

The Crisis of Multilateral Aid*

Lilananda de Silva

Lilananda de Silva of the International Foundation for Development Alternatives, reflects on the financial crisis confronting multilateral aid agencies. He argues that pressures – both financial and operational – on the largest multilateral donor, the International Development Association, may endanger its commitment to poverty-alleviation programmes.

Introduction

Multilateral systems, particularly the more universal among them like the UN system agencies, are in a state of acute crisis. This paper is concerned only with multilateral aid agencies. The crisis which afflicts them is commonly perceived as one of financial constraints. This perception is, indeed, correct although it will be the contention here that other important operational aspects of multilateral agencies — and particularly of the World Bank — are part of the crisis too, at least from the perspective of aid as an instrument to alleviate poverty. The crisis is one of finance (mainly for the smaller agencies), of policies, of governmental pressures, and distorting linkages (e.g. with IMF conditionality and the demands of international capital markets) which have reduced what little autonomy development aid has to fight Third World poverty.

The most important justification for multilateral aid is that it is targeted on the poorer Third World countries. That is a statistical truism. But does that aid reach the poorest people? Are the policies and conditionality of multilateral agencies conducive to a greater poverty focus in the governmental policies of these countries? Again, the role of the World Bank is crucial, as its finance is closely linked to general policy prescriptions — unlike UNICEF, for example, which operates in a limited sector and disburses funds for projects with a direct impact on poverty. The International Development Association (I.D.A.) — the soft loan affiliate of the World Bank — is a focal point of this paper, not only because of its share of total multilateral aid (some 40 percent), but in view of its significance as a vastly prestigious adviser on general economic policy, which in turn affects all development aid — bilateral and multilateral — and also the allocation of domestic and external resources available to poorer developing

*This article is based on a paper delivered by the author to the International NGO Workshop in Multilateral Development Assistance in Oslo, December 1984.

countries. No one recipe exists for successful economic and social development, and pragmatic domestic economic policies cannot be based on the World Bank's economics alone. The scant availability, particularly for the poorer developing countries, of alternative sources of policy advice is thus a crucial issue.

The Pattern of Multilateral Aid

Total Official Development Assistance (ODA) in net terms in 1983 was approximately US\$31 billion, of which the multilateral component was about US\$6 billion, or 20 percent (excluding the European Development Fund (EDF), the OPEC Special Fund and other similar, donor-only aid agencies which cannot be defined as multilateral). Agencies disbursing multilateral aid are many and varied, with the International Development Association (IDA) of the World Bank accounting for nearly half of the total.¹ The pattern of disbursements in multilateral assistance for the period 1979-1982 is as follows (in net terms):

	1979	1980	1982	1983
African Development Fund	55.0	95.8	90.5	111.3
Asian Development Bank	116.2	149.0	145.6	177.0
Caribbean Development Bank	25.4	43.0	38.8	36.2
EEC	1164.7	1061.2	1439.8	1142.9
IBRD	106.9	106.8	88.3	58.0
IDA	1277.6	1542.8	1917.8	2363.3
IDB	335.1	325.9	438.1	365.5
IFAD	2.6	53.7	75.1	104.3
IMF Trust Fund	680.4	1635.8	433.6	—
UN Agencies:				
UNDP	519.6	660.3	789.5	714.1
UNTA	116.4	34.9	209.7	195.5
UNICEF	210.3	246.6	214.2	204.5
UNRWA	136.2	159.9	170.2	234.7
WFP	526.5	539.1	542.3	594.7
UNHCR	260.3	464.5	436.8	366.0
Other multilateral	454.8	384.6	465.3	445.7
Arab OPEC agencies	<u>265.5</u>	<u>292.5</u>	<u>412.6</u>	<u>387.1</u>
TOTAL	6243.4	7793.4	7928.2	7511.7

The degree of both donor and recipient control of these multilateral agencies varies a great deal. Aside from the World Bank and IFAD (the International Fund for Agricultural Development), UN system agencies make their decisions, at least in theory, on the basis of one country, one vote; for all practical purposes, however, decisions on aid issues are arrived at by means of a consensus between donors and recipients. It is probably fair to say that, in such situations, the advice, guidance and recommendations of the Secretariats of these agencies are determining factors in bringing about that consensus. In the World Bank and the IMF, decisions are taken by a system of voting heavily weighted in favour of Northern donor countries. In the case of the much smaller IFAD, while donors

are again in the majority, so is the Third World — since OPEC countries are prominent donors. IFAD is one agency which has an in-built mandatory bias in favour of the rural poor.

