MULTILATERAL AID TO DEVELOPING COUNTRIES

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"What is Multilateral?"

Our subject is multilateral ODA (henceforth MODA for short) and its related institutions. There is a general convention of how to define "multilateral" as distinct from "bilateral" ODA and we will follow the generally accepted dividing line. However, in putting forward thoughts about developing and improving MODA it would be counter-productive not to realise the narrow basis and somewhat arbitrary nature of the prevailing definition - otherwise we may bar ourselves from progress in important directions, particularly in the "grey areas" between bilateral and multilateral ODA, as well as that between development finance and balance of payments finance.

The narrow conventional definition is that to be multilateral ODA must be channelled through and distributed by a multilateral organisation or institution or fund. The clearest case is where such institutions are in the UN system - the World Bank, UNDP, World Food Programme, UNICEF, etc. The second ring of multilateral institutions not in the UN system yet generally recognised as multilateral would include the Regional Development Banks - such as the Asian, Inter-American and African Development Banks, the Caribbean Development Bank, etc and funds like IFAD. Thirdly, regional activities such as EEC funds (the EDF, EEC food aid) often are included as multilateral; however, in the case of food aid, some of the definitions are limited to the World Food Programme while others include EEC food aid. This third or outer ring of multilateral institutions would also include various Arab or OPEC funds (e.g. OPEC Fund for International Development, Kuwait Fund and several others).

The danger of restricted definitions is that they limit our perceptions and reform proposals. For example, in this case, all action outside the multilateral institutional system would be labelled as "bilateral", with the implication that it is uncoordinated, guided by national interests only, politically motivated, etc. The implication often is that bilateral action should be left alone, or even that it should be reduced in favour of multilateral action.

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But nothing could be further from the truth in the real world. Much bilateral action is in fact coordinated action and there are many links between the multilateral and the bilateral systems. A good example in the case of ODA would be the aid consortia or consultative groups. Where there is an effective aid consortium, the bulk of the aid committed would be classified as bilateral, but it is committed in a coordinated or multilateral framework, usually with the World Bank in the chair, with decisions based on policy papers and assessments also largely prepared by the World Bank. This means two things :

> (1) the bilateral ODA has considerable multilateral elements - in some cases it may become almost a formality whether aid is channelled through the World Bank for distribution by the World Bank, or whether on a country basis the World Bank to a significant degree helps to determine the volume and specifications of aid by way of a consortium/consultative group.
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> (2) The truly multilateral aid element is larger than the statistics show because the quantitative aid figures neglect the crucial catalytic functions of multilateral institutions in coordinating policy advice and clearing the way for other sources of finance by giving "seals of approval" and raising credit ratings. Since the mid and late seventies this refers particularly to private bank lending, flowing largely to developing countries with relatively higher incomes.

The importance of these catalytic functions cannot easily be quantified but it is possible that for certain categories of countries the multiplier involved is of a high order of magnitude. For example, the Fund's Managing Director has argued recently:

> "It is true, of course, that the Fund's financial resources are limited in scale. But Fund financing has an important effect in restoring confidence on the part of other lenders and thereby unlocking access by the country concerned to additional external finance. It has been estimated that every dollar of Fund financing in support of adjustment programs has in the recent past generated an additional four dollars of new

commercial lending."[1/]

This estimate by the Fund's Managing Director seems even in general terms somewhat optimistic; furthermore, it refers mainly to a particular category of developing country (the middle-income ones) which are considered "creditworthy" enough by the private banks to attract significant loans from them. Most of the low-income countries (i.e. the majority of countries in Sub-Saharan Africa) do not attract such credits to any significant extent.

In the case of such low-income countries, however, the IMF's "seal of approval" may nevertheless generate additional aid flows, from bilateral donors, who -like the commercial banks - are often lacking the assessment capacity, the access or the influence to come to informed judgements or to offer policy advice in individual developing countries. In fact, the continuation or expansion of bilateral official development assistance may be increasingly dependent, as World Bank/IDA already is, upon countries' working out agreements with the IMF as to the conduct of macroeconomic policy.

The World Bank has also claimed a multiplier effect (at 5:1, even higher than the Fund) in connection with its co-financing activities. When announcing a recent expansion and diversification of its co-financing activities (45 per cent of which are with commercial banks), it claimed that the additional activities proposed would cost $500 million in direct Bank finance, but would generate additional funds of $2.5 billion from commercial sources alone.

To some extent - but only a minor extent - the point could also be reversed. Just as some, even much, of bilateral ODA could be called multilateral because it is strongly multilaterally influenced and coordinated, some of the multilateral aid could be defined as in some sense bilateral. This would be the case, for example, where a single country has a veto power over the transactions, either because it controls the resources and contributions of the multilateral fund or because there is a consensus or unanimity rule. Such unanimity rules in multilateral organisations in fact give individual countries bilateral power, if not to initiate transactions, at least to prevent them.

II. Grey Areas

(a) The distinction between multilateral and bilateral aid

As it happens, the "grey area" between bilateral and multilateral assistance probably has some of the best future potentialities. Better coordination of bilateral aid can go a long way towards achieving the advantages of multilateralism. For example, one of the main drawbacks of bilateral assistance compared with MODA is the frequent tying of aid to the products of the donor country; this makes multilateral aid more valuable to the recipients because they have a wider choice of sources of supply. Yet the same benefit to the recipient could also be achieved by a coordinated and mutually agreed untying of aid. This would leave the donor countries as a whole no worse off (although some individual donor countries may marginally gain or lose), while the recipient countries would be better off. In fact, insofar as the increased value of the aid to the recipients results in accelerated development (which is a mutual interest) the donors will also gain. It is thus a positive sum game and the agreed mutual untying of aid should certainly be high on the agenda for future progress.2/

Similarly, in the area falling within the common definition of MODA possibly the most likely future developments will be to widen the scope and effectiveness of MODA by intensifying co-financing on the part of the IBRD and regional banks, or of increasing their multilateral influence in the area of policy advice, signalling to other sources of finance, chairmanship of consortia and consultative groups, etc.

Given the trend of a more intimate relationship between different lenders and donors, the role of policy advice (often referred to as conditionality) applied by the IMF and the World Bank acquires a key significance. The increased coordination between donors and lenders and the rapidly growing importance of the IMF's "seal of approval" to allow access to other flows of funds, would only be a welcome development if Fund (and Bank) conditionality are perceived by developing countries to be appropriate to their situation, to stimulate - rather than inhibit - growth and development and to "pay due regard to the domestic, social and political objectives of member countries" (the latter point was stipulated in the Fund's revised guidelines on conditionality issued in 1979). If Fund and Bank conditionality is not made more appropriate for developing countries' prospects for growth and development (and if its overall impact on the global economy is deflationary, as some observers fear) then its increasing influence in the

Third World would be a negative phenomencn. Therefore, the debates about appropriate Fund and Bank conditionality acquire a much more crucial significance than they ever had. We will return to this subject in later sections.

(b) Food aid as an example of grey area

The case of food aid is a good example for some of the dilemmas and for the wide spread of "grey areas" between multilateralism and bilateralism. Most food aid is given bilaterally, with the US the largest contributor, but the bulk of bilateral food aid is given within the framework of a plurilateral donor arrangement known as the Food Aid Convention (FAC). This covers some 75 per cent of the official UN target for cereal food aid (7.6 million tons of a target of 10 million tons) and over 80 per cent of the actual volume of cereal food aid (around 9 million tons). Thus the FAC covers the great bulk of food aid and is specifically "intended to secure the achievement of the UN target of 10 million tons through a joint effort of the international community".[3/] Its importance lies in the fact that this represents a binding commitment for several years ahead (up to 1986) with an agreed burden-sharing among the main donor countries. This is particularly important because the commitment is in real (physical) terms, i.e. tonnages, not in financial terms. This not only eliminates difficult questions of valuation and pricing when discussing national quotas of such ODA, but it also puts a secure volume floor under aid flows to prevent a situation, such as occurred in 1972-74, when the real volume of food aid dropped sharply just when food prices were rising sharply and food aid was most urgently needed.

Such a multi-annual commitment in real volume terms providing a fairly high floor for aid flows has never been achieved in the case of financial aid. Perhaps it should be an objective to achieve such a Convention analogous to the FAC also for financial aid, guaranteeing a minimum figure somewhat higher than the present 0.35 per cent of GNP but lower than the 0.7 per cent target which has been proclaimed for so long but in vain. The 0.7 per cent target (like the 10 million ton target for food aid) could still remain as a desirable actual figure to achieve, beyond the minimum commitment of perhaps 0.5 per cent.[4/]

For our present purposes the main point is that although the 7.6 million tons of cereals under the FAC are classified as essentially bilateral, yet they are part of a plurilateral or semimultilateral arrangement, in the framework of a UN target. To complicate matters further, the member countries of the EEC make their contributions under the Food Aid Convention partly through their participation in the EEC food aid programme, and partly bilaterally. Is the EEC food aid programme multilateral, a part of MODA, or not? In the statistics of the FAO when monitoring the target for flows of external financial aid to agriculture set by the World Food Conference in 1974, aid from the EEC is classified as bilateral rather than multilateral, while in other tabulations the EEC is treated as multilateral. In view of the importance of EEC food aid, particularly in the case of dairy products, this obviously makes a tremendous difference in calculating multilateral versus bilateral shares, or in analysing different commodity composition or country allocation in multilateral versus bilateral programmes.

The membership of the FAC includes "the EEC and its member countries" which are listed with a single collective pledge, indicating the mixed bilateral/plurilateral character of their contributions and avoiding the tricky job of distinguishing bilateral from multilateral transactions (if indeed the EEC is considered as multilateral). So an EEC member country can make its contribution in five different ways (and some of them do so in all five ways): (a) bilaterally; (b) as part of the EEC programme; (c) as part of their regular pledge to the WFP; (d) as additional (extra-budgetary) transactions channelled through the WFP; (e) as bilateral aid which is handled or distributed by the WFP. While (c) and (d) are clearly multilateral (amounting to about 15 per cent of all FAC contributions), 5/ (b) and (e) are doubtfully multilateral and (a) is bilateral but part of a multilateral (or at least plurilateral) arrangement, the membership of which includes Argentina (normally reckoned among the developing countries) and is in pursuance of a multilaterally (UN/FAO) agreed target. Moreover, the FAC is part of a wider international arrangement (the International Wheat Agreement) and is administered by an international secretariat (the International Wheat Council). What remains of any clear borderline between "bilateral" and "multilateral"? (And who cares?)

The Convention is administered by the Food Aid Committee on which all parties to the Convention are represented. This is not to be confused with the Committee for Food Aid (CFA) which administers the World Food Programme, but has also been given coordinating functions, e.g. the establishment of guidelines, for food aid as a whole. 6/ Paradoxically, while the Food Aid Committee administering the Convention is considered in the bilateral area, it "continues to be a focus for international co-operation in food aid matters", while the CFA, which is clearly in the multilateral area, is often criticised for limiting itself to WFP operations and not carrying out its assigned functions of broader international coordination and discussion of food aid.

Similar complications arise in the case of the IEFR (International Emergency Food Reserve). Here again there is a multilaterally recommended target (500,000 tons set by the FAO), and some of the bilateral contributions to this multilaterally agreed reserve are again channelled to or through the WFP/FAO. However, as distinct from the case of cereals under the FAC, the contributions to the IEFR take the form of voluntary ad hoc or annual pledges rather than binding commitments to fixed agreed minimum amounts.

Yet another complication is that some of the contributions under the FAC are used by the donors to buy up surplus food from developing countries such as Zimbabwe (maize), or Thailand, Burma and Pakistan (rice) for use in other developing countries , e.g. Zimbabwe maize in Zambia, Thai rice in Bangladesh. These "triangular" transactions add a further multilateral element for what are technically considered to be bilateral transactions (unless such triangular transactions are undertaken by, or channelled through, the WFP). Such triangular transactions by FAC members are encouraged, and the Convention states that "when cash contributions are used to purchase grain, preference should be accorded to developing countries". This is "now widely recognised as one of the most valuable forms of food aid".

