia	12.5	32
<i>India</i>	3.6	39
<i>Sri Lanka</i>	4.7	21
<i>Vietnam</i>	4.2	40
Total	96.1	33

Note: The Swedish participation includes contributions to Swedish institutions, salaries, travels and accommodations, etc.

Source: SAREC

7.4 SWEDECORP/SWEDFUND

SWEDECORP

Here we limit the analysis to SWEDECORP's main task, i.e., promotion of conditions for trade and industry. In 1992/93, SEK 86.2 million, or more than 60 percent of total costs, belonged in this category. The main focus is on institutional issues. A range of instruments are included, such as: development of small-scale manufacturing, management training and supply of risk capital. About two thirds are allocated to support of small-scale manufacturing and management training (Table 7.10). The major part is directed to Africa, especially Tanzania.

A new area covered by SWEDECORP, of special interest in this context, is support of strategic alliances. In the long run, these provide opportunities for the establishment of direct cooperation between Swedish companies and local counterparts in developing countries. This type of aid is still of modest size with nine projects in operation as of 1993. SWEDECORP's main contribution has been to finance consultants whereas, in the near future, the emphasis will be on support of training and education.

Table 7.11 shows that, while Africa receives the bulk of aid, the strategic alliances are mainly found in Latin America. The dominance is most notable in Costa Rica which accounts for more than a third of the total value for all regions. There are at present two alliances, one in the food industry and one in the electrical industry. In addition, there are several projects in the pipeline.

Again, this is a new activity, and detailed evaluations are not yet possible. However, some effects on Swedish exports are obvious already. The local partners act as middlemen for Swedish products. In the future, there are prospects for the establishment of local production, resulting in exports of intermediate products.

Thus, effects arise in the short as well as in the long run. The impact of cooperation between companies is many times instant and observable, while effects due to the general promotion of trade and industry are difficult to assess. Still, both categories are helpful in paving the way for an expansion of trade.

The various activities discussed above have gradually formed a comprehensive package of action aiming at transferring competence, promoting and establishing business contacts and supporting the creation of financial markets in developing countries. These components are instrumental in laying a solid foundation for sound commercial exchange and should be subject to careful evaluation in the future.

Table 7.10: Promotion of conditions for trade and industry by type of assistance, 1992/93

	Total costs (SEK mill.)	Number of Operations	Adm. costs (percent)
Small-Scale			
Manufacturing	22.9	10	15.1
Management Training	31.1	32	13.9
Supply of Risk Capital	1.5	6	38.0
Strategic Alliances	7.3	9	20.3
Other	23.4	112	33.3
Total	86.2	169	20.5

Source: SWEDECORP (1993)

Table 7.11: Promotion of conditions for trade and industry, total and share of strategic alliances, by region 1992/93

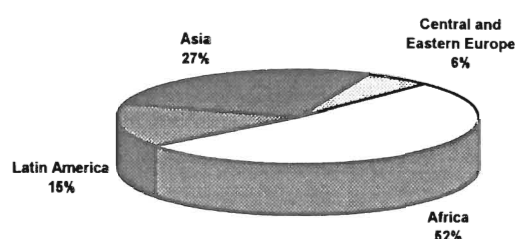
	Total (SEK mill.)	Strategic Alliances (percent of total)
Africa	38.6	2
Asia	7.9	2
Latin America	9.9	49
Eastern Europe	10.6	0
Total	67.0	8

Source: SWEDECORP (1993)

SWEDFUND

The basic instrument of SWEDFUND is risk-bearing by provision of equity or loans to commercial ventures. Since the start in 1978, SWEDFUND has invested SEK 260 million in 62 projects in 34 countries. Today, the investment portfolio consists of 48 projects in 25 countries, mostly developing ones. Starting in 1991, the geographical coverage has been expanded to include Central and Eastern Europe. As in the case of SWEDECORP, most projects are located in Africa and especially Tanzania (Figure 7.5). The objective is to encourage the establishment and development of industries in host countries and to transfer industrial know-how. The policy is to divest when SWEDFUND no longer plays a developmental role. In 1992/93, it reported a profit of SEK 22 million.

Figure 7.5: Geographical distribution of SWEDFUND projects, 1992/93 (percent)



Source: SWEDECORP (1993)

SWEDFUND requires that projects are based on Swedish know-how. There need not be imports from Sweden, but this is often the case in practice. The adoption of a certain technology induces spin-off effects on future exports of intermediate goods and spare parts. The consequences will depend on the specific assets on both sides of the partnership, and their complementarity. *In order to cast light on possible consequences for Swedish exports, we have studied three cases in some detail.*¹⁷ These projects are located in Africa and concern dairy products, explosives and welding equipment. ODA and exports are presented in Table 7.12. As can be seen, the value of exports exceeds the provision of aid funds by several hundred percent, although some would reportedly have occurred in the absence of aid as well.

In the case studies the projects have induced Swedish exports of:

- production equipment and machinery,
- management services,
- intermediate goods,
- after sales service, spare parts, etc.,
- additional production capacity

In the long run, adoption of a specific technology may generate additional exports when production capacity is to be expanded. This appeared in one of the cases. Good-will and advertising effects were important when need for vertical integration created demand for

¹⁷ The choice of projects has been based on several criteria. First, the project must have been in operation for some time. The joint venture agreement must be at least five years old. Second, it must concern some production of goods or equipment. Third, only projects which have worked out in a satisfactory way are considered. Fourth, the project must have a Swedish partner. Eight projects fulfil all these criteria and three of them were able to provide sufficient information.

