Official development flows

Since the end of World War II, a variety of ways to provide economic assistance to developing countries have evolved; these range from grants and highly concessional loans to loans on nearly commercial terms. The number of donors has also increased: most industrial countries, OPEC members, and centrally planned economies have become bilateral donors, while multilateral institutions include the World Bank, the regional development banks, the OPEC and European Community development funds, and some UN agencies. The evolution of these development-oriented official economic assistance flows—generally referred to here simply as official flows—is described in Box 7.1. These changes suggest an increasing recognition of the complexity of development and the desire to structure assistance accordingly.

The motives for these official flows range from the humanitarian desire to reduce poverty to the political, security, and commercial interests of suppliers. Underlying the general effort of donors to promote and accelerate the development process and alleviate poverty has been the recognition that many countries cannot get from private sources the external capital and other services they need. Development, particularly in the low-income countries, is a long-term process that requires investment in basic human, physical, and institutional infrastructure. Used to good effect, official flows—both concessional and nonconcessional—can enhance investment and growth in developing countries, increase global output and efficiency, and improve the long-term ability of poor people to increase their own incomes. In this process, developing countries' demand for imports from industrial countries also increases. Thus, if used effectively, the process benefits both donor and recipient.

Official flows, particularly concessional flows or official development assistance (ODA), have been especially important for low-income countries. During 1981–82 they represented 82 percent of the total net capital receipts of such countries.

With the growth of commercial lending and the

### Box 7.1 A brief chronology of official development flows

The years between World War II and the early 1970s saw:
- The creation of the International Monetary Fund and the World Bank, first agreed to at the Bretton Woods conference in 1944; the establishment in 1945 of the United Nations and its various specialized agencies which provide technical assistance to the developing countries; and the enactment in 1947 by the United States of the Marshall Plan which provided grants for the reconstruction of Europe. Between 1947 and 1951, the United States provided aid to Europe equivalent to 2.5 percent of the U.S. GDP.
- The gradual establishment and expansion of ongoing bilateral aid programs for developing countries. In 1951 the United States established the Point Four program which provided technical assistance to developing countries—initially capital funding was left largely to the private sector and the Export-Import Bank. In 1957 the United States set up the Development Loan Fund (the predecessor to the current U.S. Agency for International Development program) to provide concessional long-term project and nonproject loans. By the late 1950s the larger European countries also had in place ongoing aid programs. In 1961 the main donors set up the Development Assistance Committee (DAC) of the OECD as a forum for aid coordination and for discussion of development issues. The continued expansion in the number and size of bilateral donors can be seen in the fact that, while the United States in the early 1960s provided over 60 percent of total DAC bilateral development assistance and with three other countries (France, Germany, and the United Kingdom) accounted for over 90 percent, by the early 1970s the United States accounted for less than 30 percent of the total, and these four countries combined constituted less than 70 percent.
- In the late 1960s, the establishment by the United Nations of an aid target for donors of 0.7 percent of their GNP. Some donors strongly supported this target, some accepted it more as a statement of intent, but others specifically rejected it.
- The formation in 1958 of the aid consortium for India, the first of the country aid consultative groups.
- The creation of a concessional affiliate of the World Bank, the International Development Association (IDA), in 1960, reflecting an increasing recognition of the needs of the low-income countries.
"graduation" of some developing countries away from aid, the relative importance of these official flows to the developing world as a whole has shrunk. Nonetheless, they remain a large and relatively stable source of capital. In 1983 official flows still accounted for 40 percent of the total net capital receipts of all developing countries. Some $26.1 billion came in bilateral ODA; $7.5 billion in multilateral ODA; and $7.0 billion in nonconcessional flows from multilateral institutions. Not included in these official flow figures, and only briefly treated in this chapter, are (a) drawings from the IMF, which, although official, are generally treated as monetary transactions (see Box 7.6), and (b) export credits, which are viewed primarily as commercial transactions, although they receive official support (see Box 7.2). Another significant source of assistance for the developing world not

\[
\begin{align*}
\text{Box figure 7.1A: Net disbursements to developing countries by multilateral agencies} \\
\text{Billions of dollars} \\
\begin{array}{c|c|c|c}
\hline
\hline
\text{Concessional flows} & 6 & 4 & 2 \\
\hline
\text{Nonconcessional flows} & 6 & 4 & 2 \\
\hline
\text{IDA} & 0 & 2 & 4 \\
\text{Regional banks} & 0 & 2 & 4 \\
\text{EC/EIB} & 0 & 2 & 4 \\
\text{UN} & 0 & 2 & 4 \\
\text{OPEC} & 6 & 4 & 2 \\
\text{Other agencies} & 0 & 2 & 4 \\
\text{World Bank} & 0 & 2 & 4 \\
\text{Regional banks} & 0 & 2 & 4 \\
\text{EC/EIB} & 0 & 2 & 4 \\
\text{OPEC} & 6 & 4 & 2 \\
\text{Other agencies} & 0 & 2 & 4 \\
\text{World Bank} & 0 & 2 & 4 \\
\hline
\end{array}
\end{align*}
\]

Note: Data for regional banks comprise disbursements by the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. EC/EIB indicates the European Investment Bank of the European Communities.


