

THE UNITED STATES' RELATIONSHIP WITH MULTILATERAL AID

by

ROBERT HAMPTON JR.

B.S., Kansas State University, 1986

-----

A REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTERS OF SCIENCE

ECONOMICS

KANSAS STATE UNIVERSITY  
Manhattan, Kansas

1988

Approved by:

*E. W. Kappeler*  
Major Professor

LD  
2668  
PH  
ECON  
1988  
H36  
C, 2

11207 296603

CONTENTS

<u>1. INTRODUCTION</u>	<u>1</u>
<u>2. THE HISTORY OF MULTILATERAL AID</u>	<u>2</u>
International Bank for Reconst. & Devlp.	2
International Development Association	3
Regional Development Banks	4
Inter-American Development Bank	5
Asian Development Bank	6
African Development Fund	7
<u>3. THE DEVELOPMENT OBJECTIVE--IDA</u>	<u>9</u>
Agriculture & Rural Development	11
Basic Infrastructure	13
Other Infrastructure	15
Industry	17
Human Resource	18
Nonproject Lending	21
<u>4. ADVANTAGES AND DISADVANTAGES</u>	<u>24</u>
Economic	24
Support of Western Styles	25
Reachability (nonpolitical institution)	27
U.S. Lack of Control	28
U.S. Influence on Multilateral Aid	28
Low Emphasis on Human Resource Sector	30
<u>5. REAGAN ADMINISTRATION VIEWS</u>	<u>32</u>
Questions About Lending Policies	32
Emphasis on Private Enterprise	33
<u>6. CONCLUSIONS</u>	<u>35</u>

## Introduction

World War II not only caused the destruction and death of many countries and countrymen, but it also put to rest the inadequate international economic system of the time. From the ruins of the war emerged an international system in which combined efforts from separate nations was a must. As a result, there were the establishments of multilateral aid institutions whose objectives were reconstruction and development. The U.S. became involved in these multilateral agencies for economic, political and development reasons. For the U.S. there are certain advantages and disadvantages associated with this type of aid and certain factors that influence the amount of support that it gives these agencies.

In this paper, I will give a brief history of multilateral institutions and some reasons for U.S. involvement. There will then be a discussion about an important objective of multilateral aid, development, with emphasis on the International Development Association. After addressing the advantages and disadvantages of multilateral aid, I will conclude by stating the views of the Reagan Administration on this subject.

## The History of Multilateral Aid

The history of the multilateral organizations began at the close of the second World War. The post-war economic condition was in need of an international system that would secure it and allow it to develop. Many economists believe that the world economic system that was prevalent before the war had been a causal factor of the war. The depression of the thirties led to fierce competition and a decrease in international trade, thus deepening the depression and bringing political tensions to a head. In order for this occurrence not to be repeated, representatives from 44 countries met in Bretton Woods, New Hampshire in 1944, to discuss plans for a new international system (Sanford, 41).

The major concern of the Bretton Woods conference was the establishment of a free or open world economy and a system of stable exchange rates. The issue of financing development had to take a back seat. Therefore, the discussion of the International Monetary Fund (IMF) overrode that of the International Bank for Reconstruction and Development (IBRD). Nevertheless, the IBRD was established with its own international objectives that it was designed to achieve. The IBRD was to aid the IMF in providing a stable, yet flexible,

international credit and investment system and was to provide capital for countries that were unable to get it at normal commercial sources. The IBRD was also designed to cater to basic development and productivity in the new international system. The IBRD provided this by making loans for reconstruction and development in war-torn and underdeveloped areas of the world. As the war-torn countries built back up to their pre-war status, the IBRD began to concentrate more on helping the underdeveloped countries of the world. However, the IBRD was constrained on how much it could assist these developing countries due to its credit position. The IBRD had to make sure that the loans would be repaid so that the large number of defaults that had damaged the international financial system before the war wouldn't happen again. Therefore, the IBRD couldn't make high risk loans to low income countries without hurting its own credit position.

So there had emerged a need for yet another organization, one that could provide assistance to the poorer nations of the world. The organization that was established in 1960 to supply this type of assistance was the International Development Association (IDA). In addition to providing needed assistance to low income countries, there were three other factors that contributed to the United States's support of the IDA.

First, the U.S. was becoming mindful of an international aid program in which the burden would be more equally shared. The U.S. felt it was providing more than its share of development aid and that it was time for other developed countries from Europe and Japan to increase their share of foreign aid. Second, there was a general feeling that aid channeled through multilateral organizations was less politically influenced and more geared to development. The final factor was that the U.S. was acquiring large amounts of developing countries' currencies through programs such as Public Law 480, and the IDA provided a way in which to use them. Since the IDA is the largest multilateral concessional aid agency and has tremendous influence on development strategies, it will be discussed in greater depth later.

The other multilateral organizations that were created after the war were the regional development banks. The request for the regional development banks came mainly from the nations of the respective region. These countries wanted more concessional aid than the conservative IBRD was willing to give. They also felt that a regional bank would rectify some of the power imbalance between the rich and the poor countries. They believed a poor country would have more influence in a regional bank than in the IBRD and that a regional

bank would be more adapted to the problems associated with that region.

The U.S. government was skeptical about the establishment of such multilateral organizations. After the Bretton Wood conference had created its agencies, the U.S. had no interest in supporting plans for other organizations which just represented certain regions of the world. However, each regional bank had its own economic and political scenario that made it beneficial for the U.S. to lend its support. This support came from both U.S. foreign policy interest and fundamental economic development in that region.