Table 7.12: Development assistance and exports to three SWEDFUND projects.
(SEK million)

	Initial year*	ODA			Exports		
		Equity	Loan	Other agencies (grant)	Initial	Annually	Other
A	1983	3.0	-	-	15	11-12	negotiating
B	1982	2.2	10.7	0.6	40-50	-	7-8
C	1986	3.5	6.8	2.0	12	0.4	-
Total	-	8.7	17.5	2.6	67-77	11.4-12.4	7-8

* Regards date for joint venture agreement.
Sources: SWEDFUND (1993) and interviews

supplementary production equipment. Furthermore, the joint venture may facilitate or enable market entry or prolong the presence in the market. Finally, the local partner is an important gateway to introduce not only locally produced goods but also additional exports from Sweden.

In spite of the limited scope of operations, the activities of SWEDECORP and SWEDFUND are potentially important for transferring knowledge and establishing commercial relations with developing countries. This applies less to the other activities dealt with in this chapter. Still, there are certain direct effects on exports of goods and services and there may also be interesting long-term effects, but they are vague and difficult to quantify. Throughout, the effects on exports strongly depend on the degree to which Swedish exporters are able to upgrade the kind of competence and skills, other than those associated with large-scale infrastructural projects, which are demanded in developing countries. The regional cooperation is of little commercial interest, however, with the possible exception of Southern Africa.

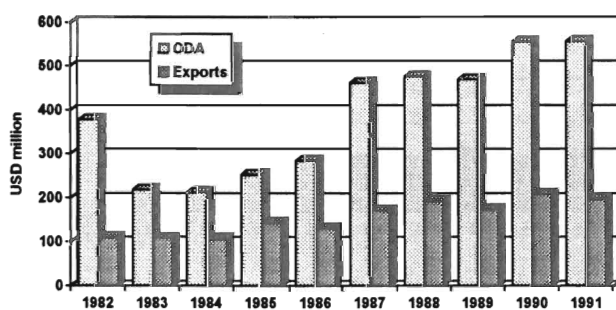
8 Multilateral Aid and Exports

8.1 Overall Performance

The nature of traditional multilateral aid provides quite a different context for the analysis of effects on exports. Capital contributions lose their national identity when channelled through multilateral organizations, and the relationship between the donor and the recipient country becomes less obvious. The crucial link is thus rather between the donor and the organizations. In the case of multilateral aid, however, the effects resemble those observed in pure bilateral aid. Earmarked by the donor for a certain purpose but executed by a multilateral organization, this is a hybrid of multilateral and bilateral aid. The multilateral aid makes up about one third of the total multilateral aid in the case of Sweden (SOU 1991:48). While virtually all Swedish agencies provide some multilateral aid, only the Consultancy Trust Funds (CTF) are of major importance in the present context. Other forms may for practical reasons be viewed as either bilateral or multilateral.

Before studying the multilateral organizations in detail, let us compare the general Swedish performance in terms of total contributions to multilateral organizations and the exports of goods and services that are associated with them (Figure 8.1).

Figure 8.1: Swedish ODA and exports to multilateral organizations/projects
(USD million, current prices)



Note: The included multilateral organizations are the World Bank, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the UN-agencies.
Sources: OECD (1992) and the Swedish Trade Council

The contributions are markedly larger than the exports and, in addition, the discrepancy has increased over time, indicating that Sweden generally is an "under-utilized major donor".¹⁸ During the period 1982-91, the country transferred about USD 3.9 billion to the multilateral system while the related Swedish exports of goods and services amounted to only USD 1.5 billion.

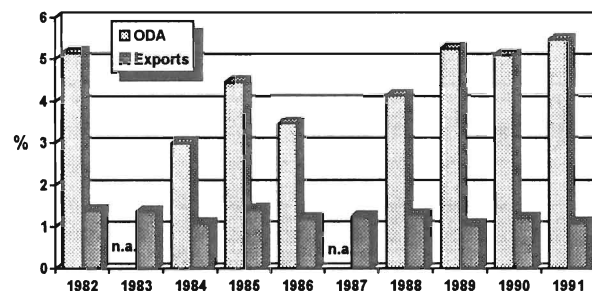
However, all funds do not finance purchases of goods and services. Let us consider the Swedish shares of total ODA from DAC and those of total procurement (Figure 8.2). The trend with regard to ODA is basically the same as in Figure 8.1, while the share of exports decreased from close to 1.4 percent in 1982 to just 1 percent in 1991. During the studied period, Sweden lost market shares in the multilateral system. Table 8.1 compares the relationship between ODA and exports in the four major Nordic countries. Denmark shows the strongest export performance relative to its contributions, that of Norway is much weaker while Sweden and Finland are found in the middle.

8.2 The Multilateral Organizations

Development Banks

The development banks comprise the World Bank¹⁹ and the regional banks²⁰, i.e., the African Development Bank (AfDB), the Asian Development Bank (AsDB) and the Inter-

Figure 8.2: Swedish share of DAC multilateral ODA and total exports to multilateral organizations/projects (percent)



Sources: OECD (1992) and the Swedish Trade Council

¹⁸ According to the UN, the Nordic countries are considered *under-utilized major donors* together with the Netherlands and Canada.