Finally, food aid also illustrates the fluid borderline between government ODA and the voluntary agency section. Although the contributions under the Convention are all made by governments, a considerable proportion is in fact channelled through, and handled and distributed by, voluntary agencies such as, in the case of the UK, Oxfam, Save the Children Fund, etc.7/

The case of bilateral funds placed at the disposal of multilateral UN technical agencies is also widespread in the case of technical assistance funds where the practice worries the UNDP as it threatens to undermine the intended coordinating function of the UNDP. Its share of total multilateral grant technical cooperation funding has fallen from three-quarters to about one-half. One feature in this situation is that the funds thus placed with UN agencies such as FAO, WHO, etc ("trust funds") can be tied while the UNDP cannot accept tied funds. Thus the initial intention of establishing the UNDP as a controlling channel for untied technical cooperation has been by-passed and eroded. The development of "grey areas" is thus not without problems of its own.

All this goes to show that semantic and statistical exercises to define and classify food aid as either multilateral or bilateral are not particularly useful and fly in the face of reality. The more useful approach would be to describe and then improve and intensify the interplay of bilateral and multilateral elements in such a way as to bring out the best in both - in the quantitative sense of achieving the greatest volume of aid and in the qualitative sense of obtaining it in the best commodity composition, getting it in the best possible way to the right recipients and ensuring its most effective use.

(c) The grey area between development and balance-of-payments finance

Up to now we have discussed the existence of "grey areas" between multilateral and bilateral ODA. Of equal significance are the "grey areas" between development finance and balance of payments finance. 8/ Conceptually, the financing of developing countries has been clearly separated into two distinct categories: (a) development finance, whose purpose is to mobilise capital for longer-term investment in projects and for overall progress. External sources of development finance include official development assistance (both MODA and BODA), foreign bonds, investment by transnational corporations and long-term lending by commercial banks; (b) balance-of-payments finance is, in contrast, a matter related to the provision of liquidity; temporary finance is made available to "tide countries over" their temporary shortfalls in earnings and allow them to maintain the flow of imports which would have to be temporarily interrupted. Liquidity of this kind may be externally provided by the IMF, short-term to medium-term lending from foreign monetary authorities and commercial banks.

However, in the seventies and eighties, it has become increasingly difficult to distinguish development from balance-of-payments finance. If a country is hit by very large increases in prices for key imports (e.g. oil) and by world recession, the shocks to its balance of payments are much greater than had occurred in previous decades. It is unclear in what proportion the financing required to cover their increased deficits should be regarded as development finance or as short-term. The longer the time horizon defined, the greater the room for adjustment via supply changes and therefore the greater role should be given to "development finance". As a consequence, the definition of the needs for "development finance" are linked to the accepted perception of an optimum path of adjustment (shock adjustment relying mainly on demand measures would require less "development finance" than a gradual adjustment relying mainly on supply measures).

Furthermore, as so much finance is currently used to sustain imports at required levels (without which not only development itself would be interrupted, but also incomes and consumption levels may actually decline), the distinction between development finance and shorter-term balance-of-payments assistance becomes somewhat academic to Ministries of Finance in low-income countries struggling to finance urgently required imports.

III. Multilateralism and the Recession

As a reaction to the recession in their own countries and in the world economy, the main industrial countries recently reacted by reducing ODA, and within ODA they have tended to reduce the multilateral element more than the bilateral element. This impact is already clearly visible in the financing difficulties of the IDA, IFAD, the UNDP and other multilateral funds. The rationale - or apparent rationale - of cutting down on the multilateral element more than the bilateral element is the same as that for cutting down on ODA as a whole. In a period of stagnating GNP and rising domestic unemployment, there are political pressures to "put our own people first", and within ODA to preserve those parts of the programme which are in the direct political interest of the individual donor country. The pressures making for reduced ODA, and for letting cuts fall with doubled intensity on the multilateral part, are essentially the same as those for the protectionist pressures apparent today. 9/ Yet, from another perspective, (as clearly pointed out by the Brandt Commission and also by the Commonwealth Group of Experts on the North/South dialogue) the real rationale should lead in exactly the opposite direction: when there is unutilised capacity and unemployment, aid (which directly or indirectly promotes exports) is relatively costless since it will lead to an increase in demand, which can be supplied from the unutilised capacities and underemployed labour with little inflationary impact; within the total aid process the multilateral element should become more important because joint and collective action is cheaper and more feasible than individual action. Thus, according to this line of argument, the worse the recession, the clearer the mutual benefits which can be derived from an expansion of MODA and strengthening of the multilateral system.

There is thus a conflict between apparent national rationality and real global rationality. The resolution of this conflict is a task for enlightened statesmanship; and it also calls for development education among parliamentarians and the general public, particularly in industrial countries.

It is interesting to note that according to this perception when developing countries press (through the Group of 77, Group of 24, or other fora) for an increase in aid or an increase in world liquidity (i.e. through an issue of SDRs) they are not only furthering their own national interests, but are also arguing for measures which would improve the global economy.

The 0.7 per cent target for total aid would in any case reduce required aid in a prolonged recession with stagnating or even declining GNPs. This raises questions concerning the nature of the target, which links aid requirements uniquely and exclusively to one single element in the capacity to give aid, i.e. GNP. The capacity of a country to give aid is as much determined by its rate of inflation, its balance of payments, its rate of unemployment and other factors as by GNP. The time may have come to give some thought to linking aid more directly with such other factors, and this could perhaps apply more specifically to the multilateral part of ODA. If we take the balance-of-payments factor: the present IMF - contrary to Keynes' original ideas - is based on the assumption that it is up to the balance-of-payments deficit countries to "put their house in order" by financial and economic discipline, and restructuring and policy changes so as to cope with the balance-of-payments deficits. Yet in a recession it is the balance-of-payments surplus countries (if they refuse to reflate or channel finance to other countries) which create problems for the rest of the world and cause deflationary pressures making the recession worse. Thus the recession has brought to light questions about the present multilateral system - questions which had lain dormant in the "golden years" of full employment and steady growth of the 1950s and 60s. The calls for changes within the IMF - some of them already implemented to a very partial extent - for expansion of quotas, creation of SDRs, creation of medium-term balance-of-payments support facilities, lengthening of loan periods, changes in the nature and method of imposition of conditionality, broadening of low conditionality facilities in the IMF (such as compensatory financing), are all expressions of this change in perception required by the different context of global recession in which the multilateral system has to work today.

The wider issues are also beginning to be raised: are there methods by which pressure can be put on balance-of-payments surplus countries to expand - including increased expenditures on aid - to balance the pressure now put on deficit countries? How can the multilateral system play its proper role in recycling such balance-of-payments surpluses to maintain world stability and world development? Is the present division between ODA on the one hand ("a matter for the World Bank"), and financial stability on the other hand ("a matter for the IMF") still tenable? There are already clear signs that the World Bank is moving towards balance-of-payments support, while the IMF is moving towards development assistance. Does the situation not call for major redefinitions and institutional reforms? The demands for a "new Bretton Woods" are increasingly growing, as the existing multilateral institutions are finding it increasingly difficult to cope with the growing financial and economic strains in the world economy. The need for major reforms could partly be postponed in the seventies by the growth of private banks as major "recycling" agents between surplus and deficit countries; however, the problems resulting from private bank lending not only inhibit their role in this aspect for the future, but also add new reasons (i.e. what to do with the debt overhang?) for a major review of the multilateral financial system.

IV. Multilateral Aid as a Residual Factor: a Heavy Burden

Multilateral aid in relation to the investment needs of developing countries is a small proportion particularly for certain developing countries. It is a fraction of a fraction of a fraction of a fraction. To explain: total foreign exchange resources are only a fraction of total resources needed; total financial flows are only a fraction of total foreign exchange resources; total ODA is only a fraction of total financial flows; and total MODA is only a fraction of total ODA. As a very small residual factor MODA cannot by itself change the situation fundamentally. It also follows that in difficult times changes in other, much larger factors, such as foreign exchange earnings from trade, commercial finance and bilateral ODA, may put tremendous - perhaps unsupportable - strains on the MODA system. It also follows that the most important impact of MODA may lie in any effect which it can have, by direction, encouragement, coordination, signalling, advising etc., on these much larger flows. Once again, this emphasises the influence of functions such as providing frameworks and fora for global negotiations, chances (such as in the technique used by the GATT multilateral trade negotiations, MTNs) to generalise bilateral agreements into a multilateral impact, policy coordination(such as Chairmanship of aid consortia), signalling functions (such as the function of an IMF agreement to give the green light to commercial lending, export credits), encouraging bilateral action by providing reciprocity and mutuality, and also professional analysis and pioneering in new directions of development policy. Examples of the latter are the roles of the ILO and the World Bank in certain of its prescriptions, which suggested more employment-oriented and poverty-oriented policies, the role of the FAO in pointing out the need for repairing neglect of agricultural and rural development, of UNEP in bringing to the fore environmental factors and parts of the "common heritage of mankind", the role of UNICEF in pointing out the tragic waste of child malnutrition. There is no doubt that such guiding, coordinating and pioneering functions vastly transcend the 0.1 per cent 10/ of total resources provided by the multilateral system.

Negative examples are the excessively dogmatic orientation to the "monetarist approach to the balance of payments",excessive emphasis on deficit countries and insufficient concern for growth and income distribution, which according to many analysts still characterise the IMF's policy influence. For MODA to have a significant effect on the growth rate of recipients or the reduction of poverty it becomes necessary to show that it has certain catalytic effects far beyond its direct quantitative contribution to the recipients' national incomes or its own direct capital contribution. 11/ The instititions providing MODA have instinctively or perceptively accepted this point and they all in their reports and pleas for resources have demonstrated or argued the existence of such catalytic effects. Reliance on such catalytic effects is clearest in the case of multilateral technical assistance, where indeed the catalytic effect is the whole point of the operation, and there is (e.g. UNDP) no significant physical capital contribution, and of all inputs into "human capital" - health, education, nutrition, etc. For those institutions providing financial or physical capital, it is no accident that they rely strongly for an assessment of their impact on the technique of "social returns" which includes the indirect and catalytic as well as the direct effects. But this technique, while suitable for project analysis, is more difficult to use convincingly for programme lending and hardly at all for balance-of-payments support. Even in the case of projects, it fails to deal with the "fungibility" argument, i.e. that the support for Project A will "really" be a resource transfer resulting in the addition of a quite different - and usually unidentifiable - Project B. Fortunately, for the case of MODA, catalytic effects can often be demonstrated or reasonably assumed. Some such effects have already been mentioned in this paper.

Similarly, from the LDCs' point of view, it is immensely more important for the donors to resume economic growth, combined with liberalised market access, to provide markets for LDC exports, to stabilise and maintain commodity prices, to utilise the potential of the multilateral system for collective decision and collective action, to direct the financial and technological power of their TNCs into collectively agreed channels supporting multilaterally agreed patterns of development, to keep their own bilateral aid in tune with each other and within the framework of multilaterally agreed rules etc., rather than marginally increase the volume of resources directly distributed through multilateral channels say from 0.12 per cent to 0.15 per cent of GNP. But it is also important that they should permit and encourage the multilateral system to move in the required new directions.

V. MODA Residual to Commodity Prices

To realise that many of the problems of MODA are not internal but arise from its attempt to cope with global forces, we need only look at the implications of the extremely low commodity prices which are a result of the current recession. In terms of low prices for their exports, reduced export earnings and poor terms of trade, more resources are drained from the LDCs than are put back by ODA. Low commodity prices help to dampen inflation in the industrial countries - but at the cost of the LDC producers of these commodities (and also of DC exporters to the LDCs). The gap was in the seventies and early eighties largely filled by non-concessional finance - but at the price of growing indebtedness which is a mortgage on the future growth of LDCs; the growing debt service reduced their available export earnings; this is equivalent to a further deterioration of their terms of trade, thus perpetuating the vicious circle started by the initial fall in their export earnings.