The Inter-American Development Bank was inspired by Latin America for three main reasons. First, the nations of Latin America thought that a regional development bank would lessen the part foreigners played in their economic ventures and would strengthen local institutions. Second, they felt that they were not receiving enough of the world's foreign aid and that a regional development bank would increase this amount. Finally, Latin America was not in agreement with the IBRD's operating procedure and program requirements. They wanted more concessional aid to fund innovative social and economic programs.

The U.S. did not favor the establishment of the Inter-American Development Bank until 1958. This was

after numerous riots and disturbances in Latin America and many accusations that the U.S. was unwilling to aid its neighbors. Quick U.S. support for a regional development bank was one of the early moves in the basic reassessment of U.S. policy that culminated in the declaration of an Alliance for Progress in this hemisphere. The U.S. Government hoped the new Inter-American Bank might channel some of the Latin Americans' progressive aspirations and economic nationalism in productive directions which were compatible with U.S. interests and good for future relations among the American states (Sanford, 50).

The Asian Development Bank was an initiative of the countries of that region. Their reasons for wanting such an institution were similar to that of Latin America. They felt that a regional development bank would be more capable of fulfilling the needs of the region. The idea of the Asian Development Bank originated in 1963, but the U.S. did not lend it great support until 1965. At this time the political events occurring in Vietnam had important consequences to the U.S. The threat of possible communist expansion made the U.S. aware, more than ever, of the importance of being involved in the political and economic affairs of the Asian region. The Asian Development Bank not only provided a means of achieving economic development for



needy Asian countries but was also an opportunity for the U.S. to broaden foreign relations in a very strategic region.

The African Development Fund was established in 1964, but the U.S. was not formally a member until 1976. The African Development Fund wanted to limit membership only to African countries, but this meant limiting the amount of funds, so, in 1960 they proposed U.S. participation in the program. However, mainly due to the timing of the proposal, it took the U.S. ten years before it would join. There were two main factors that delayed U.S. involvement in the African Development Fund. First, other aid programs were becoming more costly, and it was felt that participation in the Fund might take away contributions to other agencies. Secondly, the proposal was either being discussed during the Vietnam War or Watergate--both cases were associated with a tremendous amount of internal conflict in the U.S. Government. The U.S. was never against the African Development Fund proposal, but it was not until 1974, when political change in Africa brought enough urgency to the situation, that the U.S. decided to join. Portugal announced its withdrawal from its African colonies, leading to uncertainty about leaderships in Angola and Mozambique. Problems of white minorities conflicting

with black majorities over political rule were taking place in Rhodesia and South Africa. Finally, the possibility of future Soviet intrusion made it a perfect time for the U.S. to start participating in the African Development Fund.

Why should we be concerned with the history of the establishment of such multilateral organizations? The reasons behind the establishment and the U.S. involvement in these organizations are important in understanding the different perspectives about the objectives of multilateral aid. The poor countries want to increase their living standards so their main objective is basic economic development. The developed countries, such as the U.S., have more complex economic and political objectives that they wish to obtain through supporting these organizations. This can be seen by the fact that the political events in the S. Asian region, especially Vietnam, helped to lead the U.S. into participation in the Asian Development Bank, and that certain political and economic factors had to occur before the U.S. joined the African Development Fund. Even though there are these other political and economic gains that are associated with multilateral aid for the U.S., like the developing countries, the objective of international economic development is very important.

### The Development Objective--IDA

If basic development is a major concern, then the IDA, an organization designed to provide concessional aid to low income countries for the purpose of development, should be looked at more closely. What strategies and methods does the IDA employ in order to obtain development and how effective have they been? The best way to answer this is a sector-by-sector analysis noting that development in all areas is not uniform, but overall trends can be observed. After being established in 1960, the first strategy that was applied by the IDA was that industrialization was the key to development. The IDA thought that if basic infrastructure were secured in place, then rapid economic growth would be sure to follow. Therefore, the IDA began the funding of infrastructural projects such as railroads, telecommunications, dams, road systems, etc. However, the results were not as expected; the efforts in infrastructure did not increase employment and income sufficiently but did neglect the agricultural sector leading to food shortages and balance of payment problems. Therefore, the strategy of the IDA switched from the industrial sector to the agricultural sector. IDA spending on agriculture increased from 23% in 1961-70 to 32% from

1971-76, whereas spending on transport decreased from 30% to 17% over the same period (IDA, 37).

The IDA began to try to increase the productivity and income of the working poor. This was done by funding projects such as small scale irrigation, rural roads, agricultural credit programs and the increase of human capital. The attempt to increase human capital meant emphasis on programs associated with education, health and nutrition. The following table shows the percentage of spending going to each sector over three time periods. Each sector will be discussed separately in order to reveal the reasons behind the increase or decrease in the IDA's spending in that particular sector.