- The establishment of the regional development banks: the Inter-American Development Bank (1959), the African Development Bank (1964), and the Asian Development Bank (1966).
  - The 1970s witnessed:
    - A rapid growth in official flows, from $11 billion in 1972 to over $42 billion in 1980. Even in constant 1982 prices and exchange rates, the increase was substantial—from $24 billion to $40 billion.
    - The spectacular growth of OPEC aid, with developing-country receipts of OPEC bilateral ODA jumping from only $450 million in 1972 to $4.2 billion in 1974 to a peak of over $8.7 billion in 1980.
    - A substantial growth of multilateral aid (see Box figure 7.1A), which increased its share of DAC donors' total ODA from less than 6 percent in 1965 to 15 percent in 1970-71 to 32 percent in 1977-78. The European Community's multilateral assistance programs became a significant source of finance. UN agencies also expanded their work, notably the UN Development Programme and the World Food Program.
  - The continued growth in DAC bilateral ODA, with developing-country receipts increasing from less than $6 billion in 1970 to over $18 billion in 1980.
    - The early 1980s have seen:
      - A fall in official flows of $2 billion to $41 billion, reflecting a decline of over 40 percent in the level of OPEC ODA. DAC countries' bilateral ODA stagnated.
      - An apparent shift in emphasis by donors toward bilateral assistance. Between 1980 and 1983, DAC contributions to multilateral financial institutions (including the EC) remained virtually unchanged in nominal terms. The proportion of total DAC ODA accounted for by multilateral agencies fell from a high of 32 percent in 1977-78 to 28 percent in 1982-83. Correspondingly, multilateral concessional flows, which are dependent upon donor contributions, have stagnated.
Box 7.2  Export credits

There are two basic forms of export credit: (a) supplier credits, which are extended by an exporter to his customer, and (b) buyer credits, which are credits extended to the buyer by somebody other than the exporter—usually a bank. Export credits become "official" when the exporter's government participates in the credit, either as a lender or as insurer or guarantor to the lender.

In 1980, gross disbursements of medium- and long-term official and officially supported export credits from DAC countries to developing countries totaled $35 billion (see Box table 7.2A). Net disbursements were $14 billion, or 14 percent of the net financial receipts of developing countries. Export credits currently represent a little over 20 percent of developing countries' long-term debt, and almost one-third of their annual debt service payments. For the low-income countries, they account for some 18 percent of long-term debt (the share of commercial debt is less than 10 percent) and nearly 40 percent of their debt service requirements.

Since 1981 the flow of export credits to developing countries has fallen sharply. In 1983, net export credits totaled about $8 billion—less than 8 percent of developing countries' net receipts. This decline reflected cuts in the investment programs of developing countries, as well as retrenchment by the export credit agencies themselves in response to operating losses. The falloff was particularly sharp for the low-income African countries, where disbursements of new medium- and long-term credits fell from over $1.25 billion in 1980 to only $250 million in 1983. Middle-income countries with debt-servicing problems have also found it harder to obtain export credits.

Although export credits tend to be concentrated on the main developing-country markets, they are more widely distributed among countries than bank lending has been. Approximately 25 percent go to low-income countries, 15 percent to lower-middle-income countries, and 60 percent to upper-middle-income countries. The credits have been a significant source of project finance for many developing countries, with interest and repay-

Box table 7.2A  Export credits to developing countries, 1970–72 and 1977–83
(billions of dollars, unless otherwise noted)

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</thead>
<tbody>
<tr>
<td>Net disbursements from DAC countries</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Official export credits</td>
<td>0.8</td>
<td>1.4</td>
<td>2.2</td>
<td>1.7</td>
<td>2.5</td>
<td>2.0</td>
<td>2.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Private export credits</td>
<td>1.9</td>
<td>8.8</td>
<td>9.7</td>
<td>8.9</td>
<td>11.1</td>
<td>11.3</td>
<td>7.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Total</td>
<td>2.8</td>
<td>10.3</td>
<td>11.9</td>
<td>10.6</td>
<td>13.6</td>
<td>13.3</td>
<td>9.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Total export credits as a percentage of developing-country total receipts</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>12</td>
<td>14</td>
<td>12</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Gross disbursements from DAC countries</td>
<td>7.7</td>
<td>22.9</td>
<td>27.7</td>
<td>28.7</td>
<td>34.9</td>
<td>36.2</td>
<td>32.9</td>
<td>29.9</td>
</tr>
</tbody>
</table>

Note: Data are for official or officially supported medium- and long-term export credits.
Source: OECD Development Co-operation.

Box 7.3  Nongovernmental organizations

Nongovernmental organizations (NGOs) have a long tradition of relief and development assistance. Such NGOs as Oxfam, Red Cross and Crescent, Misereor, World Vision, Caritas, and CARE are particularly active in supporting education, health and population services, rural and urban development, and small-scale enterprise development.

In 1983, NGOs from industrial countries provided about $3.6 billion in concessional aid. They raised about $2.3 billion from their own members and private supporters and received almost $1.3 billion in cash, services, and commodities from official aid donors. The largest NGO aid was from the United States ($1.9 billion), Germany ($547 million), Canada ($257 million), and the Netherlands ($128 million). These figures underestimate the real contribution of the NGOs, since they do not include the value of the services provided by volunteers—often a major element of the NGOs' efforts.

In the past few years, NGOs have put greater emphasis on development programs and less on relief assistance. They are trying to reach marginal groups, tackle widespread poverty at the grassroots, and strengthen popular participation in development. As a corollary, NGOs pay increasing attention to cost effectiveness, cost recovery, and evaluation of projects. They also recognize the need to coordinate their activities with other donors. Support for closer government-NGO cooperation in development is provided by bilateral aid agencies, international NGOs, and multilateral institutions such as the EC, the UNDP, UNICEF, and the World Bank.
ment profiles that often match the nature and characteristics of projects more closely than most bank loans do.