The Crisis in Finance

Multilateral ODA expanded in the two decades prior to 1980. This coincided with an increase in bilateral ODA and several new multilateral aid institutions emerged during this period. These trends have now been halted, and the entire network of multilateral aid agencies is facing critical resource constraints.

To ensure the vitality of the multilateral aid system it is necessary to sustain, in particular, the dynamism of the smaller agencies, so as to guarantee the essential elements of pluralism and prevent the emergence of a monolithic multilateralism. It is precisely these smaller agencies which are most at risk. From a Third World non-governmental viewpoint, a great advantage of multilateral aid is the variety of its sources which makes it possible for the domestic poverty-focused agencies to obtain financial and intellectual support to strengthen their bargaining position even in a local context.

Two agencies, UNDP and IFAD, both of which have a specific poverty focus, are confronted with severe constraints in resource replenishment. The amounts involved are modest but low-income countries will inevitably feel the repercussions sooner rather than later.

In the case of the UNDP, resource scarcities will further endanger its primary function as the central funding agency for technical assistance. The scarcity of UNDP resources means that the technical assistance function (particularly the pre-investment sector) is increasingly being taken over by the World Bank, which now channels over US\$1 billion annually for this purpose. The Bank's technical assistance programmes are less satisfactory to the poorer developing countries than are those of UNDP: firstly, World Bank assistance comes in the form of loans, rather than grants; secondly, from a recipient point of view, objectivity is greater with UNDP resources than with those of the Bank since, with the former, the recipient has a greater say in the selection of consultants.

Moreover, projects with objectives at variance with the World Bank's preferred country strategy are unlikely to receive pre-investment funding from the Bank. The fact that UNDP technical assistance is not tied to the subsequent provision of capital assistance gives it greater credibility and flexibility in investment decisions.

There is one unique multilateral aid agency, IFAD, which is mandated to reach out to the rural poor and is concerned not only with increased rural productivity but also with questions of distribution. IFAD's resources are small, yet its continuing replenishment (of about \$1 billion for three years) has created immense problems due to the present pattern of burden-sharing. IFAD was created in the aftermath of OPEC's emergence as a centre of financial surpluses and its resources were to be raised both from OPEC countries as a group and from northern industrialised countries, in the ratio of 57:43. Voting power was shared equally among three groups: OPEC countries, other Third World countries and industrialised countries. With the OPEC countries now experiencing some financial disarray, they have claimed a reduced share of the

burden of resource supply — and the Northern industrialised countries have countered with a corresponding reduction to maintain the existing ratio. IFAD's resources have suffered, as have projects targeted on the world's poorest people. This aid agency is one of the very few controlled by Third World countries (both donor and recipient), and its rationale should therefore be examined in the context of the overall system of multilateral aid agencies.

UNICEF though it has experienced a growth in resources, is still an extremely small aid agency for the critical tasks it confronts. World recession, and the crisis in Sub-Saharan Africa, have created grave problems for a whole generation of children which must be adequately tackled if lifelong deprivation, lasting well into the 21st century, is to be prevented. Commensurate replenishment of UNICEF should be high on the list of priorities.

The World Food Programme has been the subject of extensive criticism by some NGOs on the premise that food aid does not always reach the groups to which it is targeted. Whatever may be the merits of that criticism, the primary rationale for WFP is that it is the only multilateral agency which disburses food aid. Given the realities of aid policy, food aid must be sustained, at least at present levels, and be geared more towards emergencies. WFP should play an increased role, ideally perhaps handling 50 percent of total food aid as compared to 25 per cent at present. It might also consider moving away from an exclusive concern with project aid.

Sub-Saharan Africa will necessarily be an area of concentration for all multilateral aid agencies over the next decade. In that context, one multilateral aid agency which needs to be strengthened both in terms of financial resources and of manpower for policy advice to member countries, is the African Development Bank (AFDB) which has now a major soft-loan window. Africa's unique problems could best be addressed through such a regional organisation, which should be given the potential to develop as a pan-African policy and programme coordinating mechanism. The expansion of AFDB is both a political and an economic pre-requisite for Africa's resurgence.