<u>SECTOR</u>	<u>PERCENTAGE</u>			<u>TOTAL</u>
	<u>1961-70</u>	<u>71-76</u>	<u>77-82</u>	
Agriculture & Rural Development	23	32	42	37
Basic Infrastructure	41	30	29	30
Energy	6	8	16	13
Transport	30	17	10	13
Telecommunications	5	5	3	4
Industry	4	10	8	8
Other Infrastructure	3	4	7	6
Water Supply & Sewerage	3	3	5	4
Urbanization	0	1	2	2
Human Resource	6	6	7	7
Education	6	5	6	6
Population, Health & Nutrition	-	1	1	1
<u>Nonproject Lending</u>	<u>23</u>	<u>18</u>	<u>7</u>	<u>12</u>
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

(IDA, 37)

As mentioned earlier, the IDA has substantially increased spending in the agricultural sector. The major goal has been to increase the productivity and income of the small farmer. This goal involves more emphasis on water control which includes secondary and tertiary canals, better drainage plans, and groundwater development or tubewells. The idea has been to improve existing irrigation projects rather than to build new ones by making water supply more dependable and the systems more efficient. Other areas in which spending has increased is food storage and processing, training and extension services, and agricultural credit programs. The agricultural credit programs provide seed, fertilizer and pesticides, among other things. There has also been an increase in agricultural research. The goal here is to relay more information to the small farmer in order to increase his output. There has also been an increase in lending to area development, which is a combination of different programs and methods. Area development combines such projects as extension services, the construction of rural roads and agricultural product marketing schemes in order to increase agricultural output. In fisheries, as with the irrigation systems, there has been a change from constructing large, expensive projects to supporting smaller ones. Switching from

large costly boats to concentrating more on management and marketing has lead to an increase in productivity and income to the fishermen.

In order to evaluate the effectiveness of the IDA's agricultural spending, two regions that have received the majority of this spending will be analyzed. The two regions are South Asia and Sub-Saharan Africa; one has reaped substantial success while the other has stagnated and even slightly regressed.

In most areas of South Asia, agricultural production has increased. This is a very important fact when one considers that almost half of the world's poor reside in this area. The major philosophy in this region was to cultivate existing land more intensely rather than to extend farming to idle lands. India is a major reason for the agricultural success of this region. With the aid of the green revolution, India has been able to cease food grain imports and become agriculturally self-sufficient. Other countries such as Bangladesh and Pakistan, even though still at low levels, have also had improvements in their agricultural sectors. Therefore, the IDA effects in this region have been positive and substantial.

However, the same cannot be said for the Sub-Saharan Africa region. Many environmental factors

have lead to the slow growth of the agricultural sector in this region. These factors include poor infrastructure and storage, numerous government changes, wars, civil disturbances, weak local institutions and pricing policies, and the presence of destructive weather. The only production increase has occurred with the cultivation of new land, which is just the opposite of the philosophy used in the South Asian region, that of cultivating existing land more intensely. In many parts productivity has even decreased. The IDA cannot be blamed for these poor results because most of the factors lie outside of its sphere of influence.

The second largest part of IDA lending next to agriculture has gone to basic infrastructure (transport, energy and telecommunication). Infrastructure is important because once a country has acquired it, other sectors can grow more easily. It should be stated again that infrastructure is an important part of economic development but that it should not be the only sector funded while ignoring the others -a fact that the IDA found out the hard way. The IDA has not only developed infrastructures; it has also set up programs to help operate and maintain them.

The transport sector, like many of the other IDA projects, has gone from large capital-intensive ones

such as airports and trunk highways to smaller more labor-intensive projects. Many of these new smaller projects include road maintenance, construction of secondary roads, the training of staffs, and institutional development. This training and development consists of relating information about such things as road user fees and weight limits. The IDA has once again encountered its greatest results in India. The Indian railroad which was heavily funded by the IDA transports goods and people throughout the nation. The IDA has also aided the Indian railroad with a lot of technical assistance in accounting, evaluation, management and planning that helps keep the railroad an important part of development in India.

The energy sector, like the transport sector, receives a substantial share of IDA lending. The majority of the energy projects are electrical power generators and their respective transmission and distribution facilities. Since the oil crisis of the mid-seventies, the IDA has also funded oil and gas exploration projects in an attempt to help the poor oil importing countries become less dependent on energy imports. The IDA has also tried to fulfill the energy needs of the rural poor through renewable resource development such as fuel wood projects so that there can be electricity in these areas to operate such



equipment as irrigation pumps. Once again the IDA has not only stressed the construction of the energy facilities but also the management and the strategies needed to make the countries self-sufficient. An example of this is the electrical power agency of Indonesia. The IDA provided technical assistance to the power agency; and in just a short period, it was self-supportive--its revenues covered its expenses. The power agency now provides 70% of Indonesian electricity requirements, and this result emphasizes the importance of the IDA in the energy sector (IDA, 48).

The last basic infrastructure sector is telecommunications which is mostly financed directly from suppliers; IDA lending to this sector is normally a last resort. When the IDA has lent, the projects have either been oriented to getting more telecommunication service to the rural poor or to increasing domestic manufacturing of communication equipment. The IDA has also supplied technical advice including pricing policies, operations, maintenance, and financial and investment planning. The IDA has been able to bring modern technology and methods to the most primitive areas. Telecommunications is important because once a successful system is constructed, it

will attract other investments, thus leading to more economic growth.