However, there have been many cases of export credits' supporting inappropriate and poorly designed projects, promoting an excessive amount of borrowing, leading to overpricing of goods, or being an instrument of corruption. In recent years several developing countries have used short-term export credits to finance their longer-term investments, thus exacerbating their external debt position. Such problems arise because the basic purpose of export credits is the promotion of exports, not development; and some developing countries do not have any machinery for reviewing and controlling the use of export credits.

In order to promote their exports, industrial countries have often provided credits on concessional terms. In the late 1970s, they sought to reduce the rapidly expanding use of subsidized loans. Under the OECD Consensus, they adopted guidelines on the terms and conditions of export credits, including minimum interest rates and maximum maturities. Many developing countries, however, view this agreement not as an effort to improve the quality of export credits, but rather as a cartel that reduces interest rate competition and increases the cost of export credits.

To increase the contribution that export credits can make to longer-term programs of structural reform and faster economic growth in developing countries, all governments need to address two issues: first, how to encourage export credit agencies to resume guarantees and insurance to developing countries that are implementing adjustment programs; and second, recognizing that the basic objective of export credit agencies is to promote exports, what steps to take to enhance the developmental impact of export credits. One key to both objectives may be to increase the availability and use of information on adjustment and investment programs of individual developing countries.

included are the private and religious relief agencies such as CARE, the Red Cross, and Catholic Relief Services; their role is discussed in Box 7.3.

Since 1980 the dollar value of the various types of ODA has stagnated or fallen (see Figure 7.1). On present prospects little or no real increase is likely for the foreseeable future. The recent decline has occurred in the face of a continuing need for substantial external capital flows and a slowdown in the growth of commercial lending. It highlights the need to ensure that external capital is put to the best possible use by the recipients. For that, the developing countries' own economic policies have an important role to play—an issue discussed in Chapter 4.

This chapter focuses on four issues.

- The basic arguments for official assistance and the way that the motives and objectives of donors can influence the effectiveness of their assistance programs.
- The criticisms that have been leveled against aid.
- The attempts that have been made to measure the impact of these official flows on development.
- Recent efforts to make aid more effective.

**Changing perceptions of development**

The nature of official flows is strongly influenced by the way that donors and recipients perceive development. The success of the Marshall Plan in the 1940s and 1950s led many to believe that a similar transfer of capital to developing countries would, despite their physical, human, and institutional limitations, achieve similar results. The early model of development therefore placed nearly total emphasis on increasing physical capital to raise production and income and to alleviate poverty. This strategy meant investing not only in
machinery and equipment, but also in physical infrastructure such as roads and ports. The World Bank, for example, devoted almost 50 percent of its lending in its first fifteen years to power projects and railroads; less than 10 percent went to agriculture, and none went directly to the social sectors.

In the 1950s and 1960s overall growth was the objective, and industrialization was regarded as its prime instrument. For political as well as economic reasons, many developing countries were convinced that a modern society meant an industrialized one. To achieve industrial growth, many governments opted for import substitution, using high tariffs and quantitative controls against imports. These policies distorted domestic prices and made the exchange rate increasingly overvalued. This in turn discouraged exports and encouraged the growth of inefficient industries. Agriculture was largely neglected. Some governments tacitly or explicitly relied on the ready availability of food aid, assuming that agriculture could be improved once industrial strength was ensured.

The longer these inward-looking development strategies persisted, the more evidence accumulated on the costs of these policies not only to the economy but also particularly to the poor. An increasing number of countries also started to show that the possibilities for expanding agricultural output and exports were larger than had been assumed. As a result, a more outward-looking, market-oriented approach to development increasingly became the standard. It also became increasingly recognized that the development of human capital was a critical factor in the promotion of development.

In the early 1970s some observers began to question the appropriateness of the conventional emphasis on overall growth. A number of economic studies of the relationship of economic growth and income distribution, as well as more casual observations of the incidence of poverty in individual countries, led some economists and aid supporters to conclude that the major beneficiaries of development efforts had often been the middle- and upper-income groups; growth had not ”trickled down” to the poor. These observations were an important element in the development of the so-called basic human needs approach. Some supporters of the approach saw a conflict between programs that sought to promote growth and those that sought to help the poor and therefore argued that development efforts needed to be directly targeted to the poor and to addressing basic needs—education, health, and nutrition.

For others, however, this was an artificial dichotomy: economic growth and improving the lot of the poor were not mutually exclusive goals; indeed, they were largely interdependent. Long-term economic growth was critically dependent upon increasing the productive capacity of the poor, including improving their health and education. At the same time, the ability of the poor to achieve a sustainable increase in income necessary to meet their basic needs depended on the economy’s ability to both grow and generate additional employment opportunities: redistribution was not enough. From this perspective, the issue was not one of equity versus growth, but rather the nature of growth. Supporters of this “growth with equity” approach have emphasized the need for a mixture of efforts, some aimed directly at the problems and constraints faced by the poor, others aimed at increasing growth and output and improving economic policies, which directly or indirectly benefit the poor. As a result of this debate, poverty alleviation has gained greater attention in the design and evaluation of development programs. For most donors, the demonstration that aid funds do in fact seek to address the basic long-term problems faced by the poor and do not primarily benefit the higher-income groups in recipient countries has been an important element in public and legislative support for aid programs.

The economic pressures of the past dozen years have highlighted the complexity of development. The differing achievements of developing countries have emphasized the critical role of their own economic policies, including (a) the cost of inefficient import substitution, price distortions, and consumer subsidies and the major contribution to growth and employment that can be made through open trade policies and realistic exchange rates and domestic prices, (b) the part that agriculture can play not only in boosting economic growth and strengthening the balance of payments, but also in raising the incomes and nutritional standards of the poor, and (c) the importance of developing a country’s institutional as well as its physical infrastructure.