¹⁹ The World Bank Group consists of the International Bank of Reconstruction (IBRD), the International Development Association (IDA) the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

²⁰ Including associated funds.

American Development Bank (IDB).²¹ They all provide loans to developing countries financed by contributions from donors as well as funds raised in the international capital market. Procurement for development bank projects is mainly undertaken locally while the banks themselves are large buyers of consultancy services. The types of projects represent a wide spectrum ranging from capital intensive infrastructure to the social sector. In recent years, a change has taken place in favor of the latter. However, goods and equipment still account for about 90 percent of the total (Blomberg 1991).

The UN agencies

The UN consists of many agencies which pursue quite disparate activities. Here, we mention only the most important buyers. The largest is the World Food Programme (WFP), followed by the Purchase and Transportation service (UN/PTS), the United Nations Children's Fund (UNICEF), the Office for Project Services (UNDP/OPS), the United Nations High Commissioner for Refugees and the World Health Organization (WHO). These organizations represent nearly 80 percent of total procurement by the UN. UN projects are characterized by much more centralized purchasing procedures compared with the development banks' projects.

Table 8.1: The Nordic countries' annual average contributions and exports to the multilateral organizations (current prices)

	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	308	192	0.62
Finland	219	79	0.36
Norway	365	72	0.20
Sweden	503	188	0.37
Total	1 395	531	0.38

¹average for 1987-1991, ²average for 1991-1992

Sources: OECD and the Swedish Trade Council

²¹ Contributions to IDB have been financed from the aid budget since 1990. Prior to this date, membership of the bank was motivated entirely by trade interests.

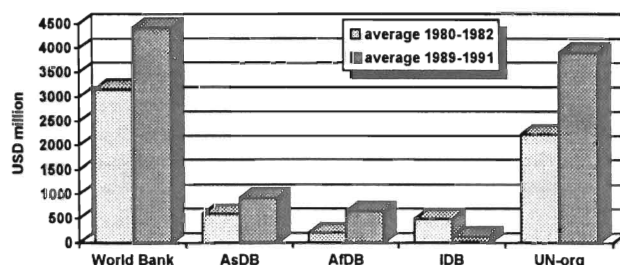
8.3 Swedish Cooperation with Multilateral Organizations

Official Development Assistance

Figure 8.3 shows total ODA from DAC to the four development banks and the UN system in the beginning of the 1980s and 1990s respectively. The most significant change regards the increase for the UN, which has brought it to about the same level as the World Bank. The Swedish contributions are depicted in Figure 8.4. Compared with Figure 8.3 it can be seen that Sweden has retained its relative position in the World Bank, the AsDB and the UN, while it has become a less important donor in the AfDB.

Concerning multilateral aid, Sweden has established CTFs, in response to the advancing cooperation between multilateral and bilateral aid organizations. Since 1986, when Sweden signed the agreement on its first CTF, a number of similar funds have been

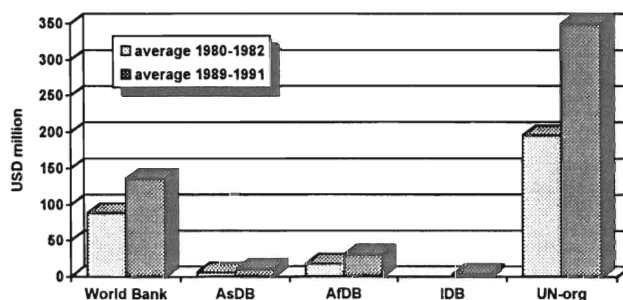
Figure 8.3: Total DAC ODA to multilateral organizations
(USD million, current prices)



Note: The World Bank includes IBRD, IDA and IFC. Regional Development Banks include the bank section as well as the funds.

Source: OECD (1992)

Figure 8.4: Swedish ODA to multilateral organizations (USD million, current prices)



Source: OECD (1992)

set up. The value of the Swedish contributions have grown rapidly. Currently, there are seven funds with a total value of SEK 253 million (Table 8.2).

Exports

The World Bank is the dominating source of funds for projects world wide. Figure 8.5 illustrates the large difference between the World Bank and the UN which reflects dissimilarities in type of activities and source of financing. Generally, the UN organizations do not pursue large capital intensive projects, but focus on the provision of goods, necessities and consultant services. While purchases financed by the World Bank are larger than the total contribution to the organization, the opposite applies to the UN system. Regarding the World Bank and the AfDB, total procurement has grown faster than that in Sweden, while as for AsDB and UN projects, the situation is roughly unchanged (Figure 8.6).

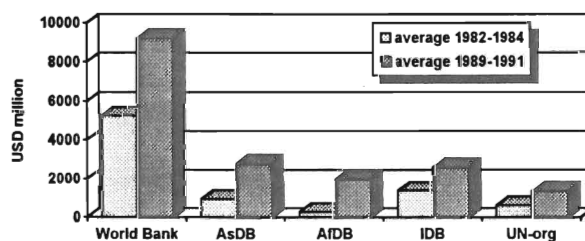
Table 8.2: BITS' Consultancy Trust Funds (SEK million)

	Granted Funds	Bank's Commitments
World Bank:		
General	42,0	34,0
Eastern Europe	39,0	34,0
Environment	32,0	28,0
IFC	17,0	9,6
AfDB	27,0	21,5
IDB	56,0	35,0
EBRD*	40,0	25,0
Total	253,0	187,1