Other nonbasic infrastructure funding has gone to water and sewerage and urbanization. The construction of water and sewage facilities is important because of the nutrition and health benefits that are associated with them. The IDA started out supporting very large, expensive projects in water supply and sewage, and established local water authorities. These projects have been transformed into trying to supply more water to the rural and urban poor. This has been done by adopting inexpensive systems such as pit latrines, pour flush toilets and rain collection devices. The IDA has had to adapt to the diversified climate and cultural conditions of different areas. Once again one of the major problem lies in the technical characteristics of the institutions. These problems include pricing and revenue collection which is a must if these systems are ever going to be self-supporting. The IDA realizes the importance of these problems and has been attempting to help the respective governments find solutions.

As for urban development, the problem here is growing with the increase in urban population. Cities in developing countries are growing at faster than national average rates because of the migration of the rural poor. This growth in the urban areas has led to

needs for more housing, transport, water, and sanitation. One of the older traditional views was the construction of costly public housing which ended up requiring large government subsidies from very limited public funds. The new IDA approach is the upgrading of existing slums, as mentioned under earlier sectors; this upgrading includes the improvement of roads and water supplies, for health reasons. Another upgrading project is the "site and services" project which provides plots of land to people on which they have to do any building themselves. There has been some success in the area of urban development, but the lack of efficient city transport and the associated high unemployment has led to the inability of the poor to afford even the cheapest of these services.

The industrial sector can be a way of generating employment and income. However, industry lending is very risky; success depends on local efficiency and the amount of international competitiveness. But even successful projects don't always increase employment substantially. The large fertilizer production plants in India have been successful, but only because India has the size and enough agricultural demand to support such a project. Recent trends of the IDA have been to support more small and medium scale industries, a movement which has had a greater effect on employment

generation. Examples of these light and medium scale industries that have been successful in different countries are fish drying, agro-processing, wood products, rice milling, fruit processing, and some light engineering. The IDA has also stressed management plans and the import of equipment and technology in order to increase efficiency, output, and income. One of the major success stories comes from Mauritania, where IDA has provided capital, marketing advice and training to the weaving industry, leading to a large increase in employment. The industrial sector success stories are few. Before a country can substantially generate income and employment from the industry sector, it needs a large resource base and a highly skilled labor force which is rare in many developing countries. Some economists and governments agree that the IDA ignores the private sector, but considering the lack of a resource base and the number of skilled workers in developing countries combined with the fact that public-lending has a spillover effect on the private sector, this is probably not the case.

The last sector is human resource development, the social sector, which is lending for health, nutrition, family planning and education. Lending in this sector affects a country's literacy rate, population rate,

infant mortality, life expectancy, etc. It is very difficult to achieve success in this sector because of the complex and traditional cultures of developing countries and the slow return on the initial investment. Many of these projects will take years before changes can be seen and economic benefits can be felt. However, after the initial funding by the IDA, the respective governments have to continue to provide the services which can lead to large deficits and even cut backs in the services themselves. The IDA has to be extremely careful in making sure that the government is able to maintain such projects.

Lending to education is important because it increases the skills of the population, leading to greater productivity and economic development. The projects that the IDA supports in education are the construction and improvement of facilities, education planning, textbook production, teacher training and curricula reform. The initial IDA projects were aimed at increasing higher education in the developing world but have become more concentrated toward increasing primary education. The IDA has been able to increase primary education by improving administrations, facilities and the training of teachers. There has also been a movement to increase primary education in rural areas. This is difficult to do because a child

that is in school is not producing on the farm, and the recruiting of teachers to these areas is not easy. Many people feel that rural education is a waste because after a child receives his primary education, he only returns to the farm where he doesn't put any of his knowledge to work. However, this is not the case; these rural schools teach applied and vocational learning in order that a child can go back to the farm and utilize what he has learned to increase productivity and output. The long term success of the education sector depends on more rural education facilities teaching vocational subjects and the ability of developing countries to afford education by managing their public expenditures.

The other part of the human resource sector is population and family planning. This is important because an increasing population can counter balance the benefits associated with economic development. The residents of a country that has a 2.5% GNP growth rate but also has a 3.0% population growth rate are becoming worse off each year. One reason for the high population growth of developing countries has been their increase of health and nutrition levels. This increase in health and nutrition has caused a decrease in infant mortality and an increase in life expectancy, causing populations to grow. The only way to slow down

this growth is by population and family planning. However, due to social economic traditions, this is not easy to do. Many parents want to have a lot of children for economic reasons, and in the past a woman had to have high fertility to ensure a certain number of offspring. Therefore, the IDA must not only provide population control services but also information. The IDA lending in this area is new and small, but the IDA has already learned that services must be safe, cheap and effective, especially in rural areas. The IDA has also learned that successful projects require strong support from the local government because, like education, these projects are not a one-time thing; they need funding year after year. There has been some success in IDA's lending to these projects. In Indonesia by setting up numerous services, training centers, midwifery schools and mobile information units in villages, the birth rate has decreased. There still exist large challenges for the IDA in this area. Kenya, for example, has a population growth rate of 4%. Despite these challenges, the results of the IDA's population and family planning program look very positive.

The rest of IDA support is to non-project lending, or program lending. The advantage of program lending is that it can be distributed rapidly and used to free

foreign exchange constraints and improve overall economic performance. An example of this can be seen in the case of India, the largest recipient of IDA's program lending. India has received program lending to assist it in expanding exports, bringing more capital to its private sector, narrowing current account deficits, and supporting vital capital goods industries, all leading to general non-inflationary economic development. Along with providing the funds for such non-project loans, the IDA also provides assistance in policy discussions to make sure these credits are used most efficiently. The effects of such lending has not been uniform; Pakistan, unlike India which has had great success, has not been able to narrow its current account deficit despite following suggested reform measures. Nevertheless, as program lending is being more and more directed to macroeconomic reforms, it is becoming an important part of IDA lending.