The recent past has also raised questions about the flexibility of official institutions and flows in meeting the specific needs of developing countries. Such questions cover the ability and willingness of official institutions to support policy reform efforts, to finance local costs, to fund the maintenance and rehabilitation of existing capital, to help develop the institutional capacity of developing countries, or to finance critical imports. Also at
issue is the right balance between short-term and longer-term assistance and between different forms of assistance, including general balance of payments support and sector and project assistance.

**Rationale for official flows**

The economic case for official flows has two basic strands: efficiency and equity. These are often reinforced by a recognition of what is realistically possible given the economic, political, and social structure of the country.

The efficiency argument is based on the view that private markets for capital, technology, and other services do not provide the amount and type of resources most suited to the specific economic conditions and potentials of individual developing countries and to the efficient allocation of world savings. Official action and assistance, by complementing the flows from these markets, can improve the worldwide allocation of resources.

Rates of return on investment are often higher in developing countries, so providing these resources (concessional and nonconcessional) to them can yield higher future income not only for the recipients but also for the world as a whole.

Although private capital markets supplied large amounts of finance to middle-income countries in the 1970s, many countries, including those in the low-income category, had limited access to private capital. This limited access to private capital stems from several factors: (a) the existence of sovereign risk, which constrains the volume of lending; (b) industrial countries' regulations on their capital markets, which discriminate against overseas lending by certain financial institutions; (c) the nature of many investments in developing countries (particularly those in basic infrastructure), which yield high social returns, but may yield benefits that are not readily capturable or in the short run earn little or no foreign exchange with which to service foreign commercial loans; (d) inadequate information for lenders about investment opportunities and the capacity of developing countries to repay loans; and (e) the traditional objections of private banks to long-term funding.

This last point is particularly important. Many of the investments needed to ease the basic constraints on development—health, education, agricultural research, and some types of infrastructure—yield high returns. For example, the real rate of return on primary education in Africa has been estimated to be as high as 30 percent, and for secondary education over 15 percent. Numerous studies of agricultural research have indicated real returns well above the 10-15 percent range. However, these yields may be realized over a period of thirty to forty years, with no returns at all in the early years. This makes them unsuitable for private markets, so official help is needed at least during the initial stages of development.

Furthermore, economic development depends on more than just accumulating physical capital and improving human resources. It also requires institutional development, technology transfers and adaptation, and an appropriate framework for economic policy. Foreign private investment can provide a package that may include financial and physical capital, technology transfer, and managerial services. But, as discussed in Chapter 9, foreign investment not only has tended to be highly selective in its choice of sectors and countries, but also has been in limited supply. In addition, the types of technical services and resources needed are often not easily obtainable in private financial markets. Low-income countries, in particular, may also lack the technical skills to identify, evaluate, and acquire them. Official flows can be a vehicle for providing the combination of capital, technical assistance, and policy advice that developing countries need. Donors can help to build up institutions that can then make more effective technical and policy choices. By assisting in the creation of basic infrastructure, the development of institutions, and the promotion of market-oriented policies, official flows often encourage, directly or indirectly, inflows of private capital.

The efficiency argument provides the rationale for official action but says little about whether such flows should be on concessional or nonconcessional terms. One argument for providing official flows on concessional terms rests on equity considerations. Although concessional assistance is voluntary, in economic terms the line of reasoning can be viewed as a simple extension of the progressive taxation argument, whereby income transfers are made between rich and poor countries rather than between higher- and lower-income groups within a donor country. In this view, higher-income industrial countries can use part of their domestic tax revenues to fund transfers to the lower-income developing countries in order to improve directly the welfare of citizens in the latter and—through expansion of economic activity and trade—also indirectly increase world welfare. Concessional aid, compared with a similar initial financial flow on market terms, more effectively serves this
Given that the economic objective of official assistance is ultimately to improve the allocation of resources and to increase the rate of economic development, the form of assistance that will most effectively promote this objective can vary significantly among countries depending on the country's specific economic situation. It will also be influenced by the capabilities and strengths of the individual donor—of course, as the next section discusses, other donor motivations also influence the nature of assistance. From a development perspective the basic question is, What are the basic constraints to economic growth and how can official assistance help reduce or remove them? In many countries in order for existing and future investment to contribute effectively to increased economic growth, policy reforms are needed to remove economic distortions that prevent the efficient allocation of resources. Such policy reforms, however, generally take time to produce positive results while additional costs may arise very quickly. In such circumstances, nonproject assistance can both encourage the undertaking of the needed reform and provide rapidly disbursing resources needed during the transition process. Similarly, when countries face severe balance of payments and domestic budget constraints, efforts that help stabilize the economy and lay the foundation for future growth and investment can be a critical component of a package of actions and programs designed to assist the country. Such efforts can include: the financing of the importation of intermediate inputs, which will permit the use of existing private and public sector idle capacity, thereby quickly increasing domestic supplies and exports; and the financing of the maintenance and rehabilitation of existing investment. These types of assistance have been particularly important in many of the middle- and low-income countries, where the flow of private capital has typically declined with the onset of debt-servicing difficulties.

Donors' objectives

Donors supply official assistance for many different reasons: to assist the economic development of the recipient; to further their own strategic, political, and commercial interests; to maintain historical and cultural ties; and to express their humanitarian concern. This combination of objectives can affect the nature of official flows—and can seriously reduce the effectiveness of such flows in promoting development. The level, growth, and rela-
tive performance of different countries in the provision of concessional assistance, ODA, is illustrated in Figure 7.2 and Box 7.4.