* European Bank for Reconstruction and Development

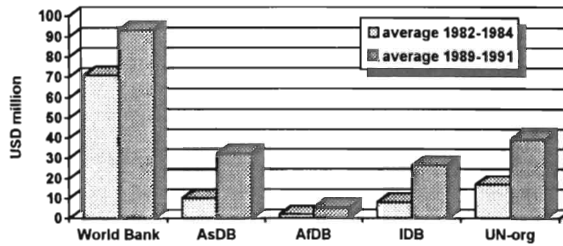
Source: BITS

Figure 8.5: Total procurement by multilateral organizations (USD million, current prices)



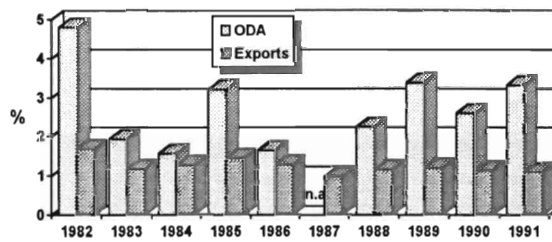
Source: Swedish Trade Council

Figure 8.6: Procurement by multilateral organizations from Sweden, (USD million, current prices)



Source: Swedish Trade Council

Figure 8.7: The Swedish share of ODA and of total exports to the World Bank (percent)



Note: The share of ODA for 1987 not available.

Sources: OECD and the Swedish Trade Council

Let us study the Swedish performance in the different organizations and compare with that of the other Nordic countries. In the case of the World Bank, the Swedish share of ODA has fluctuated a great deal (Figure 8.7). After a fall from 5 percent in 1982, it has varied between 1.5 and 3.5 percent. The share of exports, which has been considerably lower most of the time, has been stable at about 1 percent. Note that the export figures include exports from developing countries as well. Blomberg (1991) estimated that about 50 percent of procurement was undertaken in OECD countries, suggesting that the Swedish performance was stronger than that of the average donor in OECD. In a Nordic perspective, however, Sweden is less prominent than Denmark and Finland while the Norwegian exports/ODA ratio is lower than the Swedish one (Table 8.3).

The direct effects of the contributions to CTFs on exports are insignificant. Between 1986 and mid-1992, the World Bank acquired goods and services in Sweden amounting to USD 640 million. About 1 percent emanated from the CTFs. However, there have also been two kinds of indirect effects. First, the CTFs have been an important gateway

for Swedish consultants into the multilateral aid "market". Second, project feasibility studies undertaken by Swedish consultants appear to have contributed to the contracting of some Swedish companies. In the World Bank, to which the largest CTFs are attached, the Swedish market share still has not expanded. Of course, many countries take advantage of the same practices. It is possible that the Swedish market share would have been even smaller without the CTFs.

The pattern of a volatile share of ODA and a stable share of exports, found in the World Bank, is overturned in the case of the AsDB. Here, the export share has fluctuated while that of ODA has been fairly stable (Figure 8.8).²² Furthermore, Sweden has generally experienced larger export shares than shares of ODA, which also applies to the other Nordic countries in recent years. Denmark has exported on a scale comparable to Sweden, while the Norwegian record is the least impressive (Table 8.4).

The Swedish cooperation with the AfDB is signified by substantial contributions, while the exports are modest (Figure 8.9). As for the Nordic countries, Sweden shows a better record than Finland and Norway but considerably worse than Denmark (Table 8.5). Note that the Swedish performance vis-à-vis the AsDB and the AfDB respectively

Table 8.3: The Nordic countries' annual average contributions and exports to the World Bank (current prices)

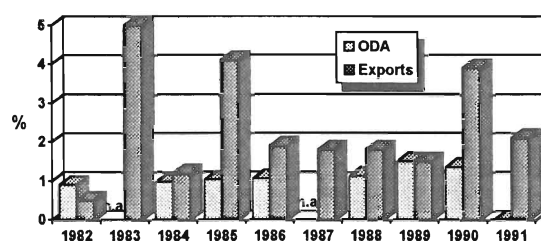
	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	72	90	1.25
Finland	44	44	1.00
Norway	87	31	0.36
Sweden	145	84	0.58
Total	348	249	0.72

¹average for 1987-1991, ²average for 1991-1992

Sources: OECD and the Swedish Trade Council

²² It should be noted that the comparison concerns other DAC countries. Many developing countries have expanded their exports to AsDB projects in recent years.

Figure 8.8: The Swedish share of ODA and of total DAC exports to the Asian Development Bank (percent)



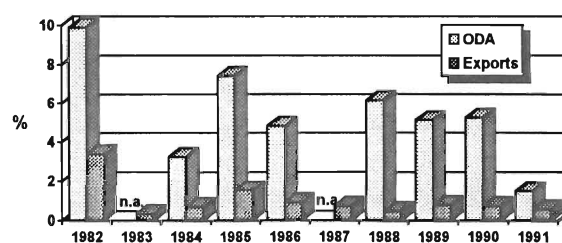
Note: The share of ODA is not available for 1983 and 1987.
Sources: OECD and AsDB (1993)

Table 8.4: The Nordic countries' annual average contributions and exports to the Asian Development Bank (current prices)

	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	6	14	2.33
Finland	8	12	1.50
Norway	6	2	0.33
Sweden	12	30	2.50
Total	32	58	1.81