It can be seen by the previous sector-by-sector analysis that the IDA has had a tremendous effect on economic development in the developing countries of the world. The IDA has been most effective in countries with strong government support. The IDA has also tried to make sure that the lending has an effect on the poor. This can be seen by the numerous pro-rural



lending strategies and the increase of labor-intensive projects. The IDA has not only provided funds for specific projects but has also given technical assistance to ensure the efficient running and the maintenance of these projects. Despite some unavoidable failures, the IDA, like other multilateral institutions, represents one of the best ways to channel foreign aid in order to obtain the objective of economic development.

### Advantages and Disadvantages

For the U.S. there are many advantages and disadvantages associated with multilateral aid. The first advantage that multilateral aid gives to the U.S. is economic, which consists of two main parts. First, multilateral aid lessens the cost of foreign aid by sharing the burden of it with the rest of the world. Second, the U.S. benefits from the promotion of trade associated with multilateral aid.

The first economic advantage, "Burden-Sharing," is important because the U.S. cannot be expected to provide the large share of foreign aid that it has in the past. This is due to tightening budget constraints and the popular belief of United States citizens that the United States is either spending too much on foreign aid or at least more than its share. Multilateral institutions are able to divide the cost of development aid among the rich countries which has enabled the U.S. share of contributions to these institutions to decline. Another advantage of sharing the burden of aid with other countries is that it allows for a larger amount of capital that can be mobilized than any one country could afford. This is why multilateral institutions have been so successful

in funding large scale capital projects such as infrastructures.

The second economic advantage, the promotion of trade, is the result of economic growth of developing countries and the increase in export opportunities associated with multilateral aid. As aid is given to developing countries, these countries grow, thus increasing their amount of international trade. This, in return, benefits the U.S. because developing countries are an important trading partner to the States. In 1978, developing countries accounted for 25% of U.S. exports and 24% of U.S. imports, including many strategic raw materials (Sanford 28). Multilateral aid indirectly increases United State exports by promoting trade. Multilateral aid also has a more direct way of increasing U.S. exports. U.S. companies acquire contracts for goods from the multilateral agencies' open bidding process, thus increasing U.S. exports. The fact that multilateral agencies increase international trade is economically advantageous to the U.S.

Besides economic, another advantage that multilateral aid gives the U.S. is the support of Western ways. Even though multilateral institutions are designed to be a nonpolitical means of achieving economic development, they still favor Western style

economic principles. Multilateral agencies in their quest for economic development utilize policies that are market oriented and that increase private enterprise and international trade. All of these policies support the Capitalistic style of the West and are supported by the U.S. as basic means of achieving economic growth in the developing world. It should be pointed out that it is not all by chance that these multilateral agencies share the same economic beliefs as the U.S. The U.S., by being one of the largest donors and having the offices of World Bank president and IDA executive vice president reserved for it, has some influence on the affairs of these institutions. The degree of this influence will be discussed in greater depth later. Despite the influence, the policies supported by multilateral agencies are probably more concerned with economic development than they are with political beliefs.

Another way in which multilateral agencies support western objectives is that in some circumstances these institutions are able to influence the local governments enough to make them change their economic methods, whereas U.S. bilateral tactics cannot. This is because, to the governments of developing countries, pressures by the multilateral agencies to change policies and practices seem more

oriented to development than do pressures by the U.S. Many of these developing country governments react to influence by the U.S. on their economic practices as a neocolonial effort. Multilateral agencies in many ways can utilize Western styles of stabilization and development more effectively than the Western governments themselves. However, the main point here is that in striving for economic development, the multilateral agencies promote Western ways.

Another advantage of multilateral aid is that in some cases it can reach the poor and needy that are unreachable by U.S. bilateral aid. Because of political and human rights beliefs, at times, it can be unpopular for the U.S. to give aid to certain countries. The tragedy of this is that many of these countries have numerous poor that are in need of economic assistance. These poor people are generally not supporters of their nation's government but rather victims of it. Nevertheless, if it were not for multilateral agencies, these people would not have been reached by U.S. contributions.

A special case arises in Latin America. In this situation the U.S. would like to give development assistance to this region. However, many Latin American governments do not want U.S. assistance. So the only way the U.S. can help is through multilateral

agencies. In Latin America the U.S. uses multilateral aid as a way of indirectly supporting development.

Just as the U.S. supports multilateral lending to certain countries, it is against lending to others and is unable to halt it directly. This lack of control over where the aid goes is one of the disadvantages associated with multilateral aid. The U.S. uses its bilateral aid program to enforce its policy objectives onto receiving countries with short term foreign aid programs. Many of these countries that the U.S. wants to deny access to multilateral aid are going against certain basic public values and human rights or are not allied with the U.S. The U.S. would like to have control over lending to countries that are developing nuclear weapons, discouraging the roles of women, performing arbitrary arrest, torturing and imprisoning their people. In this way the U.S. can monitor the distribution of aid to these countries based on their willingness to adopt new policies on these issues. Even if the U.S. had control over the distribution of multilateral aid, the project lending is long term oriented and would be quite useless for short term objectives.