Regional and sub-regional development banks in Asia and Latin America, the Caribbean and East Africa, and institutions such as the Commonwealth Fund for Technical Cooperation, are effective mechanisms for channelling aid resources; to date, they have received inadequate attention. The future of external resource flows must be linked to the growth of a decentralized multilateral system, based on these institutions or the creation of new ones.

The smaller multilateral agencies, like UNDP, IFAD, UNICEF, WFP and the soft loan windows of the regional banks urgently require higher levels of resource replenishments to maintain and increase their relative weight in the multilateral system. The Brandt Report, among others, has called for the strengthening of these agencies vis-à-vis the World Bank, partly because they are more appropriate agencies for reaching the poorest groups in low income developing countries. The financial crisis has affected the achievement of this objective and the precarious future of these agencies needs to be spotlighted. (The case for an IDA replenishment — unlike the difficulties of other multilateral agencies — is a central issue in international economic relations and has

already received adequate exposure in the world's press. It will not, therefore, be addressed here.)²

The World Bank's Central Role

Over the years, the World Bank (i.e. IBRD and IDA) has developed a dominant role on aid issues. (We are concerned here only with IDA transactions, not with the intermediary function, effectively discharged by the IBRD, of raising resources from international capital markets and disbursing them to developing countries.) The Bank was not established as an aid agency, and IDA was set up only in 1962. Aid experts in several developing countries called for an agency quite distinct from IBRD, and the latter itself had reservations regarding the wisdom of its incorporating an aid agency disbursing ODA to the poorer developing countries, as this might detract from its creditworthiness in capital markets. That debate is still of great relevance to the operations of IDA, in the light of its two decades of experience.

As noted above, multilateral aid has its primary rationale in the elimination of much of the politics which prominently feature in bilateral aid (geographical distribution, type of projects and programmes supported, aid tying and so on). Multilateral aid disbursements, it was thought, could be determined in the light of more technical criteria. IDA aid has been of distinct value to low-income developing countries but, of late, certain aspects of the World Bank's operations provide major cause for concern now and in the future.

Though IDA disburses around £2.5 billion (1983), and is by far the major component of multilateral aid, its share in total ODA flows — at less than 10 per cent — is more marginal. In fact, IDA's contribution is not significantly greater than the overall NGO contribution to development assistance. Over the last two decades, IBRD and IDA (the two windows of the World Bank) have marked out somewhat distinctive geographical areas for their operations — IBRD concentrating on about 20 middle-income developing countries and a few so-called "blend" countries like India, which are eligible for both IBRD and IDA aid, and IDA concentrating exclusively on the low-income countries (with over 30 per cent of disbursements going to India). Without IDA, the Bank would by now have found itself rather less than a "world" bank. In terms of net resources disbursed, IDA is on a par with IBRD. The emerging pattern therefore shows that IDA is crucial to the institutional existence of the World Bank. With the Bank experiencing problems in raising its own resources from international capital markets, IDA's resources tend to be used to implement the Bank's overall strategies for international economic management. If IDA is now more important for the Bank than it was, should not the Bank's ideology be modified to suit that circumstance, rather than IDA adjusted to suit the international capital markets? What is needed is greater autonomy for IDA's operations in relation to the Bank's mainstream function of intermediating in international capital markets. To the extent that IDA is used to manage low-income countries in the framework of an overall IMF-World Bank-international capital markets-GATT strategy of international economic management, it is a distortion of the

use of ODA. Multilateral ODA should be an international poverty cushion for the poorest.

Several aspects of IDA's emerging new role will not be conducive to a poverty focus. They are briefly commented upon below.

IDA as part of the World Bank

The operations of IDA are increasingly affected by the Bank's understandable need to maintain its extremely high credit rating in international capital markets. As with those of IBRD, IDA loans are never rescheduled, although all other loans from governments and commercial banks are re-scheduled at times of crisis. The reason for such an attitude is not immediately apparent. If the international capital markets are unable to draw a distinction between IDA and IBRD and see an IDA re-scheduling as detrimental to the Bank's creditworthiness, then there is a strong case for detaching IDA from the World Bank. They are perhaps an ill-matched couple, given the different tasks each has to perform. Aid donors who provide IDA resources should take the lead in emphasizing the IDA-IBRD distinction.