Action to stabilise commodity prices and export earnings, whether through UNCTAD (Common Fund) or through the IMF (CFF), clearly acquires much higher priority in the present circumstances. So does action on debt settlements, debt relief and possible "debt rediscounting", as proposed by the second Brandt Report; a proper multilateral institutional framework does not not yet exist in this field. Should not the multilateral system be encouraged to provide a lead in providing loans tied or "indexed" to the world prices of the chief exports of the borrowing countries or more appropriately to their terms of trade? Should not facilities to stabilise developing countries' exports be broadened so they cover the full extent of their shortfalls particularly in periods of recession? Should not the repayment of loans under the CFF be subject to the condition that countries' export earnings have recovered? (The latter proposal would make the facility symmetrical, as currently repayments are accelerated when countries' export earnings recover very rapidly; a comparable set of provisions should be made for deferred repayments, mutually within a maximum time limit, in case of continued real export shortfalls.)

Proposals to broaden the CFF, so it covers to a far greater extent (ideally to a total extent) shortfalls in countries' real export earnings, and to make its repayments schedule flexible are being currently put forward and given increased priority by many different sources.12/ In fact, if adopted, such proposals would not only greatly reduce the cost of adjustment to developing countries in prolonged periods of recession and low growth in the world economy; they would also have an important and highly desirable counter-cyclical impact on the world economy as a whole. For this reason a broadened CFF should ideally remain within the IMF, thus moving this institution towards a more important role, somewhat more akin to that of a world central bank.

Moving to an even wider context, we could look at the disastrous fall in commodity prices and deterioration in the terms of trade as a symptom of our failure to implement the original and full Bretton Woods system. The system was conceived to rest on three pillars, not two. A development support institution (now the IBRD), a world central bank and financial institution (now in attenuated form the IMF), and thirdly an international trade organisation (ITO). Yet the last institution never came into existence, and only partial functions were taken over by GATT, the UN "Interim" Committee on Commodity Arrangements (ICCA), later UNCTAD with its recently developed Integrated Commodities Programme (ICP), the limited IMF compensatory financing and buffer stock facilities and - still unratified and much reduced - the Common Fund. Apart from such "bits and pieces", there is still a big gap where this "third pillar" of Bretton Woods should have been. What is perhaps even more serious is that the IMF system was based on a world currency based on a fixed price of gold - whereas the original ideas leading up to Bretton Woods had included a world currency based on the prices of a bundle of primary commodities, including major export products of developing countries. Thus stabilisation of commodity prices would have been directly built into the financial system, and even more importantly the multilateral system would have included a world central bank capable of direct counter-cyclical financial action. The only direct remnant of this function are the SDRs (with many inhibitions and minimal effects, as SDRs represent a very low proportion of total world foreign exchange reserves) and the disposal of the revalued gold (also minimal and erratic).

At any rate, the system has shown itself incapable of preventing, by multilateral action, disastrous declines in export prices and export earnings in real terms for many developing countries, and much of the recent debate on institutional changes and increased resources for the multilateral system has in effect been an attempt to compensate for falls in real export earnings and the enormous expansion of debt connected with them. It is clear that a return to the original Bretton Woods conception (or pre-Bretton Woods conception of Keynes) would require a major institutional re-shuffle, or rather rebuilding.13/ More realistically, the opening of "new windows" in the existing institutions to deal with pressing current problems seems a more immediate approach - but the failure to create a new energy affiliate in the World Bank is not a good omen. Simply to increase the resources (capital, quotas, gearing ratios, contributions, borrowing rights, etc.) of existing institutions will help, but cannot be the only response to the current needs. And the "commodity gap" in the system would be among the first to receive attention.

The failure to deal with the commodity gap by effective multilateral action may also be directly connected with the unilateral producer action in the case of oil in 1973/74 and again in 1979/80. The disastrous effects of this - and of the failure even to guard after the event multilaterally against such consequences - on world prosperity and world stability do not need spelling out here. Neither multilateral prevention nor multilateral cure was in place, and much of the subsequent North-South and NIEO debate with its confrontations and deadlocks was distorted by the need - and inability - to cope with the OPEC problem. Perhaps the recent - temporary? - subsidence of OPEC pressures will offer the opportunity of a new multilateral approach and a chance to look at the commodities problems as a whole once again.

The primary commodities problem is also closely interwoven with the problem of the Fourth World (the least developed countries). It is the low-income countries, largely concentrated in Africa and South Asia, which depend on exports of primary commodities and which for lack of creditworthiness also depend to a much larger extent on ODA. Further, the capacity of these countries to form effective projects and make effective domestic adjustments in the face of external difficulties is much more limited. Hence, the nexus of commodities/least developed countries/ODA dependence/balance-of-payments support and programme lending/new forms of conditionality forms a seamless web in the case of the countries of the Fourth World. The conditionality they need is one that helps them to open up new sources of supply (specially but not only of home-grown food) and of increasing or economising their skilled man-power rather than one of "adjustment", as conceived by the IMF and the private banks. Their financial "indiscipline" is a symptom rather than a cause of their helplessness in coping with external stresses in the face of extreme under-development. This is not to deny that there is an element of poor management and political instability which adds to financial imbalances, further reduces creditworthiness and unnecessarily increases dependence on ODA, in a number of these countries; but it is usually more a case of vicious circles and cumulative causation rather than a simple cause-effect relation. Thus, the commodity gap in the multi-lateral system has encouraged the emergence of a low-income stagnating Fourth World and thus placed a heavy burden on the ODA system (multilateral and bilateral) as it has to concentrate on ex-post action in the Fourth World.

VI. Institutional Fragmentation and Need for New Institutional Coordination

In the case of commodities, we have seen how the gap created by the non-existence of the ITO (plus the limited role played by the IMF and the failure to introduce a commodity-based world currency) has been filled by various activities centred in different multilateral organisations, principally GATT, UNCTAD and the IMF. This has raised two problems: (i) the problem of institutional fragmentation and the difficulties (not peculiar to the multilateral system only) of bringing different institutions with their own vested interests and their own philosophy/ideology/mythology to collaborate properly with each other; and (ii) the problem of different groups of countries being "sponsors" of different institutions with whose philosphy/ideology/mythology they happen to agree.

To take this second problem first, this is a particularly dangerous development since it destroys one of the main potential advantages of multilateral action, i.e. that it is less subject to national political pressures. In a world dominated by nation states, this can never be 100 per cent true, specially where the multilateral organisation has to depend on voluntary, non-automatic contributions of the member countries. For a time, the rise of OPEC held out the prospect that greater pluralism in contributions could spread support and control more evenly over the North-South divide, on the pattern of the first IFAD contributions and spread of voting power, but this prospect has faded. As it is, each group has its favourites among the multilateral institutions and this is where it wants the discussions to take place and the action to be shifted. In the case of commodity action, GATT and the IMF are clearly the favourites of the industrial group. From their perspective, GATT and the IMF are "reliable", "pragmatic", "operational", "sensible", while UNCTAD and the UN General Assembly are "wild","utopian", "rhetorical", "talking shops", "irresponsible". The "autonomy", "independence", "competence", of the first group must be safeguarded from any encroachment by the other. From the perspective of the Group of 77, the first group represents "vested interest", "donor control", "reactionary", clinging to an outdated international economic order with minimum reforms grudgingly conceded under strong pressure, while the second group represents the fighters for a NIEO, the source of new ideas, the repository of hope for real reform and greater equity in the global system. In this way, North-South conflicts are exported into the multilateral system which is torn in two, with attendant difficulties of coordination within the system and difficulties of locating and focusing negotiations. The struggle over the relative roles of the UN General Assembly and the Bretton Woods institutions in the Global Negotiations, which has so long delayed their very start, is the outstanding illustration of such difficulties. As the Commonwealth Group of Experts on the North-South Dialogue rightly observed: "Many important issues of substance lie behind the procedural difficulties".14/ The Expert Group continues that "it should certainly not be beyond the ingenuity of the parties concerned to find a satisfactory formula that would at least permit the substantive negotiations to commence".15/ The very fact that it does prove so difficult even to "commence" suggests that more than procedure and also more than "substance" is involved. Thus, in the specific case of commodities, the problem is made more difficult by the absence of a universally recognised single organisation like the ITO. Such an institution would have covered the diverse lines being pursued between UNCTAD, GATT and the IMF, avoiding to some extent the coordination problems between them, as well as softening some of the ideological battles. Naturally, some organisational tensions would remain (i.e. between departments) as well as different ideological and material perceptions, but these could be resolved in a more organic way, if concentrated in one institution.

To return to the first problem of fragmentation, this is difficult enough even without the added dimension of political sponsorship. The functions of the intended ITO were split up between the GATT, UNCTAD and IMF. The difficulties resulting from the original split between GATT and (since 1964) UNCTAD have been of concern to the Brandt Commission.[16] The creation of UNCTAD is linked to the dissatisfaction of the developing countries with the non-ratification of the ITO in Havana sixteen years earlier. The Brandt Commission felt it necessary to "bring UNCTAD and GATT closer together". The immediate recommendation is for a "small coordinating body", following up on the much more limited cooperation incorporated in the joint control of the International Trade Centre by UNCTAD and GATT. This should have as an immediate result the linking of commodity negotiations (with their financial ODA elements of the Common Fund and buffer stock financing) with the question of access to markets; at present, the former lies with UNCTAD, the latter with GATT. But "in the longer term" the Brandt Commission feels it necessary to recreate the ITO as "an organisation which can represent all interests". Accordingly, it recommends that "an international trade organisation incorporating both GATT and UNCTAD is the objective towards which the international community should work".[17]

But even if the UNCTAD/GATT problem were resolved by better cooperation, or a coordinating Committee or by the re-establishmentof the ITO, there would still be the problem of coordination on commodity financing between the new ITO and the IMF. This has a balance-of-payments context which points to the IMF, particularly in the context of its Compensatory Financing Facility, which - though unsatisfactory - has operated since 1963; the question also has a commodity context and therefore IMF quotas and IMF terms and conditionality do not seem directly relevant.[18] So the respective sponsors of the claims of the two institutions would battle on with arguments arising from their different perspectives, the different composition of their Boards, etc. Yet both institutions would be part of the multilateral system. This system does have its own machinery to avoid conflict, duplication and competition, and promote positive collaboration, centring upon the ACC, the Administrative Committee on Coordination of the United Nations. This has also been pointed out by the Commonwealth Group of Experts, which has urged the ACC "to intensify its efforts to coordinate the activities of such institutions" - in fact mentioning specifically the relations between UNCTAD and the Bretton Woods institutions.[19] However, nobody could claim that the ACC machinery is effective at the level indicated, and in fact there are recent signs that it is being weakened even at the much lower level of coordination at which it is used to operate. To give it the status and power envisaged by the Commonwealth Group of Experts would certainly amount to a major institutional shake-up.

VII. Structural Adjustment and Balance-of-Payments Loans: Changing Roles of the IMF and World Bank

The Bretton Woods system was based on the assumption that there is a neat, or at any rate a clear, line of division between "development finance" on the one hand, and "balance-of-payments support" and other monetary issues on the other. The former was for the World Bank, the latter for the IMF.

This line of division was maintained for a long time and even made sharper by the fact that the World Bank provided development finance - both through its regular semi-concessional window and also through its concessional IDA window - largely on the basis of project financing (although this was not a necessary requirement under its original constitution). This had the advantage of enabling the World Bank to combine its assistance catalytically with improvement of project identification, project design, implementation, monitoring etc, including the training of local personnel in these crucial areas. It also enabled the World Bank to calculate rates of return on its lending; this is impossible with programme lending or balance-of-payments support. On the basis of respectable rates of return on Bank-financed projects the Bank could establish a reputation for effectiveness and create an image of success which impressed potential contributors and gave the Bank top credit rating for its borrowings. Also economic advice to countries could be based on the World Bank's involvement with concrete projects and activities. The Bank was also able to establish itself as the leader in the coordination of all ODA, e.g. through the aid consortia and consultative groups. Some institutions consider the role of the Bank in this respect as indispensable. For example, OECD (DAC) states: "Everyone speaks favourably of coordination by the recipient government, and the principle is correct. But without help by a strong and respected multilateral agency, host government co-ordination is likely to be pro forma".[20] This "project approach" was compatible with a limited volume of sector lending and even programme lending based on grouping or combining projects - but such lending for a long time remained very small in relation to project lending.