Even though the United States cannot directly control multilateral aid, there are ways in which it can influence the distribution of it in order to favor

certain policies of the U.S. As mentioned earlier, the U.S. is one of the largest donors and has high positions in the World Bank and the IDA traditionally reserved for it, giving it some degree of prestige and power in multilateral institutions. However, the U.S. has had most of its success in altering the distribution of aid when it has the cooperation of other member nations. This cooperation is not gained with the use of political pressure tactics that attempt to dominate member countries. It is gained by showing the economic development benefits associated with the position that the U.S. is supporting. For example, if the U.S. does not want an agency to give aid to a certain country because of one reason or another, the U.S. representative should not state the United States's position by saying, "no lending to this country because the U.S. does not agree with its practices." This would give other member nations the impression that the U.S. is more concerned with its own objectives rather than the agency's objectives and economic development. The best way for the U.S. to gain the cooperation of other member nations is to address the issue in a positive manner, expressing that the U.S. believes in the goals of the agency and that lending to this country is not in the best interest of this agency's beliefs and development practices. The

fact that the U.S. does not have direct control over multilateral aid is a disadvantage. However, this disadvantage is lessened by the ability of the United States to influence multilateral aid.

Another disadvantage of multilateral aid is that it has not placed as much emphasis on basic human need programs (education, health, nutrition, population) as other sectors. From 1961 to 1982, the IDA only allocated 7% of its lending to human resource sector, 6% for education and 1% for population, health and nutrition (IDA, 37). The reason for this is that in the past multilateral institutions have been more concerned with the funding of large-scale industrial projects and less concerned about human need programs. Also, these multilateral agencies don't have the direct pressure from pro-human need groups that countries like the U.S. have. The betterment of human life has always been a desired goal of these agencies, but more as a secondary goal obtained after economic development. But this has been changing of late due to the switch in lending strategies of such agencies as the IDA, which is adopting projects aimed at agriculture, equity, the poor, and the establishment of such programs as family planning and population control. Therefore, multilateral aid's ineffectiveness concerning human needs programs is diminishing.



The preceding pros and cons of multilateral aid show that having this kind of program is needed but that it cannot provide all of the objectives of U.S. foreign aid. Therefore, the only logical conclusion is for the U.S. to use both bilateral and multilateral aid. Bilateral and multilateral aid are not contradictory, and the U.S. needs to utilize a mix of the two in order to have an overall balanced foreign aid program.

### Reagan Administration Views

Even though there is justification for a combined bilateral and multilateral U.S. foreign aid program, different administrations normally favor one or the other. This has been the case for the Reagan administration which feels more comfortable giving aid through bilateral programs and seems suspicious of multilateral programs. This is a switch from the trend of the seventies when multilateral aid was on an upswing. The Carter administration was very supportive of multilateral programs and had pledged to increase contributions to these agencies. However, the Reagan administration, due to certain factors and beliefs that are listed below, has decreased the share of U.S. contributions to these institutions and even made proposals to change the lending strategies of these agencies.

One of the factors that led to this action was the administration's question about multilateral lending policies and their effect on development. The Reagan administration recommended that the U.S. reduce contributions to multilateral agencies that assist developing countries. The argument for this was that it would cause these institutions to concentrate more on providing for only the poorest of countries and that

these agencies' main concern should not be on the volume of aid, but rather on how many and how fast they can promote developing countries to borrowing in the private market. The administration also believed that these suggested cut-backs would cause these agencies to renegotiate their current lending policies and to establish more effective development policies. The administration wanted to see multilateral agencies tighten their lending policies, and any increase in contributions would have done just the opposite. Along with this tightening, the administration wanted the multilateral agencies to put more pressure on developing countries to make major changes in their economic system.

Another view of the administration about the inadequacy of multilateral aid was given by Peter McPherson, administrator of the U.S. Agency for International Development, at a United Nations conference in 1981. He "told delegates that the economic performance of the developing nations was largely determined by their own economic policies." "While international support can be an essential catalyst for development, he said, foreign aid can never be a substitute for a nation's own efforts to improve industrial or agriculture growth (Kessler 27)."

In other words, the administration believed more concessional aid would only lead to higher cost and lengthened dependency which was opposite the security assistance program. Their solution to this is to put more emphasis on private enterprise rather than direct loans and grants.

Just as the Reagan administration presented legitimate arguments for the decrease in multilateral aid, agencies like the IDA had equally good arguments to increase contributions. The IDA said it needed more contributions to cover the drain on its funds by the current international debt problem and the introduction of China into the program. Another reason the U.S. did not want to decrease contributions was the ill feelings from the other rich countries who had to increase their contributions to cover for the U.S.

Whether the Reagan administration has been right or wrong on the assessment about multilateral lending is arguable. However, one assessment that is not arguable is that the administration has lessened the amount of support given to multilateral institutions.

## Conclusion

Despite the political and economic benefits, the U.S. also participates in multilateral aid in order to obtain the objective of economic development. It might have taken certain political events to occur before the U.S. joined the regional banks, but this was also because the need for such development institutions was questioned. But it can be seen by the success of the IDA that the multilateral aid has become an essential part of development. This is especially true with large scale capital-intensive projects that could not have been financed by one country alone. The IDA has also been adapting to more lending directed to the poor through increasing small and medium scale agriculture and human resource development projects.