The World Bank is a central actor in the management of the international economic system. Its economic ideology is therefore impregnated with international systems management concerns. In a recent speech, the President of the World Bank, Mr. A. W. Clausen, stated that:

“The Bank's role in the trade field has basically three dimensions:

- to provide information and analyses on the links between trade and development;
- to promote, through its operations and its policy dialogue with borrowers, the borrowers' greater integration into the international trading system;
- and to support other institutions' efforts to foster an open trading system”.

A little later he went on to say:

“The loans are designed to assist borrowing countries, meet the transitional costs of adjustment, and act as a catalyst for the inflow of private capital. We work in close collaboration with the IMF on these programs, because they are invariably accompanied by programs of stabilization with IMF support.”³

If funds raised in the international capital markets are used in middle-income developing countries, in pursuit of the stated objectives, there can be no serious objection. If there are any, these will be mainly on ideological grounds. But it is relevant to query whether IDA funds could, with propriety, be used in the pursuit of the kind of development strategy, described above, which will only have the most indirect, or even negative, impact on poverty.

IDA Economic Ideology

IDA's location in the World Bank Group has made it difficult for it to evolve an adequate poverty-focused development strategy for low-income Third World countries, such as those which IFAD and UNICEF are trying to implement — with much smaller resources. In the case of IDA low-income countries, the economic policies promoted either directly through loans or indirectly through

the recommendations made in country economic memoranda, are no different from those prescribed for middle-income IBRD countries. The basic problem is that these policies lack a poverty focus, and do not adequately address issues of redistribution of assets and income, income generation for the poor, choice of technology, and public expenditure for the poor in terms of resource allocations for primary education, primary health care, acceptable nutritional standards and relevant rural infrastructure. Even the Bank's own report, *Focus on Poverty*, criticises this aspect of its operations.⁴

The World Bank's proposed strategies with regard to Sub-Saharan Africa (the Berg report) have already created some controversy. The extent to which export promotion strategies for food and agriculture should be encouraged by means of IDA loans remains a major issue. Who benefits from such strategies? Agricultural and food prices certainly have a role to play, but other elements of a structural nature are even more important, particularly in the context of IDA aid which is expected to reach the poorest groups.

The types of technology promoted through IDA loans are also a matter for some concern, as the choice of technology has a major impact on income distribution, self-reliance and rural industrialisation, and on the role of women.

The Role of Aid Coordinator

Were the World Bank's policy prescriptions — even if some were considered inappropriate — tied only its own aid projects, then it would be possible to judge the Bank's aid component as a single element of a total strategy. The World Bank is now emerging as a coordinator of both bilateral and multilateral aid for a large number of developing countries. The function of coordination occurs at two levels: in the recipient country through aid consortia and policy advice, along with the IMF at times, and globally via the international policy-making process.

The World Bank coordinates policies for a large number of developing countries (nearly 30) through the mechanism of aid consortia. The World Bank report on each country has an important bearing on donor policies and preferences. In these reports, the Bank prescribes an overall strategy for the use of a developing country's total external and domestic resources and not only ODA. The allocation of ODA is most obviously affected by such strategies. It should be borne in mind that the World Bank works closely with the IMF in this regard, and over the last few years, the area of IMF-IBRD coordination has expanded substantially, with more and more developing countries forced to obtain access to IMF high conditionality tranches. The Bank's close working relationships with IMF should be closely scrutinised in regard to the impact that it has on use of IDA funds. (In fact, a Third World country cannot obtain IDA resources unless it is a member of the IMF).