¹average for 1987-1991, ²average for 1991-1992
Sources: OECD and the Swedish Trade Council

Figure 8.9: The Swedish share of ODA and exports of the DAC total to the African Development Bank (percent)



Note: The share of ODA for 1983 and 1987 not available.
Sources: OECD and the AfDB (1993)

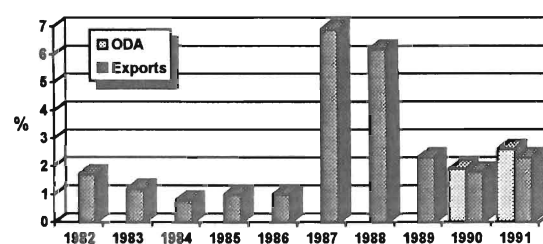
Table 8.5: The Nordic countries' annual average contributions and exports to the African Development Bank (current prices)

	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	22	16	0.73
Finland	11	1	0.09
Norway	36	1	0.03
Sweden	33	6	0.18
Total	102	24	0.24

¹average for 1987-1991, ²average for 1991-1992

Sources: OECD and the Swedish Trade Council

Figure 8.10: The Swedish share of ODA and of total DAC exports to the Inter-American Development Bank (percent)



Note: Contributions to IDB previous to 1990 were not considered as ODA. A crude estimate suggests that the Swedish contribution accounted for less than 1 percent for these years.

Sources: OECD and IDB (1993)

corresponds with the pattern shown in chapter 4 on the concessional and commercial flows to regions. Again, we can conclude that the commercial relations have developed more favorably in Asia in absolute terms as well as relative to competitor.

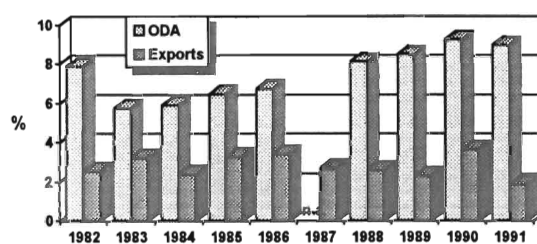
The cooperation with IDB was not regarded as ODA before 1990. In 1990 and 1991, however, Sweden's market share in exports were about the same as that of ODA (Figure 8.10). Table 8.6 presents the performance of the Nordic countries, which all show an export/ODA ratio larger than one.

Table 8.6: The Nordic countries' annual average contributions and exports to the Inter-American Development Bank (current prices)

	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	0	16	-
Finland	0	3	-
Norway	3	6	2.00
Sweden*	3	30	10.00
Total	6	55	9.17

¹average for 1987-1991, ²average for 1991-1992, *average for 1990-1991
Sources: OECD and the Swedish Trade Council

Figure 8.11: The Swedish share of ODA and total exports to the UN-agencies (percent)



Note: The share of ODA for 1987 not available.
Sources: OECD and the Swedish Trade Council

For the UN, finally, the Swedish share of total contributions has increased gradually since 1983, while the share of exports has fluctuated between 2 and 4 percent (Figure 8.11).²³ Of the Nordic countries, Sweden, Norway and Finland display a similar export performance while Denmark shows a much better record (Table 8.6).

Summing up, we have seen that the links are weak between contributions and exports to multinational organizations. Large donors such as Sweden and Norway exported modest volumes while Denmark has been more successful.

²³ Here, as in the case of the World Bank, the figures include exports from developing countries as well. The share of total UN procurement that takes place in developing countries is estimated at 30 percent (Blomberg 1991).

The experience of the Nordic countries verifies that other factors than capital contributions influence exports. These are, for example, the location of procurement offices and the way aid efforts are planned and organized. In the Norwegian case, for example, the bulk of exports to the UN is directed to two organizations, i.e., UN/PTS and UNHCR (Figure 8.13). This is an effect of the recently implemented emergency-aid system - NOREPS, a "stand-by system" combining effective and swift aid operations with a high Norwegian content in deliveries. Indeed, its exports to the UN reaches the same level as Sweden and Finland. Meanwhile, Denmark has implemented a programme aiming at increasing Danish exports, targeting a doubling of the level for 1986-88. This

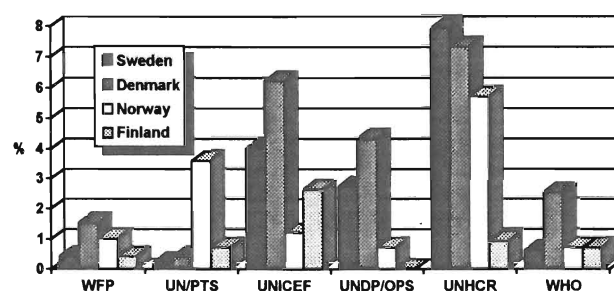
Table 8.7: The Nordic countries' annual average contributions and exports to the UN-agencies (current prices)

	ODA ¹ (USD million)	Exports ² (USD million)	Exports/ODA
Denmark	209	58	0.28
Finland	156	20	0.13
Norway	243	33	0.14
Sweden	312	39	0.12
Total	920	150	0.16

¹average for 1987-1991, ²average for 1991-1992

Sources: OECD and the Swedish Trade Council

Figure 8.12: Procurement by UN-organizations from Nordic countries in 1992 (percent)



Source: IAPSO (1993)

has been achieved as of the current year. A crucial factor has been the location of two UN procurement organizations in Copenhagen - for UNICEF and UNDP. As can be seen, Danish exports are concentrated in three agencies, UNICEF, UNDP/OPS and UNCHR. Swedish exports have also developed relatively favorably in regard to these agencies. Denmark remains ahead, however, despite the fact that Sweden ranks among the most important donors to UNICEF and UNDP.