Like any other program, the U.S. involvement in multilateral aid has its advantages and disadvantages. It cuts the cost of aid by sharing the burden with other rich nations. In general it supports Western ideas on development and generates economic gains from trade to the U.S. However, the U.S. has no direct control over who receives multilateral aid and in some cases this contradicts certain political objectives of the U.S. These arguments only prove that there is a need for a mix, a multilateral and bilateral aid

program, in order to obtain the multiple objectives of the U.S. foreign aid program.

Despite the need for a mixed program, the Reagan administration has been very hard on multilateral aid agencies. The administration has been confronted with budget cuts, deficit problems and the need to increase bilateral programs in certain strategic areas which explains some reasons for the desired multilateral aid decrease. However, a lot of the desired decrease has been a result of loose lending policies and questions about the long term effect on development by giving loans and grants to developing countries.

As for the future, these agencies will keep learning and adapting in order to provide economic development, and it is safe to say that there will always be a niche in the international economic system for multilateral aid.

## APPENDIX A

 VOLUME OF ODA  
 (\$ MILLION AT 1983 PRICES & EXCHANGE RATES)

	1950-55	60-61	70-71	75-76	83-84
United States	3961	8689	7045	7037	8236
France	2325	2827	2450	2659	3939
Germany	193	1213	1684	2149	3108
United Kingdom	888	1605	1523	1583	1578
Netherlands	105	220	587	884	1288
Italy	183	270	409	326	1009
Belgium	36	312	295	400	474
Denmark		29	172	258	438
Japan	67	558	1568	1794	4027
Canada	91	212	885	1346	1544
Sweden	12	24	277	662	748
Australia		257	619	665	750
Norway	6	28	114	294	576
Switzerland	8	37	119	177	315
Austria		6	34	92	177
Finland		3	28	65	166
New Zealand		13	37	89	60
Total DAC	7875	16304	17845	20480	28433
Spain			15	53	109
Ireland			4	11	36
Luxembourg			5	5	8
Portugal	22	152	176		
Total OECD	7897	16456	18045	20549	28586
Saudi Arabia			486	4085	3526
Kuwait			323	1236	1023
U.A.E.			63	1518	411
Other			184	2141	67
Total OPEC			1053	8980	5027
U.S.S.R.		(1605)	2023	1776	2650
German Dem. Rep.			110	98	(169)
Eastern Europe		(250)	457	291	(316)
Total OMEA		1855	2590	2165	3135
LDC donors		454	1149	649	301
Total World	7897	18765	22837	32343	37049

## APPENDIX B

## SHARE IN WORLD ODA

	1950-55	60-61	70-71	75-76	83-84
United States	50.2	46.3	30.8	21.7	22.2
France	29.4	15.0	10.7	8.2	10.6
Germany	2.4	6.5	7.4	6.6	8.4
United Kingdom	11.2	8.6	6.7	4.9	4.3
Netherlands	1.3	1.2	2.6	2.7	3.5
Italy	2.3	1.4	1.8	1.0	2.7
Belgium	0.5	1.7	1.3	1.2	1.3
Denmark		0.2	0.7	0.8	1.2
Japan	0.8	3.0	6.9	5.5	10.9
Canada	1.1	1.1	3.9	4.2	4.2
Sweden	0.2	0.1	1.2	2.0	2.0
Australia		1.4	2.7	2.1	2.0
Norway	0.1	0.1	0.5	0.9	1.6
Switzerland	0.1	0.2	0.5	0.5	0.9
Austria			0.1	0.3	0.5
Finland			0.1	0.2	0.4
New Zealand		0.1	0.2	0.3	0.2
Total DAC	99.7	86.9	78.1	63.3	76.8
Spain			0.1	0.2	0.3
Ireland					0.1
Luxembourg					
Portugal	0.3	0.8	0.8		
Total OECD	100.0	87.7	79.0	63.5	77.1
Saudi Arabia			2.1	12.6	9.5
Kuwait			1.4	3.8	2.8
U.A.E.			0.3	4.7	1.1
Other			0.8	6.6	0.2
Total OPEC			4.6	27.8	13.6
U.S.S.R.			8.9	5.5	7.1
German Dem. Rep.			0.5	0.3	0.5
Eastern Europe			2.0	0.9	0.9
Total OMEA		9.9	11.3	6.7	8.5
LDC donors		2.4	5.0	2.0	0.8
Total World	100.0	100.0	100.0	100.0	100.0



APPENDIX C

TOTAL ODA CONTRIBUTIONS TO MULTILATERAL  
DEVELOPMENT AGENCIES AND FUNDS<sup>a</sup>  
FROM DAC MEMBER COUNTRIES, 1970-1982

MILLIONS	1970-71	1977	1978	1979	1980	1981	1982
U.S.	361	1785	2190	608	2772	1465	3341
TOTAL	1048	4934	6333	5272	7581	5786	7849
U.S. %	34.4	36.2	34.6	11.5	36.6	25.3	42.6

AVERAGE ANNUAL GROWTH PER CENT  
1970/71-1977/78      1977/78-1981/82

TOTAL DAC ODA	27.2	4.9
---------------	------	-----

a) EXCLUDING EEC  
(OECD\*, 97)