Recent studies have demonstrated the role of nondevelopmental considerations in determining the distribution of ODA. Political interests undoubtedly played an important role in the allocation during 1981–82 of 39 percent of U.S. bilateral ODA to Egypt and Israel; of 38 percent of French ODA to four overseas departments and territories; and of 42 percent of OPEC members’ bilateral and multilateral ODA to two countries, Jordan and Syria. Similarly, the mineral resources of Zaire and Zambia are often cited as a significant commercial reason for U.S. aid to these countries.

The influence of nondevelopmental motives for aid is also highlighted by a comparison of bilateral and multilateral programs. During 1980–82 only 40 percent of the bilateral aid from the DAC countries and less than 20 percent of OPEC bilateral aid went to low-income countries, whereas two-thirds of all multilateral aid went to them.

In addition, DAC donors usually require the recipient to purchase goods and services in the donor country; this is not true for OPEC donors. This “tying” of aid covered some 43 percent of bilateral ODA from DAC donors in 1982–83, while another 11 percent was classified as partially tied. These figures probably understate the volume of tied aid, since informal arrangements often exist to place orders with donors. The result can be a lower quality of goods and services, often more expensive and less appropriate to the needs of the recipient. Studies on the costs of aid tying suggest that it reduces the value of development loans by about 15 to 20 percent, and in individual cases by much more.

In recent years, donors have increasingly used mixed credits (combining aid with export credits) to promote their commercial interests. Use of this financing mechanism can distort trade flows and reduce the effectiveness of aid (see Box 7.5).

In contrast, most procurement resulting from multilateral assistance is subject to international competitive bidding procedures. Indeed, one of the often-cited advantages of multilateral assistance is that it is generally far less influenced by nondevelopmental interests than is bilateral aid.

Does aid help development?

Foreign aid has always been controversial. Its critics believe either that it is often badly administered, severely reducing its ability to promote development and tackle poverty, or that it is harmful in principle. Those who object to aid on principle do so from two distinct viewpoints:

- One school derives from dependency theory, arguing that underdevelopment is not merely the absence of progress; it reflects active exploitation of the “periphery” by the developed market economies of the “center.” Aid is therefore a tool to
Box 7.4  OPEC economic assistance

Until 1973, only three OPEC members (Kuwait, Libya, and Saudi Arabia) were significant aid donors. Most of their assistance took the form of grants for budgetary support for Egypt, Jordan, and Syria; it averaged a little over $400 million a year in 1970–72. OPEC members’ aid for long-term development averaged between $40 million and $60 million a year before 1973 when it had two sources only: the Kuwait Fund and the Abu Dhabi Fund.

After the rise in oil prices in 1973–74, OPEC assistance increased dramatically. During 1974–77 net disbursements averaged more than $5 billion a year, almost 30 percent of total ODA from all sources. They also represented a much larger proportion of the GNP of OPEC donors than the aid from DAC donors, which was between 0.3 and 0.4 percent of GNP throughout the 1970s. In 1975 ODA as a proportion of GNP reached 7 percent for Kuwait, 8 percent for Saudi Arabia, 12 percent for the United Arab Emirates, and 16 percent for Qatar.

OPEC’s disbursements of ODA reached a peak in 1980 and have since declined by over 40 percent in nominal terms and in 1983 accounted for 15 percent of world ODA flows (see Box table 7.4A). This decline reflects in part the declining oil revenues and balance of payments position of these countries as well as the political conflict in the Gulf region. The sharpest falls have been from Iran, Iraq, and the United Arab Emirates. Kuwait and Saudi Arabia provided 90 percent of total OPEC aid in 1983.

OPEC donors kept more than 80 percent of their ODA in 1981–83 in bilateral programs. Over 85 percent of their geographically identified bilateral disbursements went to perpetuate the dominance of donors. If aid provides any benefits, these merely prevent unrest and keep developing countries in a submissive state.

• The other school claims that aid inevitably expands the role of government, distorts market signals, and finances some investments that the private sector would undertake if it were given the chance. Indeed, these critics would also argue that a liberalized private sector could provide all the resources needed for development, so aid is not justified.

Neither of these extreme views is convincing. The critics of aid offer little analytical evidence for their view, relying instead on anecdotal accounts of cases in which aid was used for nondevelopmental reasons or aid projects were badly designed. In essence, such criticism is about the way aid is implemented rather than its basic rationale.

The effectiveness of aid can also be analyzed as an empirical question. At the most general level, it should be noted that the progress made by many developing countries over the past thirty years is inconsistent with the charge that aid hinders development. Nor do the facts support the claim that aid fosters government control and undermines incentives. A number of early aid recipients such as Brazil, Colombia, Korea, and Thailand have grown rapidly and have thriving private sectors. Contrary to the expectations of dependency theorists, these and other countries that have adopted outward-looking policies have had the most success in raising income and improving gen-

Box table 7.4A  Concessional aid flows from OPEC members, selected years, 1970–83

(Net disbursements in millions of dollars)