9 Summary and Implications for Policy

This study has been concerned with the link between official development assistance (ODA) and exports. So far, two main topics have been addressed: the methodological issue how the link should be analyzed and the empirical question how it has taken shape in the Swedish case. In addition to summing up the results, this last chapter briefly discusses some possible implications for policy. However, designing a comprehensive programme for policy action in this field will require a special study explicitly addressing the matter.

Especially during recessions, the possible link between ODA and exports attracts attention in donor countries. A favorable impact is often argued to improve the balance of payments, magnify industry or the service sector and generate employment. This report has not evaluated such arguments. Our basic position is that expansion of commercial transactions through correction of market or policy imperfections, such as those associated with high market concentration, asymmetric information, discrimination of certain commercial interests, etc., is desirable from the perspective of social welfare. An expansion of trade through subsidization of individual firms, and a replacement of commercial transactions by concessional ones, is undesirable.

Through DAC, the OECD-countries are trying to establish strict and transparent rules for the use of concessionary credits which, among other things, are banned from supporting commercially viable projects. While followed by a general reduction of *tied* aid, the playing rules remain uncertain, and many donor countries are seeking new ways to raise their commercial return from aid. Such attempts are far from new, however, and have been visible for long in the organization of Swedish aid as well. The dominating position

of SIDA has gradually given way to more commercially oriented organizations, especially BITS and, more recently, SWEDECORP/SWEDFUND.

Although aid has been shown to exert a positive impact on exports under various circumstances, the nature of the link remains uncertain. This is partly because of poor data, and partly due to the absence of a coherent framework of analysis. In this report, we have argued against reliance on return flows, i.e. the share of aid used for procurement from the donor country. SIDA reports a return flow which is relatively large, given the low level of tying in Swedish aid. Half the reported return flow consists of services, however, for which there is no adequate information on the destination of payments.

Except for the absence of satisfactory data, the concept of return flows is plagued by methodological problems and inconsistencies regarding treatment of national destination, intermediate products, fungibility of funds, and neglect of indirect effects as well as causality. The crucial question concerns what *net impacts* ODA exerts on the size and composition of exports. Such impacts will be the combined outcome of influences towards *expansion, contraction and reorientation* of trade. A useful analysis must be alert with respect to the presence of all these effects. Moreover, it should seek to distinguish between tied and untied aid, although the boundary line is blurred in practice. The former may or may not involve internationally competitive firms and products, while the latter should.

Like the other Nordic countries, Sweden not only ties aid to a small extent, but offers a relatively large share to very poor countries, and channels more than the OECD average through multilateral organizations. At the same time, there are relatively few links to developing countries except for aid, through which commercial relations can be stimulated. Surveying aid and exports between 1980 and 1992, we have seen that Sweden has advanced as a donor but has lost market shares in exports to the developing world compared with other OECD-countries. At the aggregate level, there is a notable asymmetry in the geographical distribution of aid and exports. Where Sweden has gained weight as a donor, i.e. in the Middle East, North Africa and Latin America, exports have retreated. In Asia, where the weight of Swedish ODA has declined, Swedish exports have advanced. While this may signal a "natural" division of trade and aid functions, it also indicates the presence of a reverse relationship between aid and exports.

Distinguishing between categories of developing countries, Swedish exports have grown less rapidly in the programme countries than in developing countries in general, but relatively fast in countries cooperating with BITS. This is not merely attributable to the difference in income between these groups of countries, as seen from a comparison among developing countries which have not received aid from Sweden.

The poor record of Swedish exports in programme countries partly depends on the characteristics of these economies, including the adoption of unfavorable domestic policies. However, the performance of exports is particularly poor in Vietnam, where economic policy has been notably successful. Swedish exports have not only declined in nominal terms, but have lost ground relative to other European donor countries. The tying of aid in the early 1980s expanded sales of certain products, but did not achieve any lasting progress. When aid became largely untied in the late 1980s, exports plummeted.

For countries cooperating with BITS, exports increased in the early 1980s but have been fairly stagnant since then. Especially concessionary credits have contributed to a stronger record compared to the programme countries. In telecommunications, soft financing has been a prerequisite for entry in several markets. There is mixed evidence regarding indirect effects as well as the replacement of commercial transactions by concessional. A major weakness is the dominance of a small number of large companies, which is connected to the limited visibility of Sweden and Swedish products in developing countries.

In other bilateral ODA, such as that provided by SAREC and SWEDECORP/SWEDFUND, there are certain direct effects on exports of goods and services, although the limited volume of funds makes it hard to make assessments at the aggregate level. In addition, there are interesting possibilities for indirect effects in the wake of transfers of technology, establishment of partnerships and various forms of cooperation between actors in Sweden and developing countries. The support of non-governmental organizations also gives rise to some exports, but the use of Swedish resources has still been modest compared to the magnitude of funds. For these categories of aid, the impact on exports mostly depends on the degree to which Swedish exporters are able to cultivate other abilities than those associated with large scale infrastructural projects. The regional cooperation, on the other hand, has been of limited commercial interest this far, but spin-off effects may appear with a changed course of events in Southern Africa.