ODA FROM DAC COUNTRIES TO MULTILATERAL AGENCIES  
1982

COUNTRY	\$MILLION	%
AUSTRALIA	317.6	3.4
AUSTRIA	70.5	.8
BELGIUM	207.8	2.2
CANADA	370.0	4.0
DENMARK	200.4	2.2
FINLAND	58.3	.6
FRANCE	715.8	7.7
GERMANY	897.3	9.6
ITALY	504.8	5.4
JAPAN	656.0	7.0
NETHERLANDS	409.3	4.4
NEW ZEALAND	15.9	.2
NORWAY	233.0	2.5
SWEDEN	401.2	4.3
SWITZERLAND	68.3	.7
U.K.	851.6	9.1
U.S.	3341.0	35.9

TOTAL DAC	9318.8	100.0
-----------	--------	-------

(OECD\*, 194)

## WORKS CITED

- Asher, Robert E. Development Assistance in the Seventies Alternatives for the United States. Washington D.C.: The Brookings Institution, 1970.
- Chandrasekhar, S. American Aid and India's Economic Development. New York: Praeger, 1965.
- Clark, John J. The New Economics of National Defense. New York: Random House, 1966.
- Deb, Kalipada. Foreign Resources and Development in India. New Delhi: Heritage, 1982.
- "Foreign Aid Keeps Growing Despite All The Complaints." U.S. News & World Report, 1 Nov. 1976.
- Friedmann, Wolfgang. G., George Kalmanoff and Robert F. Meagher. International Financial Aid. New York: Columbia University Press, 1966.
- Howe, James W. The U.S. and World Development Agenda for Action 1975. New York: Praeger, 1975.
- IDA. The World Bank IDA in Retrospect. Oxford University Press, 1982.
- "The IDA Fight." Wall Street Journal. July 20, 1987:16.
- Kessler, Felix. "U.S. Takes a Dim View of UN Proposals for Sharply Higher Aid to Poor Nations." Wall Street Journal. Sept. 3, 1981:27.
- Montgomery, John D. The Politics of Foreign Aid. New York: Praeger, 1962.
- Morss, Elliott R. and Victoria A. Morss. U.S. Foreign Aid an Assessment of New and Traditional Development Strategies. Boulder, Colorado: Westview Press, 1982.
- OECD. 25-yrs of Development Co-operation a Review. Paris, France: OECD, 1985.
- OECD\*. Development Co-operation. Paris, France: OECD, 1983.
- Palmer, Norman D. The United States and India. New York: Praeger, 1984.
- Pine, Art. "U.S. Plans to Trim Donations to IDA Protested by Allies." Wall Street Journal. Dec. 12, 1983:16.

- "Reagan to Push Tighter Lending Rules Curb on Expansion of World Bank, IMF." Wall Street Journal. Sept. 9, 1981:4.
- Sanford, Jonathan E. U.S. Foreign Policy and Multilateral Development Banks. Boulder, Colorado: Westview Press, 1982.
- Shaw, Harry J. "Better Ways to Allocate Foreign Aid." Wall Street Journal. March 23, 1987.
- United Nations, Committee for Development and Planning. Shaping Accelerated Development and International Changes. New York: United Nations, 1980.
- "U.S. to Propose Cuts to Agencies Aiding Developing Nations." Wall Street Journal. Feb. 19, 1987:16.
- Weaver, James H. The International Development Association a New Approach to Foreign Aid. New York: Praeger, 1965.
- Weissman, Steve, Pacific Studies Center, and North American Congress on Latin America. The Trojan Horse. Palo Alto, Calif.: Ramparts Press, 1974.
- White, John. The Politics of Foreign Aid. London: The Bodley Head, 1974.
- Wilhelm, John, and Gerry Feinstein, ed. U.S. Foreign Assistance Investment or Folly. New York: Praeger, 1984
- World Bank. The International Bank for Reconstruction and Development, 1946-53. Baltimore: John Hopkins Press, 1954.

UNITED STATES RELATIONSHIP WITH MULTILATERAL AID

by

ROBERT LEE HAMPTON JR.

B.S., Kansas State University, 1986

AN ABSTRACT OF A REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

ECONOMICS

KANSAS STATE UNIVERSITY  
Manhattan, Kansas

1988

Multilateral aid institutions emerged from the new international economic system that was established after World War II. The new international system consisted of separate nations working together to achieve reconstruction and development. The United States's relationship with multilateral aid is important because of the power and influence the U.S. has over the success of such an aid program.

In order to understand the United States's relationship with multilateral aid, several aspects should be considered. First, the history of the United States's involvement with multilateral institutions needs to be described. This description will show that in most cases the U.S. was influenced politically and was somewhat selfish with its intent by choosing to participate in the multilateral agencies, especially the Regional Development Banks. The second aspect is the development strategy that has been, and is being, utilized by the multilateral institutions in order to obtain development objectives. Whether the U.S. agrees or disagrees with the development strategy of these multilateral organizations, its decisions will affect the relationship between the two parties. Other important aspects are the advantages and disadvantages of multilateral aid. These reveal the limitations and the specialization associated with multilateral aid. The final aspect that is used to describe the U.S.

relationship with multilateral aid is the current presidential administration's views on this type of aid. The Reagan Administration has been somewhat skeptical about multilateral aid and its development ability; therefore the support for such aid has decreased.

After reviewing the United States's relationship with multilateral aid, it is safe to say that this aid produces enough advantages to be always supported by the U.S. and that multilateral aid with its unique lending characteristics will always have a place in the international aid system.