The World Bank's other, and relatively new, means of coordination is through the IMF-IBRD Development Committee. Consisting of ministerial representatives (Finance Ministers) of both developed and developing countries, the Committee has gradually enlarged its functions as a coordinating mechanism for all external resource flows to developing countries. Even trade and cooperation with GATT fall within its purview. The weight attached to the Committee by

the governments of the USA, UK and FRG is evident from the recent proposal that the Committee oversee changes in the international monetary system. The Committee is serviced by the World Bank, and has recently undertaken a comprehensive study on Aid Effectiveness, to illustrate just one of its concerns relevant in this context. Here we can only flag the issue of the Committee's impact on the future direction of bilateral and multilateral aid. ODA will increasingly lose its rationale if looked upon as just one part of external resource flows, without the qualitative distinction of being the international support mechanism for the poorest people, not governments and economies.

The Policy Advisory Role

The Bank has emerged as an economic policy adviser to developing countries on a scale not visualised twenty years ago. Modest amounts of project and programme finance accompany significant interventions in domestic and external economic policies. The Bank's resources with a staff of 2,500 professionals and a budget of over \$500 million obtained from its own profits, stand way beyond the resources available to any other UN agency (compare UNCTAD's \$30 million annual budget). The Bank therefore has the financial resources to build up an intellectual base for its own ideology which cannot easily be challenged by other development agencies with very little resources at their disposal, particularly for country studies. This is a worrying feature in a system of multilateralism which has to be more pronouncedly plural in development philosophy.

Aid, in theory, should reach the poorest groups. Do IMF-IBRD policies which are recommended or implemented usually in tandem ensure this desirable outcome? This is especially significant as IMF-IBRD prescriptions affect not only the aid they give, but all external assistance flows. For aid to reach the poorest groups, it should, to the greatest extent possible, be an autonomous component of the total framework of external resource flows — from trade, to borrowing abroad and IMF purchases. Due to the way IMF-IBRD pushes aid — bilateral and multilateral — towards as great an integration as possible with every other kind of resource flow, the poverty focus of aid is inevitably affected. Problems are bound to arise when resources are viewed from a purely governmental perspective. To a Third World government, a dollar earned through trade or aid is the same as long as that government is free to use it to finance its own priorities; governmental priorities, however, are not necessarily those of the Third World poor. Moreover, IMF-IBRD itself has other priorities for aid: squaring-up balance of payments, meeting debt obligations in time, directing more funds towards export-oriented strategies, and so on. It is not that these are unimportant; they are extremely urgent tasks, but not ones for which IDA funds should be available.

The above detailed critical analysis of IDA linkages was undertaken with a view to spotlighting the pitfalls for a poverty-focused agency if it moves too far towards collaboration with the IMF and international capital markets. There are strong pressures in that direction by governments, both in the South and North. It must be made clear that IDA has served as a valuable channel for ODA flows to low-income countries. It must be preserved and strengthened, but the

important distinction between IDA and the IBRD must always be borne in mind. IDA obtains its resources from the aid budgets of bilateral donors, and not from international capital markets. Resources obtained in that manner should be focused on poverty alleviation. IDA, in contrast to the IBRD, should therefore link itself more with the poverty-focused parts of the multilateral and bilateral systems — UNICEF, IFAD, UNHCR, UNDP — and with non-governmental organisations, rather than with IMF, GATT, the creditor commercial banks and the Chambers of Commerce.

Policies for a Strong Multilateralism

However inadequate the present framework for multilateral aid, the case can only be made for strengthening it, not for dismantling the fragile edifice which has been gradually built up over four decades.

Arguments for multilateralism are rooted in its qualitative superiority over bilateral aid. It is imperative for multilateral aid to be ahead even of the few high-quality donors (the Scandinavian countries, the Netherlands and a few other small donors from the North). If the qualitatively-superior aid donors are to channel funds through multilateral aid agencies, then multilateral aid has also to be qualitatively superior. In prescribing policies for the future, the criteria for multilateral aid agencies should therefore be their inherent advantage over all bilateral aid donors in reaching the poor. The following recommendations are set out with that perspective in view.

The Role of IDA

The IDA should be more autonomous from the mainstream functions of the World Bank — raising resources in international capital markets and disbursing them to middle-income developing countries. Policies for the low-income countries for which IDA is responsible must be shaped in a manner which ensures that aid in all its forms reaches the poorest groups in these countries. IDA leverage must be used to enhance the direct poverty focus of governmental policies. Also, in the case of IDA countries, the relationship with IMF, the role of co-financing with commercial banks, policies towards direct foreign investment and export-oriented strategies must be tempered by IDA's priority task of alleviating poverty; this must not suffer from an exclusive concern with rates of economic growth. In the same way that IBRD must assuage the international capital markets, IDA must satisfy its donor countries that the ODA channelled through it is used for poverty alleviation.