As already indicated, the project approach had till recently enabled the Bank to keep its operations relatively separate from those of the IMF, (even though it has been common practice to have representatives of the Fund on Bank missions and vice versa). It is a moot question to what extent the desire for institutional tidiness and avoidance of institutional conflict had played a role in pushing the World Bank towards project financing. Under the presidency of Mr. MacNamara, it had not prevented the World Bank from also playing a catalytic role in developing - or helping to spread - new approaches, particularly in recent years a poverty-oriented or basic human needs approach to development. It is not, however, quite clear that within the World Bank these two roles merged in a satisfactory manner; some critics maintain that the World Bank is not always practising what is preaches. In other words there seem to be problems of coordination even within this impressive institution as between the Office of the President or the Economic Policy Department of the Bank on the one hand, and its operational departments on the other hand.

Turning now to the IMF, its role was confined to short-term economic management, and to financing short-term balance-of-payments disequilibria - functions which were supposed to be separable and distinct from development problems. As discussed above, such a distinction might be plausible in the case of industrial countries but in the case of the developing countries it was doubtful from the very beginning. Nevertheless for the 25 years up to 1973 the distinction could be maintained, because "development" was largely sustained by the general growth of the global economy, by financial flows both from commercial sources and ODA, while balance of payments disequilibria were manageable by means of "short-term adjustment" and balance of payments finance. Short-term economic management was somewhat facilitated by being in the context of fixed and only infrequently changing foreign exchange rates of the major countries as well as low world inflation.

In fact, an important part of IMF lending in recent years has been to the poorest of the developing countries (which cannot count on and cannot afford commercial bank lending). When foreign exchange shortages and deteriorating terms of trade, superimposed upon a stagnating global economy, impose strains of an entirely new order on poor countries whose desperate need is to sustain imports and levels of activity, the idea that the realm of the IMF could be separted from the development activities of the World Bank becomes increasingly unreal. In fact at these low levels of development the capacity to adjust is itself a function of development. As the Brandt Report puts it: "The adjustment process in developing countries should be placed in the context of maintaining long-term economic and social development. The IMF should avoid inappropriate or excessive regulation of their economies, and should not impose highly deflationary measures as standard adjustment policy."21/ Short-term "adjustment" and long-term development are inevitably inter-linked; if IMF conditionality is not adapted to the specific conditions of the poorest countries and if its deflationary bias is not removed, its policy advice will not only contribute to lower levels of consumption and production, but will also inhibit the possibility of future growth and development.

There is thus an increasing risk that the overall policy advice of the IMF in the direction of "restraint" will become increasingly incompatible with the policy endeavours of the World Bank - less in its capacity of project lender but certainly in its capacity as policy adviser and chairman of consortia and consultative groups - to promote development in the poorest countries. In these circumstances, the Bretton Woods fiction that the IMF gives macro advice related to broad policies, while the World Bank gives micro advice related to specific projects, sectors and development programmes becomes unreal in a situation where foreign exchange shortages and balance of payments pressures become the governing factor in development programming and even in the implementation, continuation and maintenance of specific projects.

As already discussed, the line of vision has been further blurred by two developments:

(1) The IMF has moved from its originally assigned field of short-term financing more and more into the field of medium-term financing, while the World Bank has moved from long-term financing towards medium-term structural adjustment lending. This again has created a new situation in which coordination between these two largest multilateral institutions requires new consideration. Essentially both the IMF and the IBRD now serve the purpose of providing time or breathing space for hard-pressed low-income countries, without direct concord of what the breathing space bought with their resources should be used for. As the Brandt Commission papers point out, there are still gaps in the facilities provided by both institutions: "A range of financial needs falling between those catered for by the IMF and those met by the World Bank and similar institutions call for attention."22/

(2) The World Bank is clearly moving in a direction away from its almost exclusive concentration on project lending to increasing emphasis on programme lending, structural adjustment lending, concern with debt settlements, local currency lending, lending for continuation and maintenance of projects etc. thus blurring yet another distinction from the field reserved for the IMF. This is

directly related to the need for much greater and more fungible resource transfers to the developing countries than originally envisaged at Bretton Woods, or than it was possible to assume before 1973. This has made the Bank keenly aware of the limitation of absorptive capacity for aid handled on a project basis, especially if its customarily high standards of project preparation, and of monitoring the implementation and impact of projects are to be maintained. This lack of capacity due to the multiple lags between commitment and expenditures exposes the Bank to the risk of new institutions being proposed (such as the World Development Fund proposed by the Brandt Commission). The need for more flexible, i.e. non project-restricted, external resources will become even more pressing, as the commercial banks which have previously supplied the bulk of such financing will reduce their lending in view of their increased perception of the risks involved in lending to LDCs and as in any case the bulk of their lending will simply amount to the roll-over of existing debts (thus implying very little net new lending). The limitations of lags involved in project-financing also make such financing very difficult to use for anti-cyclical purposes and to deal with current balance-of-payments pressures. It can also be observed in low-income countries that project financing pre-empts the limited project-formulating capacity for low-income countries, at the expense of often more basic administration of existing projects. It remains true, of course, that even balance-of-payments support still requires the resources thus made available on a non-project basis to be translated into concrete projects. But these will often consist in maintaining projects and services otherwise threatened with breakdown, at a cost and to the disadvantage of any projects financed by project-tied transfers. The paper on 'The International Financial System and Institutions' prepared for the Brandt Commission argues that "the problem of absorptive capacity /if there is a shift to programme lending/ should not be exaggerated; there are few countries which could not manage higher levels of effective investment given additional resources"23/ and goes on to argue that "in many cases programme finance would increase absorptive capacity for project finance, indeed is often indispensable as a complement to project lending."24/

The World Bank itself had already keenly felt the limitations of project lending in a context of balance-of-payments pressures as early as 1978, as indicated by the following statement in its Annual Report for that year:

> "A review by the /World/ Bank of the causes of the slow growth rate in disbursements indicates that implementation of many Bank-

> assisted projects has been adversely affected as borrowing governments have tried to adjust to inflation, to balance-of-payments difficulties, and to rising budgetary deficits. In adjusting to inflation by reducing expenditures, and in adjusting to balance-of-payments difficulties by cutting back on domestic credit expansion, governments have found that counterpart funds needed for the full financing of Bank-and IDA-assisted projects are in short supply; this shortage, of course, affects project implementation."25/

The World Bank and IMF activities were also kept apart because the IMF stabilisation programmes concentrated on "demand side" measures, such as monetary and fiscal measures to reduce aggregate demand, additional measures to encourage exports, most frequently through devaluation, as well as simplification and/or liberalisation of trade restrictions. On the other hand the World Bank's structural adjustment loans were, and still are, considered to concentrate more on "supply-side" measures to increase the efficiency of production and of international competitiveness through shifts in investment priorities and rationalisation of price structures. However, more recently the IMF has claimed to pay much more attention to supply-side measures, particularly under longer-term programmes such as those undertaken with an IMF extended facility standby. The World Bank on the other hand has been moving towards giving more weight than in the past to demand side measures, particularly in its policy advisory functions and its co-ordianting functions in aid consortia and consultative groups, as well as in its signalling function to sources of finance. In any case, supply-side and demand-side aspects cannot always be reasonably kept apart; for example an improvement in the efficiency of a parastatal organisation such as a Maize Marketing Board or a Cocoa Marketing Board in Africa can be equally considered as a supply side measure in improving the efficiency of the economy, and mobilising agricultural surpluses, and also as a demand side measure since the deficits of such marketing boards are major elements in government deficits and hence in inflationary pressures. It seems clear that some kind of synthesis of demand side and supply side measures is needed and thus the division between World Bank and IMF roles becomes questionable.

The second Brandt Report draws the same distinction between the supply-oriented Bank approach and the demand-oriented Fund approach to terms of conditionality, and in an interesting passage comments on the fact that the prior precondition on Fund approval under its Extended Fund Facility (EFF) arrangement before a Structural Adjustment Loan by the World Bank is approved swings the balance unduly towards the demand approach:

> "In fact, a country is usually expected by the Bank to reach agreement with the Fund first on a standby or EFF credit when it initially applies for a SAL. This is an unfortunate sequence, effectively relegating supply-side adjustment issues to a secondary place in policy formulation, given the Fund's current approach to conditionality."26/

The natural suggestion arising would be either that the indicated sequence should be reversed (or at least that the two actions should be simultaneous and mutually co-ordinated); or else the nature of Fund conditionality should be fundamentally modified.

The qualification in the passage just quoted should also be noted, (i.e. "... given the Fund's current approach"). In fact, the Fund's purposes, as defined at Bretton Woods in its Articles of Agreement, include "the development of the productive resources of all members" and "promotion and maintenance of high levels of employment and real income" as "primary objectives". In this as in other respects touched upon in this paper proposals for "change" or "reform" in fact surprisingly often really amount to a restoration of original concepts subsequently forgotten or abandoned in actual practice.

The Fund's defence of its concentration on "sound demand management" is to deny that such policies are "inimical to growth", but that on the contrary "lax demand management policies" have been "at the root of severe inflationary pressures" and that "studies in the Fund have demonstrated clearly that, over the long run, those countries that have been more successful in controlling inflation have also achieved a better growth performance"27/ To this there are two replies. One is to note the qualification "over the long run" and to question whether the developing countries, and especially the poorer developing countries, can afford such a long-run view, or whether perhaps in relation to them Keynes' dictum is more relevant that "in the long run we are all dead". The other reply is to state that the debate is not whether "lax demand management" is good or bad for growth - most would agree that it is bad - but about the nature of "sound demand management" where the excess demand is as much, or more, due to lack of resources to meet it than to "lax management". Both the proportion of resources lent under high conditionality facilities and the conditionality itself therefore need to be questioned.

It has been argued that the shift towards more high-conditionality lending by the IMF has been the by-product of the way in which IMF resources have been increased in recent years to cope with increasing difficulties and balance-of-payments deficits of developing countries. This was mainly by increasing access to Fund resources by allowing borrowings as a higher proportion of countries' quotas, rather than by increasing quotas themselves. While the increase in quotas would have created additional low-conditionality resources, the expansion of the proportion of quotas which can be drawn created high-conditionality resources. As a result, while in the seventies the bulk of IMF support (two-thirds) was low-conditional, now the situation is reversed and the great bulk of IMF support (an 80 per cent estimate has been made for 1980-81) is now on strict high-conditional terms. It has therefore been argued that this is largely a result of the form in which Fund resources were generated recently (by borrowing from capital surplus countries rather than by quota expansion). However, this argument is not necessarily valid as in the mid-seventies borrowed resources were used by the Fund to create low-conditionality facilities, such as the 1974 and 1975 Oil Facility; this Facility was not renewed after the second (1978-79) large rise in the price of oil. Therefore, there seems also to have been an explicit decision at the Fund to increase lending via high-conditionality facilities.

Where the external imbalance is the result of deterioration in the terms of trade (or decline in capital inflows) the perceived excess of aggregate demand over aggregate supply corresponding to the external deficit is best viewed as being the consequence of a shift in the supply curve rather than of the demand curve. This distinction is useful not only as a diagnostic device but also to the prescription of policies, since it points to the need to increase the capital stock and change its composition. Adjustment in the foreign balance is more difficult and complex when the imblance is in the pattern of supply.