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<tr>
<td>Kuwait</td>
<td>148</td>
<td>946</td>
<td>1,140</td>
<td>1,154</td>
<td>1,168</td>
<td>995</td>
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<td>Saudi Arabia</td>
<td>173</td>
<td>2,756</td>
<td>5,943</td>
<td>5,664</td>
<td>4,028</td>
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<td>United Arab Emirates</td>
<td>77</td>
<td>1,046</td>
<td>909</td>
<td>811</td>
<td>402</td>
<td>100</td>
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<tr>
<td>Other OPEC donors</td>
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<td>1,153</td>
<td>1328</td>
<td>645</td>
<td>243</td>
<td>444</td>
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<td>Total</td>
<td>398</td>
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<td>9,589</td>
<td>8,525</td>
<td>5,891</td>
<td>5,476</td>
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<tr>
<td>Total as a percentage of GNP</td>
<td>1.18</td>
<td>2.92</td>
<td>1.80</td>
<td>1.51</td>
<td>1.06</td>
<td>1.05</td>
</tr>
<tr>
<td>Total as a percentage of world ODA</td>
<td>4.8</td>
<td>28.3</td>
<td>24.0</td>
<td>22.7</td>
<td>15.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Arab states total as a percentage of their GNP</td>
<td>4.04*</td>
<td>8.50</td>
<td>4.48</td>
<td>3.45</td>
<td>2.65</td>
<td>2.98</td>
</tr>
</tbody>
</table>

a. Preliminary.

b. Average of the aid-giving countries.

Source: OECD Development Co-operation.
Arab countries and 10 percent to non-Arab African countries. More than half of all OPEC bilateral aid goes for general budgetary support, and less than one-fifth for project assistance.

Within their bilateral programs, four of the OPEC donors (Abu Dhabi, Iraq, Kuwait, and Saudi Arabia) have established National Funds that administer a significant part of their project assistance. These National Funds have an authorized capital of $16 billion. They disbursed slightly less than $600 million in 1983, down from nearly $900 million in 1980.

Of the 15 to 20 percent of total OPEC aid that is channeled through multilateral organizations, 40 percent goes to multilateral institutions with a broad membership; IDA and IFAD are the main recipients. The remaining 60 percent goes to multilateral agencies established by OPEC members. The largest is the OPEC Fund, which received 30 percent of OPEC multilateral contributions. Other significant agencies are the Arab Fund for Economic and Social Development, the Islamic Development Bank, and the Arab Bank for Economic Development in Africa (BADEA). These four institutions have an authorized capital of close to $10 billion. They disbursed an average $360 million a year in net ODA between 1981 and 1983.

The assistance offered by OPEC to the developing countries in the future will continue to be influenced by its liquidity position. Given present prospects for oil prices, the volume of OPEC aid commitments may not register significant growth in the next few years. However, the level of aid disbursements by OPEC members is likely to decline less rapidly than their commitments for some time, reflecting the lag in the former. Moreover, the lending levels of the development institutions created by OPEC members, because they have their own capital endowments, may not experience as sharp a decline in lending as OPEC government-to-government programs.

It is also true that governments have a central role to play in developing countries in building the basic infrastructure, administration, and human skills needed for long-term growth and in creating an environment in which the private sector can expand—a fact generally ignored by the ardent antigovernment critics. As noted earlier, a significant quantity of official assistance has been directed to developing basic infrastructure, which is an essential precondition for a modern private sector. Assistance has also been used to finance imports that have permitted the liberalization of the country's trade regime and to promote other critical economic policy reforms aimed at improved efficiency and increased reliance on market forces and private initiative. Furthermore, a large proportion of aid directly supports private sector activity: for example, aid to agriculture generally benefits private farmers, and much of the money put into development finance institutions is channeled into private industrial investment. Official donors, particularly the MDBs, have also directly encouraged private sector flows through their cofinancing with the private sector.

The role played by official assistance in support of the private sector is substantiated by the analysis and conclusions of the 1982 study by the U.S. Treasury Department of the multilateral development banks (MDBs). The study identified only 8 percent of MDB loans supporting public sector activities that would clearly have been supplied by the private sector in an economy like that of the United States. The study noted that even this 8 percent may be an overestimate, since such activities might not have been undertaken at all without MDB financing, given the small size of the private sector in most developing countries. The study also concluded that overall the MDBs' policy approach and advice have taken a fairly conventional market orientation.

Over the years many studies have tried to identify more precisely, and if possible to quantify, the impact of aid on development. The biggest and most systematic attempts have been those that evaluate individual projects. In the case of the World Bank, for the past ten years each of its completed loans and credits has been covered by a Project Performance Audit Report or Project Completion Report. The results are largely favorable. For 504 projects where it was feasible to reestimate economic rates of return, returns of 10 percent or better were expected from 79 percent of the projects. The average return, weighted by project cost, was almost 18 percent. By sector, returns averaged more than 20 percent in agriculture, 18 percent in transport, and a little less than 13 percent in industry. For 459 projects for which rates of return were not estimated at the time of project appraisal, 93 percent were judged substantially to have achieved their main objectives. Overall, only 14 percent of the projects, accounting for 9 percent of total investment, were judged at the time of audit to be unsatisfactory or uncertain in outcome. Although rates of return have not differed much between the loans to the low-income countries made by IDA and those from the IBRD to the less poor countries, the number of projects with inadequate rates of return has recently been growing. These have been mainly in agriculture and in Africa.
Box 7.5 Mixed credits

The term mixed credit usually refers to loans that are a combination of aid and government (or government-guaranteed) trade credits that are given to finance specific exports from the lending country. Until the late 1970s, mixed credits were only a small fraction of total aid budgets and export credits; the main exception was in France, which used mixed credits as a standard part of its aid program. However, with recession and balance of payments difficulties in the late 1970s and early 1980s, all industrial countries came under increasing domestic pressure to use mixed credits to promote exports and to match the mixed credit offers of other donors.