Sources of Policy Advice

The World Bank has established a hegemony over policy advice to developing countries which is not conducive to strong multilateral pluralism. The smaller multilateral aid agencies must strengthen their capacity to tender policy advice, and the intrinsic pluralism of the multilateral system in terms of analysis, prescriptions and ideology must be ensured. (The economic policies advocated, for example, by the Economic Commission for Latin America are at variance at times with those of the World Bank, and that type of alternative policy recommendation has to be made available to developing countries from the multi-

lateral system. NGOs, in particular the research institutes of the North and South, have a role in providing country-specific policy advice, taking note of the need to use ODA for poverty-focused strategies.

Relative Weight in the Multilateral System

The multilateral aid system should be engineered to develop in such a way that the smaller agencies obtain a greater relative weight in the future. This would obviously mean an enhanced policy advisory role, and an increased function of aid coordination for them. Proposals to this effect have been made by the Brandt Report among others. In the next decade, the situation in Sub-Saharan Africa will be uppermost in multilateral aid concerns. Agencies like UNDP, UNICEF, the World Food Council, the World Food Programme and IFAD have the opportunity to coordinate with the revitalised African Development Bank, along with IDA, in formulating country-specific, poverty-focused strategies.

Multilateral Agency-NGO Collaboration

Multilateral aid agencies, by their very nature as inter-governmental organisations, maintain close contact with both developing and developed country governments; the non-governmental sector has been relatively neglected. Apart from a few agencies (such as UNICEF), there is room for greater cooperation with NGOs in promoting poverty-focused strategies. The smaller multilateral aid agencies could devise modalities to tap the creative potential inherent in NGOs for coordinated approaches in financing, project design and execution and monitoring of anti-poverty programmes.

IMF Gold

A substantial flow of ODA was provided by IMF (which is not normally an aid agency), through its programme of gold sales between 1978 and 1982, when it sold off 50 million ounces and transferred part of its profits from this transaction on highly concessional terms to low-income countries. It was argued at the time that the pot of gold on which the IMF is sitting was a valuable multilateral resource which could be used to the great benefit of low-income countries. The 100 million ounces of gold still held by the IMF could be an independent source for IDA funding and might also replenish some of the smaller UN agencies.⁵

References

1. *Geographical Distribution of Financial Flows to Developing Countries, 1979/1982* (OECD, Paris, 1984).
2. For a full discussion see "The World Bank — Funding and Role", *North-South Issues*, No. 5, October 1984, Trócaire, Dublin, 1984.
3. "International Trade and Global Economic Growth — The Critical Relationship", address before the Economic Club of Detroit by A. W. Clausen, Detroit, Michigan, May 23, 1984 (A World Bank publication).
4. The World Bank, *Focus on Poverty, 1983* — a report by a group of experts is critical of the Bank's failure to have dialogue with Third World governments in the interests of the poorest sectors.
5. The Brandt Report called for the use of IMF gold to benefit Third World countries. See Leelananda de Silva, "Gold, the IMF and the Third World", *IFDA Dossier*, No. 5, 1979, for details of a previous proposal at a time when the IMF was embarking on its gold sales programme.

Appendix: Ireland's contributions to the World Bank Group and United Nations Agencies, 1984, £000.

	£000
World Bank Group	
World Bank	1,400
International Development Association	<u>2,254</u>
Total	3,654
UN Agencies	
United Nations Development Programme (UNDP)	930
United Nations Children's Fund (UNICEF)	330
United Nations High Commissioner for Refugees (UNHCR)	220
United Nations Relief and Works Agency (UNRWA)	260
United Nations Trust Fund for South Africa (UNTFSA)	21
United Nations Educational and Training Programme for South Africa (UNETPSA)	21
United Nations Fund for Namibia (UNFN)	16
United Nations Trust Fund for Publicity Against Apartheid	1
United Nations Institute for Training and Research (UNITAR)	11
United Nations Fund for the Victims of Torture (UNFUT)	<u>5</u>
Total	1,815