The critiques of Fund conditionality can be perhaps divided into two aspects: (a) the time frame of adjustment. As we have argued above (following an increasing consensus), the deterioration in the international environment and the greater need for structural adjustment, as well as the specific problems which characterise poorer countries, imply the need for a slower pace of adjustment than advocated by the Fund, so that greater emphasis can be placed on supply expansion rather than on demand contraction. Slower adjustment would be less costly for the individual country (in terms of consumption, production and employment sacrifices) and tend to remove deflationary bias on the world economy of Fund programmes. It would however require additional and more long-term flows of finance. One mechanism which could easily be used to achieve this purpose - as it would be based on facilities already in operation at the Fund - would be a substantial enlargement and an improvement of the Compensatory Financing Facility and the Extended Fund Facility, possibly accompanied by special windows for low-income countries facing severe adjustment problems and with inadequate access to financial markets; (b) there is a second - related, but clearly distinct - critique of Fund conditionality. It is linked to the relatively uniform method of adjustment applied to countries with different levels of development and different types of economic and political systems. Furthermore, the type of adjustment recommended by the Fund - based on a monetary approach to the balance of payments - is very far from being universally recognised as being the optimum method for adjustment in a given period, such that it minimises the "cost" in terms of output and employment and leads to a more favourable income distribution. Once the external financial constraints have been defined (hopefully having been broadened as discussed above in point (a)), the Fund is correct in stressing the need for adjustment so that the country's level of economic activity is consistent with the real and financial constraints within which it has to operate.[28/] However, the optimum form of adjustment should be much more open to discussion within the negotiations between the Fund and the country. Developing countries' governments and scholars (as well as those advising them in the North) should devote much more time and effort to the development of concrete and financially viable alternative approaches of adjustment to those put forward by the Fund. Potentially this should become an increasingly important area of technical assistance and intra-developing country cooperation in the coming years. Perhaps some of this research could be carried out in the Fund itself; more importantly, the Fund should be open to discuss and accept such alternative approaches in negotiations with individual countries, and possibly be willing to apply such alternatives in other countries. Given the problems of bureaucratic inertia and the weight of ideology as well as of an easy and clearly established - even if clearly inappropriate - modus operandi of the Fund staff, the most likely source of change will be the pressure which countries' governments can - individually and collectively - exercise at different levels of the Fund. For example, the work of the Group of 24 in this field - which is already very valuable - should be strengthened.

Changes in the IMF's *modus operandi* would be valuable so as to make the adjustment process more appropriate to the needs of developing countries. In particular, it has been suggested[29] that greater weight should be given by the IMF to output, employment and income distribution, relative to its past almost exclusive emphasis on inflation and balance of payments. Operationally, this could be achieved by including amongst the conditions attached to drawings, the achievement of certain growth targets, as well as maintenance (or perferably increase) of real household incomes of the poorest strata, as well as of public services directly linked to the welfare of the poorest. At the same time somewhat greater flexibility could be attached to macro-economic targets; thus, for example, if the underlying assumptions about the future course of important economic variables differs substantially from that assumed in the programme, macro-economic performance criteria could be revised within suitable margins of deviation, without interrupting drawings on the loan agreement with the Fund, and without need for protracted renegotiations leading to new loan agreements (as occurs now).

Technical work on those issues - both within and outside the IMF - needs to be combined with political persuasion, to ensure that such changes are accepted by the Fund's authorities.

Returning to the subject of better coordination between the Bank and the IMF, suggestions which have been made include the use of staff rotation between the two organisations - it is in fact remarkable that this has not happened more, considering that the two organisations are next door to each other in Washington - and also the merging of certain departments,[30] as well as joint rather than separate country missions and country assessments. Such joint action and joint policy advice would also make the catalytic or signal functions of both institutions more effective.

Apart from natural institutional compartmentalism (or in more polite terms institutional "autonomy") the greater intellectual movement would be required from the IMF rather than from the World Bank; as has been pointed out before, the real fundamental problem of low-income countries is one of the supply shortages and bottle-necks characteristic of their situation, and even their foreign exchange shortage in the context of a stagnating world economy and weak commodity prices is, to an important extent, a question of external factors rather than domestic management. Yet the IMF advice is not addressed to these external factors (mainly the industrial and capital surplus countries causing them) but rather to those suffering from it. This takes us back to the asymmetry built into the Bretton Woods system by not developing IMF conditionality in the direction of balance of payments surplus countries.

VIII Catalytic Functions of World Bank/IDA and IMF: Implications for Staffing and Decentralisation

The emphasis on the crucial policy-making, co-ordinating and signalling functions of the two big multi-lateral institutions - which have developed strongly since the early days of Bretton Woods - also have direct implications for staffing and for decentralisation.

On staffing, there is broad general agreement that it would be desirable to have more representation from developing countries, especially at the senior and policy-making levels. While the general desirability of this is recognised, to be effective such shifts in staffing would have to be combined with three other considerations.

(1) The staff members from developing countries would have to be genuinely rooted in their own countries and with experience in their own countries, shown for example by a high proportion of their professional life spent working there, rather than fresh graduates from American or European universities (this is of course directly related to the level of staffing).

(2) As long as the operations of the Bank and Fund remain so strongly centralised in Washington, additional staffing from developing countries could result in a further brain-drain and the new appointees would soon be part of the general Washington environment.

(3) The changes in shifts of staffing would have to be related to similar shifts in the distribution of voting-power and control. This last issue is of course under considerable debate and it is clearly related to the overall issue of a New International Economic Order and Global Negotiations (NIEO), and to the issue already discussed of politicisation of multilateral agencies. Presumably the shifts in voting power and control in the IBRD/IMF would have to be matched, on the part of the developing countries, by some dilution of their own control of the UN General Assembly as a policy-making body. This issue has been discussed by the Commonwealth Group of Experts on

North-South Negotiations who have suggested a strengthened ECOSOC or similar sub-group of the UN General Assembly with more balanced voting power as an effective organ of control. Similarly there are related suggestions to entrust effective negotiations and policy-making to sub-groups dealing with particular issues with balanced and flexible distribution of voting-power depending on the particular issue concerned; in the vision of the Commonwealth experts and of the Brandt Report such ad hoc groups would be co-ordinated on top by some kind of summit arrangement a la Cancun. However this arrangement still leaves open the precise roles of the UN General Assembly on the one hand, and of the Bank/Fund on the other hand.

The issue of developing countries' influence on the Bretton Woods institutions is not only related to voting power and staff representation, even though these are important pre-requisites. Also of great importance is that the representatives of LDCs in these institutions (and particularly in their management, such as the LDC Executive Directors at the Fund and the Bank) are extremely well prepared (both in the technical and political aspects) to defend the interests of their countries and get sufficient back-up from their governments,either through direct communication with their countries or through high level technical assistance in Washington. Industrial countries' influence in the Bank and the Fund not only relies on voting power, but also on the priority attached to high levels of technical experise of many Executive Directors and their back-up teams (the British representatives clearly being amongst the leaders in high quality technical contributions). As the Executive Directors of developing countries have the more difficult task of challenging the existing modus operandi and proposing alternatives - their need for expertise is even greater than that of industrial countries.

Similarly, the LDC teams in charge of designing national programmes of short-and long-term adjustment - as well as negotiating them with the Fund and the Bank - need to be strengthened. Of particular value will be national as well as intra-LDC efforts in this direction, with contributions from academics or technical advisory teams from industrial countries. The contribution of the Fund and the Bank (as well as of commercial banks increasingly "in the business" of advising LDCs on policy-making) is of much more doubtful value, as the aim should be to strengthen alternative - though viable - approaches to adjustment to those advocated by the Fund and the Bank. This would allow a real high level "policy dialogue" and not a monologue!

More balanced staffing and control is directly linked to the question of decentralisation or regionalisation. As often pointed out, the degree of centralisation of both the Bank and the Fund in Washington is extraordinarily high, with 90 to 95 per cent of the staff there. A regionalisation of the Bank and the Fund would possibly put them in closer touch with the views of governments and other groups in developing countries; it would facilitate recruitment of staff members from developing countries; and above all it might result in closer collaboration with the Regional and Sub-Regional Development Banks. The Regional Banks (Inter-American, Asian and African Development Banks) are already a significant channel of multilateral finance although they are presently over-shadowed by the World Bank. The Regional Development Banks have also developed a method of balanced control and voting-power which in the case of the Inter-American and Asian Banks does not seem to be a major source of trouble. In the case of the African Development Bank, however, there was no participation of non-African contributors in its basic capital[31] initially, and thus for a long time the African Development Bank was relegated to a very minor role in development financing. Very recently, however, an agreement has been reached and the African Development Bank has been opened up to non-African contributors who have been allocated one-third of the voting-power, ensuring that control remains in African hands. It would, however, take a very major expansion of the resources and activities of the African Development Bank to fill the African gap. For example, the Asian Development Bank, although it is three years younger than the African Bank, at the end of 1981 had private loans more than 20 times larger than the African Bank. Even the present plans for an expansion of activities by the African Development Bank would still leave it well below the two other Regional Banks.

What has been said about the Regional Development Banks broadly also applies to the Sub-Regional Banks in the Caribbean, Central America and elsewhere.

Some decentralisation of World Bank structures, combined with closer links with the Regional Development Banks and certainly a larger role for the African Development Bank (the natural multilateral agency for poverty-oriented investment in the African poverty belt), would have the further advantage of avoiding an awkward dilemma. This dilemma lies in that increased multilateral resources for economic development in the directions in which clear gaps now exist (such as energy, some mineral development, financing of local expenditures, maintenance and repair requirements of ongoing projects, poverty-oriented human development, such as action for children, etc.) must mean one of two things: either a proliferation, probably wasteful, of multilateral institutions or else a strengthening of the already quasi-monopolistic and highly centralised World Bank as the dominant multilateral channel. A decentralised World Bank structure with a strengthened role for the regional institutions seems the natural way of resolving this dilemma. "New Windows" in the World Bank, without some devolution of this kind, would not seem to achieve this.

The Brandt Report tries to avoid this dilemma in a different way: by merging all the new gap-filling functions in one single new institution - the Brandt Report's proposed World Development Fund32/ - as well as by decentralisation and regional devolution which the Brandt Report strongly advocates33/. The Report also recommends the establishment of Regional Advisory Councils with "autonomy and genuine decentralisation"34/, and draws attention to the fact that both the general principle of decentralisation as well as the specific proposal for Regional Advisory Councils are in fact explicitly provided for in the Bank's articles. One obvious extension of this proposal would be to have the Regional Advisory Councils actually established within the Regional (and perhaps also the sub-regional) Development Banks to ensure closer coordination and perhaps also to serve as a channel for lines of credit from the World Bank to the Regional Banks35/. The link with the financial institutions would naturally strengthen the role of such Regional Advisory Councils.

There is a promising potential in a link between the expanded structural adjustment lending by the World Bank and possible decentralisation and regionalisation of Bank activities. The Bank in announcing its "New Special Action Program" (which includes the provisions for expanded structural adjustment lending) stated that it "plans to intensify its use of various consultative mechanisms to urge other international lending institutions and bilateral aid donors to consider measures similar to those in the program"36/.

IX. Multilateral Technical Assistance: Current Problems of Coordination

There is one area of multilateral assistance where in fact decentralisation has continued apace - although it is by no means clear whether this development should be described as decentralisation or rather fragmentation and loss of coordination. The reference is to multilateral technical assistance within the UN system where the intended central funding role and coordinating function of the UNDP have sharply declined. The principle of a central funding role for the UNDP has never been openly changed or abandoned since it was formally established in the "Consensus" in 1971. But in fact it has been steadily eroded and is now more of a vision than a reality. This has been due to the increasing tendency of the various specialised agencies to attract technical assistance funds of their own, either through their regular budgets or through special funds or through the establishment of trust funds. This shift has also increased the tying of technical assistance and reduced to that extent the impact of "country programming" which was supposed to be the basis of UN technical assistance work. In a way the shift away from central funding through the UNDP and from a country focus back to the individual agencies and hence back to a sector basis is a return to the earlier days of the UN Expanded Programme for Technical Assistance (ETAP), one of the forerunners of the UNDP. In the initial period of ETAP there were fixed shares for the different agencies, and there was no attempt at country programming. It is not clear to what extent the partial return to this earlier situation is intentional, or simply the result of institutional rivalry or institutional empire building. To some extent this is clearly due to inconsistent positions taken by government representatives on the governing councils of the various agencies.[37]

The decline in the role of the UNDP - both absolutely and even more so relatively - has also led to pressures on the multilateral financing institutions, eg. Bank/IDA and Regional Development Banks, to fill the gap by increasingly undertaking technical assistance work of their own in relation to their own projects and also in general project formulation and planning advice. This latter development can either be treated as a negative factor because it erodes the funds available for direct financing, or else it can be treated as a positive factor because it leads to better coordination between technical and financial assistance. But however it is considered, the development is more incidental than planned and there seems an urgent need to achieve a consistent policy and situation in the field of multilateral technical assistance.