Data on mixed credits are sketchy. The DAC is seeking to increase the availability and quality of data on the use of “associated financing” credits, a concept that covers all trade financing in which some ODA is included but which is composed primarily of mixed credits. Although mixed credits have been estimated to have totaled less than a quarter of a billion dollars in 1975, some $10.5 billion of associated financing was reported by fifteen DAC countries for 1981–83. The amount of ODA involved in these associated financing transactions totaled $3.1 billion. France accounted for 45 percent of the total, followed by the United Kingdom with 23 percent, and Italy and Japan each with 9 percent.

Since mixed credits are largely based on commercial considerations, they could easily dilute the development impact of a donor’s program. Mixed credits can divert funds to capital-intensive and import-intensive projects—such as transportation, telecommunications, and power generation. They have a built-in bias against projects and programs with a low import content, such as rural development or primary health care, and in particular against local cost financing. In 1981–83, energy accounted for 30 percent of associated financing transactions; industry and transport for 20 percent each; food and agriculture for 10 percent; but health and social infrastructure for only 2 percent. Similarly, exporters are keen to extend mixed credits to middle- and high-income countries where trade competition is greatest, which would shift aid away from the low-income countries.

Supporters of mixed credits have argued that mixed credits can promote development by “stretching” ODA; increase the total flow of finance to the developing world; improve the quality of export credits by bringing the judgment and monitoring of aid agencies to bear; reduce the cost of finance for countries with limited debt-servicing capacity; and provide more appropriate, less concessional financing terms for middle-income countries. The merits of these points, however, remain in dispute. Not only is there little evidence that aid stretching actually occurs, but also opponents have argued that such effects could be attained more effectively through other mechanisms, such as the direct allocation of a limited volume of aid to a country. Reflecting the concern over the potential distortion of aid and trade that can result from mixed credits, the DAC in June 1983 adopted “Guiding Principles on the Use of Aid in Association with Export Credits and Other Market Funds.” The objective of these guidelines was to avoid aid and trade distortions by increasing the transparency of such transactions and strengthening the deterrent to the possible diversion of aid resources to purposes that are primarily commercial. In 1984 the DAC adopted measures to improve the reporting by members of associated financing transactions, and in April 1985 the ministers of the OECD agreed on reinforced notification and consultation procedures and an increase in the minimum permissible grant element for such transactions. Supportive of DAC objectives, the World Bank has recently established a cofinancing “framework” agreement with one member country, which involves, among other flows, mixed credits.

The Inter-American Development Bank (IDB) and the Asian Development Bank (ADB) have also evaluated samples of their loans. Their results are broadly similar: 60 percent or more of their projects met their objectives fully; about 30 percent partially did so; well under 10 percent were unsatisfactory or marginal. Several bilateral donors have also developed evaluation programs. These generally do not place as much emphasis on the quantification of project results. However, those studies that have looked at the impact of particular projects have usually found a substantial measure of success.

Even where failures do occur it is important that they be placed in perspective. A significant proportion of aid has been provided to countries at low levels of development with weak institutional and managerial structures. Investments, whether undertaken by private or official sources, are therefore more risky than those in more advanced countries. Furthermore, the innovative or experimental nature of some activities adds to their risks, but the lessons derived from these efforts, both successes and failures, can be critical to the design and implementation of future projects.

To judge the cumulative impact of individual projects, and donors’ contributions to policy, studies of countries would obviously provide a better guide. They too involve problems, the most fundamental being the question of what would have
happened in the absence of aid. Two recent studies—one supported by the U.S. Department of State (Krueger and Ruttan 1983) and the other carried out for the Development Committee of the World Bank and the IMF—analyzed the role of aid in promoting economic growth in, together, close to a dozen developing countries. They note that the impact of aid has varied considerably from country to country and over time. They identify areas in which results could have been improved. But both conclude that aid has generally brought long-term benefits to recipient countries.

Another inescapable conclusion of these studies is that much depends on the recipient's policy framework and institutional strength, both areas where official assistance is actively involved. To take some well-known examples, growth in Korea accelerated sharply when the government adopted more liberal trade and industrial policies; the performance of Ghana until recently has been as different from neighboring Ivory Coast as its policy regime; India's faster growth in recent years results in part from its policy reforms in 1980; and the general lack of progress in sub-Saharan Africa has its roots in part in institutional and policy failings that governments there increasingly recognize.

Another factor that shows up repeatedly in country studies and project evaluations is the time it takes for investments to produce results, and hence the importance of perseverance. In Korea, secondary education programs undertaken in the 1940s and 1950s seemed to yield relatively low returns at first; the same was true of overseas training programs in the 1960s and transport and power investments in the 1950s and early 1960s. Yet they all clearly contributed to the country's rapid growth from the mid-1960s onward. The extensive assistance to India's agriculture began as early as 1950, and for years did not seem to be producing beneficial results. But it developed the necessary institutional framework for adopting the high-yielding grains of the green revolution.

Both the detailed assessments of individual projects and the broader studies of particular countries provide strong support for the view that aid can and often does contribute effectively to development. Where they have demonstrated the shortcomings of aid, they have been a valuable spur to making it more effective—the aid process indeed has involved a large component of learning from experience. One of the major objectives of donor evaluation programs is in fact to identify and disseminate the lessons from successes and failures.

The effectiveness of dissemination not only among donors, but also within aid institutions is, however, considered by many to be inadequate. Lessons learned from aid assessments need to be exchanged among donors and transmitted to aid project managers to a much greater extent than currently occurs.