For multilateral ODA, there is a weak link between contributions and exports. While Sweden is one of the most generous donors, there has not been any major payoff in terms of exports. The Swedish record is comparable with that of Norway, while exports from especially Denmark have developed more favorably. Swedish firms have been most successful in the Asian Development Bank, and the least in the United Nations and the African Development Bank.

On the whole, there is room for improvement in aid-trade relations, looking at implications for developing countries as well as for Sweden. Of course, the countries receiving the bulk of aid is of almost negligible importance for Swedish exports as a whole. What matters, however, is rather the extent to which private firms foster the kind of products and skills which are required for commercial operations in the third world. After all, the vast majority of mankind live in developing countries, and their future growth will outpace that of the industrialized countries. The degree of participation in the development process later on will be crucially influenced by the efforts of today. It is true that a few large Swedish corporations are notably active in developing countries, and the technological capacities of Swedish industry speak for a strong future potential in various fields. At the same time, there are questionmarks concerning the extent to which Swedish firms in general are informed about commercial opportunities in developing countries and upgrade the skills which are necessary to take advantage of them.

What kind of policy action might then be justified? To begin with, one would need an appropriate framework for analyzing aid-trade relations. Focusing on the effects on Swedish exports, estimates of the return flow should not be used as a policy indicator. Still, it would be helpful to develop a more thorough reporting system for the destination of aid disbursements. The scope of this study prevents us from going into detail regarding specific measures. However, the following suggestions may serve as a point of departure for further analysis and discussion.

Adjustments in reporting and thinking on aid-trade relations

- For the purpose of evaluating the impact of aid on exports, there should be a clear definition of what is meant by a Swedish good or service, based on the origin of value added.

- In bilateral aid, the responsibility for reporting the destination of disbursements should be delegated by aid agencies to organizations mediating aid. When aid is provided directly to developing countries, these should similarly be obliged to provide full accounting. In order to continuously deliver comprehensive information about the use of aid funds in terms of sectors, organizations, kind of products, etc., filling in a simple set of formulae should be mandatory. This will be helpful in evaluations of developmental as well as commercial impacts.

- It is crucial to devote attention to the measurement of *causal* effects whether in the shape of an indirect stimulation of exports, a substitution of commercial transactions by concessional ones, or the creation of an aid-dependency which hampers business. This task requires cooperation between aid agencies and representatives of commercial interests, such as the Federation of Swedish Industries, the Swedish Trade Council, chambers of commerce, etc. Plenty of observations leave an affirmative impression that, so far, there has been too little exchange.²⁴ Intensified cooperation should enable an improved understanding of the key role played by private firms in development, as well as the importance of not favoring individual organizations. More dialogue will raise the knowledge of and interest in business opportunities in developing countries among private firms, thereby facilitating effective participation by Swedish firms in aid projects.

As far as commercial relations are concerned, aid may help to accomplish structures which can later be sustained on their own, without ongoing concessional support. This, in effect, corresponds to the infant industry argument. While being alert to such opportunities, aid agencies must be careful not to get the reverse result, that of generating aid-dependency. The Swedish aid programme provides ample evidence of both kinds of effects, and there is a general need of measures which produce more of the former and less of the latter. The following points aim at stimulating further debate on these matters.

Guidelines for practical measures

- Theoretical arguments as well as practical experience speak against formal tying as a generally applicable policy. Objectives for SIDA and other aid agencies should not be formulated with a view to the return flow.

²⁴ Of course, there have been some steps in this direction, such as a report on the Swedish resource base published jointly by SIDA and the Swedish Trade Council in 1987. However, there is a need for more such work, as well as the creation of fora which allow for concrete and continuous interaction.

- There is a need of discretion regarding the terms on which aid is provided, based on thorough evaluation of the special conditions in recipient countries. Assistance obtained with limited or no conditions is counterproductive in the presence of a corrupt regime or one which pursues detrimental economic policies. Greater awareness and more evaluation are also needed of the strategies employed by other donors. Given formal or informal tying by others, the provision of untied funds may even limit competition. One example is the observation that unequal opportunities for obtaining foreign exchange have forced some Swedish multinationals in developing countries to import from affiliates in other donor countries instead of the parent company although Sweden has provided the by far largest support of imports.
- A more elaborated strategy should be formulated for the exploitation and upgrading of the Swedish resource base in ODA. This involves a pursuit of more fierce competition, partly by enticing new actors to develop demanded skills. Consultancy services are of special interest in this context, not least because of their importance for the orientation and design of aid efforts. In addition, there is often a considerable element of tying in consultancy services, formally or informally, and it is difficult to evaluate price and quality. When not prevented by, e.g., economies to scale, it is desirable to cultivate the existence of several competing consultants within Sweden which possess special skills regarding, e.g., knowledge of a certain kind of operations in a certain linguistic area.
- Connected to this matter is the need of facilitating contacts between firms in Sweden and in developing countries, and upgrading their exchange of information. The task requires more fora in which suitable business partners can be identified. Organizations such as the Swedish Trade Council and SWEDECORP should play an important role. In particular, the public good nature of basic information suggests that it should be spread without charging full cost by each client. It is only when this stage has been coped with, that it becomes desirable to make full charges for fulfillment of specific assignments in data collection. Some competing donor countries, such as Japan, Great Britain, France and Germany, appear to have a more effective division between these functions. Anyway, it should be a matter of high priority to review the mechanisms for spreading information about opportunities for business operations in connection to ODA among both Swedish firms and on the recipient side. This should also be helpful for broadening the participation of Swedish firms in ODA beyond the few which presently dominate the field.
- Given that these issues are addressed, Swedish firms should become more successful in multilateral procurement as well. In addition, competitive consultancy

services are strategically important in the design of aid projects. A more favorable record by Swedish consultants, which are relatively well acquainted with the standards and technologies employed by Swedish industry, would also improve the prospects for exports to multilateral organizations of goods and equipment. Beyond this, there may be opportunities to locate some multilateral procurement practices in Sweden. Such proximity would further foster the kind of products and skills which are valuable in ODA.