From the point of view of the UNDP, much of the erosion is due to the difficulties of obtaining the necessary increases in the voluntary annual contributions (determined in monetary rather than real terms) on which the UNDP depends. Hence any reform or reconstruction of the multilateral technical assistance programme may have to include the development of less volatile and more secure sources of financing for the UNDP. This question is presently being looked at by a special UN review. But above all it calls for a consistent policy regarding the relative roles and magnitudes of the UNDP, the various specialised and operational agencies within the UN system, the multilateral financing institutions, and also the bilateral technical assistance programmes and their co-ordination which cannot be disregarded in any rational scheme for multilateral technical assistance. But above all it would then require a consistent adherence to the line followed by member governments in all the different institutions and agencies concerned.

As a first step towards more secure contributions, the "indexing" of contributions might be considered. This has two aspects: (1) protection against the erosion of contributions by inflation which now reduces the activities of the UNDP (and other multilateral operations); and (2) protection against fluctuations in exchange rates which can impose unforeseen burdens in contributing countries. Contributions to the UNDP are in terms of US dollars which have recently been very strong in relation to other currencies - but contributing governments should also consider that the expenses of the UNDP in turn are at present also largely in terms of dollars. Hence, any switch might also extend to the greatest possible extent to UNDP expenditures as well as contributions. With a significant proportion of the contributions and the bulk of UN exports and supplies - not to mention their customers - not being "on the dollar", it is not immediately obvious that contributions as well as expenditures could not be switched to a SDR or "bundle of currency" basis, as well as "indexed" against rising prices. Given the present lower rate of inflation in the main contributor countries combined with a higher dollar, now might be a good time to make indexing and switching acceptable to the major contributors. This proposal might well apply beyond the UNDP to contributions to multilateral institutions more generally. It would seem particularly appropriate for the IMF, which already uses the SDR as a Unit of Account in all its operations, to extend this criterion to an "indexed" SDR.

X. Co-financing

One of the proposals increasingly on the international agenda is to increase the catalytic effect particularly of World Bank lending through increased co-financing with private banks. This proposal has been made by different institutions, including OECD/DAC[38] but is still awaiting more widespread implementation. This involves a Bank guarantee in the sense that through a "cross-default" provision a default on the private debts within the package would also be deemed a default on the World Bank component; the idea of course is that this would enhance the security and hence the flow of private financing because developing countries would be very reluctant to be deemed in default to the World Bank, which would have most serious consequences for their credit rating and future financing prospects.

There are a number of other similar proposals of the same general nature, all sharing the idea of co-financing. The problem of this family of proposals is that it does not adequately cater to the poorest countries who have no access to private capital markets although presumably the Bank participation and Bank guarantee would extend the "reach" of private lending a little further downwards towards the low-income countries by including some of the "in-between" countries. This in turn would set free World Bank and other sources of ODA for low-income countries which would thus benefit indirectly.

Co-financing with the commercial banking sector is of course a familiar Bank practice and has played a useful role, particularly in encouraging commercial banks previously unfamiliar with lending opportunities in developing countries. One of the suggestions is that the practice of co-financing could well be extended further to include specifically commercial banks in LDCs, so as to encourage them to make loans to other LDCs[39]. However, unless such co-financing is specifically and purposefully directed towards low-income countries, there is a risk that commercial banks in low-income countries (e.g. India) could participate in financing the needs of relatively high-income countries (e.g. Mexico or Brazil). But the suggestion could be very useful when applied to private banks and funds in high-income OPEC countries and directing them into low-income countries. This would help with the generally desirable attempt to provide for more direct re-cyclying of OPEC surpluses into low-income countries[40]. However, any proposals of this kind are still subject to the basic limitation that for commercial lenders operating on strictly commercial principles low-income countries are not an attractive field for operations and a very important element of public funds or public guarantees in co-financing - a blend of contributions, guarantees or interest subsidies - would be required.

XI. Low-income developing countries (LILDCs)

One of the problems with multilateral ODA - which applied both to the World Bank and to the Regional Banks - is the fact that, with most of the available resources having been obtained by operating in private capital markets or by non-renewable capital subscriptions, the investments concerned must earn semi-commercial rates of interest, with a relatively modest grant element. This is then supplemented with a separate "window" through which low-income countries can obtain loans at virtually zero interest, with a very high grant element. This arrangement does not seem quite in tune with the great variety of income levels among developing countries and their needs. Obviously one can achieve any intermediate terms of financing by different "blends" of semi-commercial and highly concessional sources for any given country - but this in turn is not easily reconciled with the essentially project basis of the World Bank and Regional Banks.

There are many proposals suggesting ways of filling this gap between the semi-commercial and near-grant ends of the MODA spectrum. The second Brandt Report rejects a proposal by the US Treasury[41] that some countries could be "graduated" out of IDA. The randt Report objects to the proposal because in practice it is directed towards moving China and India out of IDA financing.[42] The new Brandt Report maintains that what is needed is a larger IDA in view of the heavy demands on aid, and an attempt to cut down demand by removing current major borrowers would end by having its terms hardened. The Brandt Report declares: "'Balance', yes; 'graduation', no."[43]

The question of introducing "graduated" or differential interest rates - in effect amounting to a hardening of the terms of IDA - has already come up in the negotiations for the next renewal of IDA (IDA 7), but is resisted by the potential recipients. It would, of course, cease to be an effective hardening of terms and thus reduction of the grant element in concessional aid if it were to be accompanied by a proportionate-or more than proportionate - increase in the total size of IDA. However, such an increase is unfortunately not within realistic expectations. As it is, graduation may in fact be accompanied by a further thinning out of aid for the LILDCs, due to the inclusion of China among recipient claimants and factors such as the need for energy investments (due to the failure to establish an energy affiliate). This strengthens the case for establishing a separate target or sub-target (0.15 per cent) for the LILDCs and for looking at the whole ODA system, bilateral and multilateral, with a view to concentrating the system more on the needs of the LILDCs.

The close link between multilateral aid and flows into LILDCs represents an important element in the present situation and has special importance for future aid policy. About 60 per cent of net MODA disbursements of $14 billion in 1981 was on concessional terms ($8 billion).

In fact, the LILDCs receive around 40 per cent of their ODA from multilateral sources, including among the latter EEC and the multilateral part of OPEC assistance. The action of MODA sources is particularly strongly concentrated on agriculture as well as on the LILDCs. Hence, any shift in total aid towards the multilateral sector - both in overall aid and in concessional aid - is likely to increase the flows into LILDCs and into agriculture (both recognised priority objectives), and vice versa.

It would be good to think that the increase in the multilateral share of ODA which occurred in the mid-seventies was causally connected with the priorities for agriculture and the LILDCs (and, of course, with particular priority for LILDC agriculture). But in fact, this does not seem to be the case, for the multilateral share has subsequently receded again, in spite of sustained or strengthened priorities for LILDC/agriculture. This suggests that, while in the seventies the individual multilateral agencies were able to make a good case for a slice of expanding ODA, the subsequent stagnation and real reduction of ODA has fallen with particular intensity on the multilateral agencies, multilateral cuts being the line of least resistance for a number of donor countries. It further suggests that a restoration of the multilateral share to the 30 per cent plus level achieved in the mid-seventies, to be lasting, should be based on a collective review of the LILDC/agriculture priorities and the special role and experience of multilateral agencies in these priority areas.

Apart from actual financial flows, the co-ordinating ("umbrella") and policy advisory role of the multilateral institutions has greater impact on the LILDCs whose autonomous policy-making capacities may be more limited, and for which whatever limited access there is to commercial funds is even more dependent on the "green light" of multilateral institutions. Deflationary "adjustment" can cause much more harm to these low-income countries, as the poorer a country the less the margin for expenditure cuts without massive damage to essential consumption, basic services, new investment to restore balance, and replacement investment to maintain productive capacity. Furthermore, the lower the elasticities of substitution between tradeable and non-tradeable goods,the costlier it is to correct a payments deficit in the short term (that is without a prior increase in productive capacity). Factors such as the lower share of manufacturing in the LILDCs imply such relatively lower elasticities of substitution. Thus, conditionality falls with particular harshness on the LILDCs, partly because they have less access to unconditional commercial and other sources of finance and partly because economic, administrative and personnel bottlenecks make it particularly difficult for them to adjust rapidly. To compensate for this unfavourable bias, the IMF should be persuaded to accept that differentiated treatment - i.e. more favourable and flexible conditionality for LILDC's - recognises the differential burden of conditionality and is a more equitable way of dealing with the poorest countries. Technical assistance - for example from other developing countries - to help negotiate with the Fund, and to prepare alternative adjustment programmes, could be of particular value to these countries.

In the case of the UNDP, as the central multilateral funding agency for technical assistance, there has been some concentration on the LILDCs but this is limited by the political requirement that all participating LDCs must have a country programme and "fairly" share in the available resources. Similar considerations apply to food aid in the case of the WFP, although emergency and refugee situations here provide additional opportunities to concentrate on the LILDCs. In the case of the UNDP, the current "erosion" in the form of a shift of multilateral resources towards the specialised agencies may in fact increase the opportunities to concentrate on LILDCs, at least in so far as the additional funds of the specialised agencies take the form of special funds, trust funds, etc. where there is no obligation of "fair shares" for all member countries. The case of technical assistance, in fact, provides an exceptional case where concentration on LILDCs may be easier bilaterally than multilaterally. Some of the bilateral aid programmes of smaller donors in particular, which limit their activities to a few selected countries, may have a superior record of concentration on LILDCs.

The cross-link between priority for agriculture and for LILDCs is strongly indicated by the fact that in 1979 no less than 59 per cent of the official commitments to food and agriculture by DAC members and multilateral organisations went to low-income countries. At the same time, multilateral organisations accounted for about 50 per cent of total commitments to food and agriculture, which in turn represented one quarter of official commitments for all purposes by all donors. The share of multilateral commitments going to agriculture (at around 34 per cent), was almost double that of bilateral commitments going to agriculture from DAC members (at around 18 per cent). However, commitments are not always clearly sectionally allocated, and there is room for divergencies between the "broad" and the "wide" definition of agriculture. Within the UNDP system also, FAO is the largest recipient although its share is less than 38 per cent of capital commitments;

but in addition FAO has been the largest beneficiary of the movement towards decentralisation or UNDP "erosion" and the largest recipient of special funds and trust funds. Thus, the multilateral system has displayed a comparative advantage of concentrating on agriculture and acquiring experience in agricultural aid which also gives it a cross-link to LILDCs, basic needs and poverty-orientation. This is an important institutional advantage worth preserving and developing.

Among the multilateral organisations, in 1978/79 the African Development Bank devoted 94 per cent of its disbursements to low-income countries, and 82 per cent to the least-developed countries (a specially poor sub-group among the low-income countries defined by UNCTAD), this reflecting the nature of its membership. In fact, as the 1981 OECD/DAC report points out, in the case of the African Development Bank all three priority considerations coincide: concentration on low-income countries, on least-developed countries within low-income, and on Africa South of the Sahara[44/]. Hence, the prospective expansion of the African Development Bank and the agreement of non-African countries to contribute to its capital structure are particularly significant in strengthening the poverty and agriculture orientation of the multilateral system. The weakening of IFAD (in real terms) will, of course, work in the opposite direction and weaken the multilateral system in its concentration on agriculture.

Aid to the poorest countries has increased in the recent past, both absolutely and as a share of total ODA. Multilateral ODA to these countries has increased particularly fast (by 19.4 per cent per annum over 1974-80 in real terms compared with 8.4 per cent annum for bilateral aid from DAC countries).[45/] This indicates that the multilateral agencies seem to have a comparative advantage in directing aid to the poorest countries suggesting that MODA may play a leading role in aid to the poorest countries (it also has comparative advantages in aspects such as its strong grant element). Nevertheless, it needs to be stressed that the performance of aid - and within aid that of MODA - though positive was clearly insufficient, given the magnitude of the impact of the world recession on the poorest countries[46/].

The technical assistance element in MODA is also particularly important in LILDCs, pointing to a special role for the UNDP system, giving also special point to the problems created by the "erosion" of the UNDP. Another problem is the universal membership which means that the better-off LDC members would have to take an understanding, and to some extent self-sacrificing, attitude to the claims of the LILDCs, in effect accepting the principle of "graduation" in the field of technical assistance. In the UNDP, this has already happened with the consensus that 80 per cent of the resources should go to the LILDCs, although this might need further sharpening to focus on the poorest countries.

Levels of administrative and policy management may also be more fragile in the LILDCs - probably true as a generalisation, although with qualifications and exceptions. This increases the influence of conditionality while at the same time making traditional forms of conditionality particularly questionable and dangerous. As a recent World Bank report emphasises, while aid must depend on reform, reform also must depend on aid. "Policy reform without substantially increased aid does not provide a satisfactory solution ..... Many African countries could not undertake reform without additional assistance."47/ The evolution of the right mixture of aid and reform for the LILDCs is an international task of high priority.

In assessing its future role in Africa (where so many LILDCs are concentrated) the World Bank, for the IDA, emphasises strengthening national capacities: "IDA has now taken a new approach toward Africa, which puts greater emphasis on improving human-resource development, on building a sound institutional infrastructure, and improving domestic economic management".48/ In the case of IDA, it is also stated that a policy dialogue, while linked with its expanding programme lending and structural adjustment credits, dominates all its relations with recipient countries even in the prevailing case of project lending. "Considerable time is spent on general economic and sector work before any actual project lending takes place. It is difficult to sustain a good project in an unfavourable environment. Furthermore, fruitful policy dialogue can do more to influence a country's development than even a series of good projects"49/. The weight of such policy advice must be coupled with a certain volume of resources to offer - hence the importance of such policy functions should not be considered an argument for cutting contributions. Furthermore, the international community needs to keep the nature of such policy advice under constant review; for example, fears have arisen that the World Bank's document on Sub-Saharan Africa, known as the Berg Report50/ does not take proper account of the characteristics of the poorest countries and shows excessive faith in the use of market mechanisms and signals to overcome structural problems51/.

XII. Proposals from the Brandt Report

The original Brandt Report[52] made a number of suggestions on changes in multilateral ODA. Some of these changes are closely related to other discussions in this paper and have been implicity or explicitly dealt with. There remain, however, a number of suggestions not so dealt with and it may be convenient to list them and point out their relationship to the rest of this paper.

(1) Brandt suggests the use of the guarantee power of the World Bank and of the Regional Development Banks in order to provide easier access for developing countries to bond markets in the North[53]. This would be a useful addition to the "catalytic powers" of the World Bank discussed in the paper. The Eurobond market would potentially provide funds with longer maturities and at lower cost to developing countries, with more fixed and predictable debt burdens than the Eurodollar loans mainly used to finance LDCs' deficit. While this would be a desirable development it never was of direct importance for the LILDCs whose credit rating was not normally sufficient for access to Eurobonds, (perhaps with the exception of India); given the current trends in private capital markets it is unlikely that any developing countries can raise significant funds in the Eurobond markets. (Since last year LDCs' share in this market has been rapidly declining.)

(2) Brandt suggests that the World Bank should provide lines of credit to the Regional Development Banks[54]. This is in line with the proposals towards a greater decentralisation of World Bank activities discussed in the paper - partly on the basis of the Second Brandt Report - and would be in line with the policy of creating an international network of development institutions. The general policy line in the Brandt Report of strengthening the Regional Development Banks is further underlined by including the Regional Development Banks in the proposal that borrowing-capital ratios could be relaxed and increased. Within the regional network, a further decentralisation is proposed in that the Regional Development Banks are expected by Brandt to lend to sub-regional institutions.

(3) Brandt also is concerned about the "erosion" of the UNDP discussed in this paper. The Brandt Report suggests stronger co-ordination within the UN system of technical assistance - presumably involving the UNDP - and also a strengthening of the UNDP by a longer cycle of budgetary provision instead of the present annual voluntary contribution system[55]. Brandt also declares that "technical assistance should be more closely related to capital aid".

This presumably would involve some kind of closer liaison between the World Bank system and the UNDP system, or the World Bank system and the UN. The present separation and lack of liaison has specific historical reasons[56] but the time has now come to bury the past. Another implication of the Brandt proposal would be a stronger role for the UNDP, and for discussions of technical assistance generally, in aid consortia and consultative groups.

(4) As a first step towards better monitoring and co-ordinating the whole multilateral ODA system and to fill gaps and to institute proper institutional reforms, Brandt supports the recommendation by the UN Group of Experts on the Structure of the UN System in 1975 to pool all UN special funds in a UN Development Authority[57]. Presumably this proposal would be an alternative to restoring the authority and co-ordinating function of the UNDP.

(5) As is well known, Brandt suggests the creation of a new multilateral facility for additional multilateral finance to support mineral and energy exploration and development in developing countries[58]. The favoured form of this "new facility" was an affiliate to the World Bank although this is not spelt out directly. Presumably this suggestion is due to the wish that the requirements of mineral and energy development results in additional finance rather than adding to the pressures on World Bank, IDA and other multilateral sources already overburdened by new claims (i.e. China). Some of these proposals (i.e. for new mineral investment) may need to be reviewed as a result of the impact of prolonged world recession which has depressed demand more in particular sectors, such as metal minerals.

(6) Brandt fully supports the continuation and extension of co-financing as a means of increasing the reach and catalytic power of the World Bank and Regional Development Banks. The provision of guarantees (see item 1 above) can also be considered as a form of co-financing. The Brandt Report adds the deliberate use of concessional funds to improve lending terms and to subsidise interest rates as a form of co-financing[59].

(7) Brandt suggests the need for the performance of the various multilateral organisations to be regularly monitored by a high-level advisory body[60]. Brandt is emphatic that there is a serious gap in monitoring multilateral ODA, and it may be implied in the Report that this lack of proper monitoring is causally related to lack of public and political support for the multilateral system. What monitoring there is, is suspect by being mainly inside monitoring whereas what is needed is a greater amount of strongly independent outside monitoring as well as auditing.

(8) Finally the Brandt Report contains the particularly important proposal for the creation of a World Development Fund (WDF). This Fund would serve as a bridge between the World Bank and the IMF, carrying out functions not satisfactorily covered by either of them at the present time. The need for such a bridge and the existence of such a gap has been discussed elsewhere in this paper. The proposal for a WDF represents the main institutional innovation proposed in the Brandt Report and has been repeated and further underlined in the Second Brandt Report[61/]. In the context of this paper there are five aspects of this proposal worth emphasising:

(a) the WDF would serve as a bridge between the Fund and the Bank in the sense that it would take over from the Fund the principle of programme lending while it would take over from the Bank the principle of long-term lending. But Brandt believes that in this way the WDF would release both the Bank and the Fund from fundamental difficulties pointed out in this Report. In the case of the Bank the difficulty would be the slow rate of disbursements of project loans when projects are held up by a shortage of domestic resources; in the case of the Fund it would be the difficulty of having to impose strict conditionality because countries are in a crisis situation by the time they deal with the IMF. This is a particularly important proposal and crucial to the concept or vision of a new multilateral institutional system of the Brand Report.

(b) the WDF is "not an alternative to the reform and restructuring of existing institutions. On the contrary, it could be a catalyst for change in the entire system of development finance"[62/]. One may add that in the view of Brandt the WDF is also not an alternative to the increase in resources suggested for the World Bank and IMF systems. The discussions relating to the World Bank and IMF and to the rest of the multilateral ODA system therefore remain valid whether or not the proposal for a WDF is pursued. However, it seems clear that if a WDF of any size is created, this could not be without repercussions on the size and nature of existing institutions. For one thing, most contributions to the WDF would be within the 0.7 per cent target (although the allocation of "automatic revenues" for the WDF - also suggested by Brandt - in relation to the 0.7 per cent target for individual countries is not clear).

(c) the WDF should have universal memebership - apart from other reasons why universal memebership is desirable, this is also within the logic of the proposed new system of universal and automatic revenues[63/]. This would be an opportunity to give the developing countries the stronger representation which they are lacking in the Bank and Fund at present, and thus perhaps reduce the struggle for control within the Bank and Fund itself. Presumably it would also presuppose the active and full participation by Russia and the Eastern bloc countries; in the past it has proved extremely difficult to obtain such full participation.

(d) the WDF operations should mainly go through regional and sub-regional institutions. In that way the WDF would contribute to the decentralisation and regionalisation of the multilateral ODA system, particularly the World Bank part of it, which is advocated by Brandt and may other observers.

(e) the Brandt Report visualises that many of the WDF operations would take the form of co-financing with the World Bank and the Regional Development Banks. This suggestion is put forward with specific reference to the need to avoid a new institution with a large staff and the proliferation of international bureaucracy.[64] However, this proposal suggests the possible question of why the additional funds could not be directly allocated to the World Bank and Regional Development Banks. The proposal also seems to divert the WDF away from specific global priority purposes, such as might be natural for an institution financed by automatic global revenues and income derived from the "global commons". Such specific global priorities should for example be action of an environmental character - rolling back deserts or promotion of renewable sources of energy - action concentrated on the poverty belts of Sub-Saharan Africa and/or South Asia, or action concentrated on improving the condition and prospects for the world's children, etc.

XIII. A look into the future: MODA resources and institutions

A case can be made out for increasing the resources and activities of the multilateral ODA system. China has to be accommodated; energy calls for new investments; the poverty problems-of-the poorest countries continue to increase; food deficits and food import needs are increasing; the balance-of-payments deficits of non-oil LDCs generally and of LILDCs specifically are increasingly difficult to finance. Primary commodity prices in real terms (other than oil) are at an all-time minimum. The need for helping with maintenance and recurrent expenditures is clear. The weakening of oil prices has brought partial and temporary relief to some LDCs but does not alter the basic case. On the contrary, it can be said to bring some of the oil producers sharply within the group of MODA clients: (Nigeria, Indonesia, Mexico are examples); it can also be said to have increased the capacity of oil-importing DCs to contribute to the MODA system.

But no conceivable increase in MODA resources alone can make much difference per se. The whole MODA system directly accounts for only 2 per cent of the total development expenditure of LDCs, so even a doubling of MODA would make only a marginal difference[65]. The conlcusion is that the real impact of a more effective MODA system would lie in a further development of what we have discussed in this paper as the "catalytic functions" of the MODA system. One of its most important functions must be to keep the colours of multilateralism and joint action and collaboration flying in a world of recession which may well lead us towards more protectionism, isolationism, unilateralism with its inevitable consequences of retailiation. The concentration on the poverty problems and aid to the LILDCs is one of the areas where the multilateral system could be pathbreaking - for this concessional resources are needed. Another is its role in the gradual evolution of a system of global revenue collection and global taxation in the service of solving global problems (environment, adequate welfare for all children) which is the natural and logical source of financing for MODA. Such action would start with specific graduated taxes on seabed resources, international travel, international trade, armament expenditure or savings from reduced armaments expenditures etc - there are many such proposals - towards an international income tax which would be "the most rational way towards automaticity in contributions and for sharing"[66].