- Concerning the establishment of a regulatory framework for concessionary financing of commercial projects in developing countries, Sweden should support the implementation of well defined and transparent international rules. Under the present circumstances, however, the situation calls for discretion and flexibility. Swedish firms risk becoming victims of more pragmatic approaches in other countries, which would reduce the future returns from concessionary credits provided in the past.

A true expansion of exports to developing countries requires more trade in the opposite direction. The industrialized markets should become more accessible with respect to imports from developing countries. Sweden has already taken major steps in this direction, e.g. in textiles. The successful conclusion of the Uruguay Round opens up additional possibilities. Liberalization needs to advance on a regional basis too, as in the European Union. Here, a free market for public procurement will gradually make it necessary to streamline guidelines and routines concerning ODA, which opens up an opportunity for creating more fair practices in general. Although strongly differing opinions among the members of the European Union will delay the process, all countries will eventually benefit from an intensified dialogue on how to establish a healthy relationship between aid and trade.

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List of Abbreviations

AFDB

African Development Bank

AsDB

Asian Development Bank

BITS

Swedish Board for Investment and Technical Support

CTF

Consultancy Trust Fund

DAC

Development Assistance Committee of the OECD. Members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

EKN

Swedish National Export Credit Guarantee Board

IDB

Inter-American Development Bank

NGO

Non-governmental organization

ODA

Official Development Assistance

OECD

Organization for Economic Development and Cooperation.

SAREC

Swedish Agency for Research Cooperation with Developing Countries

SIDA

Swedish International Development Agency

SWEDECORP

Swedish International Enterprise Development Corporation

Appendix 1: Programme Countries 1993

Three of the programme countries have been excluded from the reference group used in chapters 4 and 5. These are India, Namibia and Uganda. India has been excluded since it has received significant amounts of concessionary credits from BITS. Namibia and Uganda have only recently become programme countries and are therefore not included.

<i>Country</i>	<i>Initial Year</i>	<i>Country Frame (SEK million)</i>		
		<i>1990/91</i>	<i>1991/92</i>	<i>1992/93</i>
Angola	1977/78	200	200	210
Bangladesh	1972/73	145	145	140
Botswana	1971/72	95	95	90
Ethiopia	1971/72	145	100	150
Guinea-Bissau	1975/76	90	95	85
India	1971/72	400	400	415
Cape Verde	1976/77	70	75	80
Kenya	1971/72	150	135	115
Laos	1977/78	100	110	110
Lesotho	1977/78	35	35	35
Mozambique	1976/77	445	475	395
Namibia	1990/91	100	110	110
Nicaragua	1982/83	270	280	280
Sri Lanka	1975/76	70	0	35
Tanzania	1971/72	550	585	530
Uganda	1991/92	-	110	110
Vietnam	1972/73	300	325	225
Zambia	1971/72	240	260	275
Zimbabwe	1981/82	200	220	220

Source: SIDA (1992)

Appendix 2: Regular Cooperation Countries of BITS as of 1988/89

Of the regular cooperation countries of BITS, thirteen has been selected for the reference group used in chapters 4 and 6. The choice has been made on the basis of two criteria. First, there should have been cooperation since at least 1983. Second, the contribution must have been of significant magnitude, meaning that Mexico with receipts of only SEK 8 million, is excluded.

<i>Country</i>	<i>Initial Year</i>	<i>Concessionary credits granted up to 1992/93</i>	<i>Technical Cooperation¹ up to 1992/93</i>	<i>Intern. Training Progr. No. of participants 1986/87-1990/91</i>
Algeria	1976	1 187	42	15
Argentina	1984	-	4	24
Bolivia	1983	-	64	20
China	1979	4 648	120	199
Costa Rica	1980	-	98	41
Cuba	1980	14	105	113
Dominican Republic	1979	-	54	33
Ecuador	1980	140	46	63
Egypt	1977	422	77	114
Ghana	1986	85	14	61
Jamaica	1979	-	44	69
Jordan	1986	147	7	-
Malaysia	1985	266	64	177
Mexico	1980	-	8	100
Mauritius	1985	137	12	14
Pakistan	1983	244	54	90
the Philippines	1986/87	-	161	143
Peru	1982	14	16	66
Sudan	1981	-	25	40
Thailand	1984	423	62	183
Tunisia	1977/78	845	49	58
Uruguay	1985	-	18	56

¹Include disbursements up to 1988/89 and contracted operations 1989/90-1992/93.

Source: BITS

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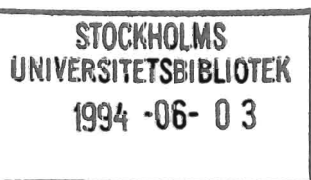
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