Another conclusion to be drawn from the relatively small size of MODA's actual resources is that some of the burden must be taken away from the system. At present the system is called upon to deal with the consequences of low commodity prices, falling real export proceeds, lack of market access, unfavourable terms of trade and rising trade deficits. When it is realised that the export earnings, even at their present depressed level, of the non-oil exporting LDCs are some forty times higher than multilateral ODA to them, it is clear that this is a burden which MODA simply cannot carry, at least not within the present framework of resources and institutions. The compensatory powers of the MODA system would have to be strengthened and multiplied many times over to cope - but the real answer must be the restoration of a vigorous world trading system with an expanding role for the LDCs. In the multilateral and institutional sense, this means filling the glaring gaps in the Bretton Woods system created by the failure of the ITO and the truncated and distorted functions of the IMF - truncated by not including world central banking, commodity currency and SDRs strongly "linked" with aid; distorted by having no powers to put pressure on balance-of-payments surplus countries. Really effective reform of MODA cannot be limited to MODA alone.

Furthermore, many of the problems affecting developing countries have been greatly accentuated by world and industrial countries' recession. The necessary reforms of the Bretton Woods system would not only need to make it more appropriate for the needs of the developing countries but also would have to provide a suitable framework for sustained world economic growth. Measures which would allow the international system to put effective pressures on surplus countries, though difficult to implement, would certainly imply a major contribution towards reducing the deflationary bias in the existing system. Other measures - like significantly expanded compensatory financing facility schemes - would not only help protect (through a low conditionality facility) developing countries from a deterioration in the world economic environment, but would, due to their significant counter-cyclical impact, diminish the possibility of such a pronounced world deterioration.

All this is not to say that expansion and institutional development of the MODA system could not have important benefits, many of them mutual benefits for donors and recipients. The gaps already mentioned in balance-of-payments support, programme lending, support for LILDCs, energy development, development of food production, as well as financing of regional projects and enlarged trade among LDCs, are all areas where the multilateral system, including the Regional Development Banks, have an obviously important part to play. Changes in policy of existing institutions are urgently required, e.g. new concepts of IMF conditionality designed to stimulate supply and not only discipline demand. This could be implemented by including amongst the conditions attached to drawings on the Fund's resources, the achievement of certain growth targets, as well as maintenance or (where possible) increase of real household income of the poorest strata as well as of public services directly linked to their welfare. At the same time, greater flexibility could be attached to macro-economic targets; macro-economic targets could be automatically revised in a previously agreed formula if the actual levels of world economic variables (e.g. interest rates) diverge widely from those assumed at the time of the programme agreement. The need for the latter has been recognized by all shades of opinion.

Not only should conditionality be made more appropriate to developing countries in the context of today's international environment, but also a more adequate balance should be attained between low-conditionality and high-conditionality Fund lending. Currently, excessive emphasis on the latter (about two-thirds) is both inadequate and inequitable (as it puts a greater burden of "adjustment" on those who rely on the Fund as lender of first, as well as last, resort).

Similarly, new techniques of guarantees, co-financing and possibly "re-discounting" debt need to be explored, which are more appropriate to existing circumstances. Better cooperation among existing institutions, specifically Bretton Woods/UN, Bank/Fund, Bank/Regional Development Banks, financial aid/food aid, is generally recognised as desirable/necessary, but seems a lot easier to preach than to practice. In addition, "new windows" are needed in existing institutions and some assurance that the new windows result in additional support rather than a reshuffling of a stationary volume under new labels. Finally, new institutions will be needed, partly to satisfy legitimate demands for different distributions of policy and management control. The precise mixture of reform, new institutions, new windows and expansion of existing windows should be the subject of genuine discussion without preconceived ideas, with negotiations focused on specific, concrete and agreed gaps and weaknesses in the present system. Purely ideological blueprints of any kind are not helpful and do not take us any further, as the history of the last ten years or so has amply documented.

Furthermore, existing facilities (e.g. compensatory financing and Extended Fund Facility) need to be expanded and made more functional to overcome the problems posed by the current conditions in the world economy.

FOOTNOTES:

1/ Speech by J. de Larosière, Managing Director of the Fund, on "The IMF and the Developing Countries", made at the University of Neuchâtel, Switzerland, on 3 March. Quoted in IMF Survey, 7 March, 1983. p.74.

2/ The counter-argument in favour of tying is that it strengthens political support for ODA and hence results in greater ODA flows. However, it should be possible to educate the public (and governments) of donor countries that they have nothing to lose (and both they and the recipients have something to gain) by agreed and coordinated untying.

3/ All quotations are from the latest annual report 1981/82 and the Press Release of the Food Aid Committee administering the Food Aid Convention.

4/ Realistically such an actual commitment analogous to the Food Aid Convention could perhaps be best achieved by limiting it first to the poorest countries and/or Africa, and then extending it to other categories. Such a commitment was given by "some" donors at the UN Conference on Least Developed Countries in September 1981 to reach a target of 0.15 per cent of GNP for the poorest countries. The commitment was however vague, as some countries were not willing to commit themselves to precise targets.

5/ Including also smaller amounts routed through other multilateral channels such as UNICEF, the UN High Commissioner for Refugees (UNHCR) etc.

6/ For this purpose the original IGC(Inter-Governmental Committee) administering the multilateral WFP was specifically renamed and reconstituted as the CFA.

7/ Equally in the case of financial MODA, there is also increasing over-lapping with non-official(non-govermental) organisations (NGO). For example, the World Bank established, in 1981, a Bank-NGO Committee with the function, among others, of considering ways to expand cooperation. NGOs both those based in DCs and in LDCs can receive a loan or grant from the receipient country's government out of the Bank loan to implement part of a Bank-financed project; or they can be independent partners implementing complementary activities to the Bank project; or they can act as consultants, trainers or advisers paid out of Bank loan money; or be partners in direct co-financing (e.g. in an education project in Liberia; a site-and-service (urban housing) project in Zambia; and rural development projects in Togo and Haiti).

8/ This problem is very clearly brought out in G.K. Helleiner's paper, "The IMF and Africa in the 1980s", Canadian Journal of African Studies, March 1983.

9/ Also from this perspective dominant today in the industrial countries' governments, inflation and balance of payments pressures (greatly accentuated in the 1970s by rises in the price of oil) should directly be overcome by greater fiscal and monetary restraints; again in this context ODA is a prime target for cuts, as it is perceived to damage less the national interest than cuts in other sections.

10/ This figures is reached in R.F. Mikesell, "The Economics of Foreign Aid and Self-Sustaining Development", prepared for the US Treasury/State Department/AID, February 1982, p.18.

11/ The distinction between "direct" and "catalytic" effects is also made by Mikesell, op cit.

12/ See, for example, Group of 24, Low Income Countries and International Monetary Sources, Report of a Group of Experts, January 1983; J. Williamson, The Lending Policies of the International Monetary Fund, Institute for International Economies, Washington DC, August 1982, Carlos Diaz-Alejandro, "International Financial and Foods Markets in 1982-83 and Beyond", International Economic Association Proceedings, March 1983. Such proposals are also highlighted in the new Brandt Report (Common Crisis) and in the forthcoming background paper for UNCTAD VI. For a detailed proposal for broadening the CFF, see S.Griffith-Jones, Compensatory Financing Facility: a Review of its Operations and Proposals for Improvement, Report to the Group of 24, January 1983, UNCTAD/MFD/TA/22.

13/ It is interesting that the developing countries are emerging as the principal defenders of the original principles, and more recently agreed adaptations of the Bretton Woods institutions (i.e. by calls to expand the IMF, to centre international liquidity on SDRs). This point is clearly made in G.K. Helleiner, "South-South Cooperation in the 1980s", forthcoming, Third World Foundation.

14/ The North-South Dialogue - Making it Work, p. 28, para. 2.26.

15/ Ibid.

16/ North-South: A Programme for Survival, Pan Books, pp 184-185.

17/ Ibid., P.186.

18/ Commonwealth Group of Experts, op cit, p. 38, para 3.20. As discussed above, the Brandt Report has in fact recommended that in administering the CCF the IMF should relax quotas, measure shortfalls in real terms and make repayment terms more flexible (op cit, p. 219).

19/ Ibid, p.14, para. 1.13 (III)

20/ Development Cooperation, 1982, p.33.

21/ Op cit, p.219

22/ Brandt Commission Papers, IBIDI, Geneva - The Hague, p.609. The paper from which this quotation is taken was prepared by Dragoslav Avramovic and Gerhard Thiebach.

23/ Ibid, p. 645

24/ Ibid, p.646.

25/ World Bank, Annual Report 1978, p.9.

26/ Common Crisis, The Brandt Commission 1983, Pan World Affairs, p.63.

27/ The quotations are all from a recent speech by the Fund's Managing Director in Switzerland, as reported in IMF Survey, 7 March 1983, p.71.

28/ This point is clearly brought out in Dudley Seers' "Preface" in S.Griffith-Jones, The Role of Finance in the Transition to Socialism, Frances Pinter, 1982.

29/ See, for example, Common Crisis, p.66.

30/ For example, see The Brandt Commission Papers, IBIDI, Geneva and The Hague, 1981, p.641.

31/ As distinct from the African Development Fund.

32/ The proposal for a World Development Fund is maintained in the second(1983) Brandt Report, "Common Crisis", which suggests the proposal "should have a secure place on the agenda of the Global Negotiations" (p.97).

33/ "North-South: A Programme for Survival", op cit, pp. 248-250.

34/ Ibid, p. 248.

35/ This latter possibility is in fact suggested in the Brandt Report, p.250.

36/ Quoted from IMF Survey, March 7, 1983, p.78.

37/ This latter possibility is suggested in Development Cooperation 1982 Review, OECD, Paris, 1982, p.82.

38/ A Proposal for Stepped-Up Co-Financing for Investment in Developing Countries, OECD, Paris, May 1979.

39/ International Financial Cooperation. A Framework for Change, Frances Stewart and Arjun Sengupta, ed.by Salah Al-Shaikhly, Frances Pinter (Publishers), London, 1982, p.103.

40/ At the time of writing, the problem of OPEC surpluses seems temporarily less acute, but there still remains the big volume of accumulated past surpluses.

41/ US Treasury, 1982.

42/ Common Crisis. North-South: Cooperation for World Recovery? The Brandt Commission , Pan Books Ltd., London, 1983, pp. 69-70.

43/ Ibid, p.70.

44/ Development Cooperation 1981 Review, OECD, Paris,1981, p.135. A number of data quoted in this section on LILDCs and agricultural ODA are taken from this source.

45/ Brandt Commission, 1983, op cit, p. 75.

46/ The magnitude of the impact of world recession on the LILDCs and proposals which would contribute to compensating them have been recently discussed in the Group of 24 document quoted above, Low-Income Countries and the International Monetary System, January 1983, UNDP/UNCTAD Project Int. 181/046.

47/ Accelerated Development in Sub-Saharan Africa, World Bank, Washington D.C., 1981; also quoted in Common Crisis, op cit, p. 76.

48/ IDA in Retrospect, published for the World Bank by Oxford University Press, 1982, p. 78.

49/ Ibid, pp. 57-58.

50/ Accelerated Development in Sub-Saharan Africa, op cit.

51/ Such criticisms for example are expressed in Common Crisis; for a more detailed critique, see for example IDS Bulletin, Vol. 14, No. 1.

52/ North-South: A Programme for Survival. The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, Pan Books Ltd., London, 1980.

53/ Ibid, p. 247.

54/ Ibid, p. 250.

55/ Ibid, p. 251.

56/ H.W. Singer, Terms of Trade Controversy and the Evolution of Soft Financing; early years in the UN: 1947-51, IDS Discussion Paper 181, November 1982.

57/ Brandt Commission, 1980, op cit, pp. 251 and 255.

58/ Ibid, p. 256.

59/ Ibid, p. 256.

60/ Ibid, p. 266.

61/ Brandt Commission, 1983, op cit.

62/ Brandt Commission, 1980, op cit, p. 253.

63/ Ibid.

64/ Ibid.

65/ However, in the poorest LILDCs the impact is larger. IDA alone in 1980 represented 4.5 per cent of the total investment. (Source: IDA in Retrospect, World Bank/Oxford University Press, 1982, Table 4, p.92.) This refers to the "Pure IDA countries" - the very poorest group.

66/ Paul Streeten, What new international economic order?, in Pakistan Journal of Applied Economics, Vol.1, No. 2, Winter 1982.