Much remains to be done to ensure the best use of aid flows, particularly in low-income African countries. One important aspect of Africa's economic crisis is the low rate of return on its capital investments, which have been extensively financed by external assistance. Many donor-financed projects have taken much longer to complete than anticipated and have been much more expensive. These startup problems have frequently been followed by disappointing operational performance due to a lack of staff, equipment, and materials and to poor maintenance and administrative weaknesses. In the worst cases, new aid has been needed to rehabilitate projects completely. It is from this perspective that donors are seeking to structure their assistance to more effectively address the problems faced by the low-income countries.

**Improving the effectiveness of aid**

Economic difficulties in developing countries and the budgetary constraints of donors have focused attention on increasing the effectiveness of official aid. Donors have responded in three related ways: (a) by putting greater emphasis on policy reform in recipient countries; (b) by developing flexible instruments to meet the specific needs of recipients; and (c) by coordinating their assistance programs more closely.

**Emphasizing policy reforms**

The need for policy reforms, highlighted by the external shocks that have affected many developing countries in the past dozen years, is now common ground between donors and recipients. The recent World Bank report entitled *Toward Sustained Development in Sub-Saharan Africa* observed that: "Neither the essential objectives of Africa's development nor the policy issues that must be addressed to achieve them are in dispute, . . . the emerging consensus on policy issues dwarfs any remaining areas of dissent" (pp. 2-3). There remain, of course, questions about the timing and detail of these reforms as well as the finance that donors will provide for support.
The IMF has often played a key role in promoting policy reform in countries facing severe balance of payments problems (see Box 7.6). The scale of its financial assistance has increased enormously in the past five years. Between 1981 and October 1984, developing-country net drawings from the IMF totaled almost $26 billion. At the end of October 1984, thirty-one developing countries had programs with the IMF, involving a total of SDR 13 billion. Many developing countries, however, face large and growing repayments obligations to the IMF. For example, sub-Saharan African countries will have to repay to the IMF about $1 billion a year over the next few years.

Given that IMF financing is relatively short term, it needs to be complemented by longer-term concessional and nonconcessional finance from private and official sources. To provide longer-term support for policy reforms, the World Bank in 1981 launched its structural adjustment loan (SAL) pro-

Box 7.6 IMF lending, its role, and its size

The International Monetary Fund’s first financial operation was in 1947. Since the early 1960s, its main instrument for assisting member countries has been the standby arrangement. Under a standby arrangement, the IMF agrees to make available during a certain period (usually a year, but it can be up to three years) a specified amount of its resources, which the member may use in support of an agreed program of economic adjustment designed to reestablish a viable balance of payments position. Drawings are phased over the life of the arrangement and are contingent on the country’s fulfillment of its program. Since the first standby arrangement in 1952, the IMF has approved 548 standby arrangements for a total of SDR 50 billion (one SDR currently equals about one dollar).

During the 1960s, governments believed that the supply of international reserves was likely to become inadequate. They therefore agreed to create a facility in the IMF for a new international reserve asset, the special drawing right (SDR), which is allocated to IMF members in proportion to their quotas. Since 1969 the IMF has allocated SDR 21.4 billion in SDRs.

After the adoption of floating exchange rates by most major countries in the early 1970s, and the amendment of the IMF Articles of Agreement in 1978 to permit arrangements of a member’s choice, the IMF was given new responsibilities with regard to the firm surveillance of the exchange rate policies of members and the domestic policies impinging on exchange rates. The IMF carries out its surveillance mainly through annual consultations with most members, assessing all aspects of members’ economic and financial policies that might have an impact on exchange rates.

In addition to the standby arrangement, the IMF has established other facilities in response to members’ specific needs. In 1963 the Compensatory Financing Facility (CFF) was set up, allowing members to make drawings on the IMF to support their balance of payments when they faced temporary shortfalls in their exports. This facility has been liberalized several times, both in the access to resources that it provides and in the range of compensable shortfalls, which now include exports of services and cereal imports. Drawings under the CFF grew dramatically during the late 1970s and early 1980s, reaching SDR 2.6 billion in 1982 and SDR 2.8 billion in 1983. In 1969 the IMF established the Buffer Stock Financing Facility, which allows members in balance of payments difficulties to draw on the IMF to finance their contributions to international buffer stocks that meet certain criteria. The use of this facility has been very limited.

The IMF has also recognized that a short-term standby arrangement is not always the most appropriate form of assistance for members having deep-seated balance of payments problems. In 1974 it created the Extended Fund Facility (EFF) to provide larger loans in support of three-year adjustment programs for members whose balance of payments problems were occasioned by a distorted structure of production and trade, with widespread cost and price distortions. To date, the IMF has approved thirty-three extended arrangements for a total amount of SDR 24.5 billion.

The IMF has also temporarily adapted its policies in response to specific problems arising in the international economy, as in the case of the IMF oil facilities of 1974 and 1975. Similarly, in response to the particularly difficult balance of payments and adjustment problems of many of its members in the past five years, members’ quotas in the IMF were again increased both in 1980 and 1983. They now total over SDR 89 billion.

Access to the IMF’s resources has been expanded, first under the Supplementary Financing Facility (SFF) and more recently under the enlarged access policy. Members’ access to IMF resources under standby and extended arrangements was traditionally a maximum of 25 percent of quota a year, with a cumulative maximum of 100 percent of quota. It can now go as high as 95 or 115 percent of quota a year, with cumulative net limits of 408 or 450 percent of quota, depending on the seriousness of the balance of payments need and the strength of the adjustment effort. In addition, for a number of heavily indebted countries under severe balance of payments pressures, the IMF has also recently helped mobilize additional assistance from official and commercial sources.

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gram. This involves close collaboration with the borrower in developing policies and programs for restructuring the economy. To date, SAL programs have been negotiated in sixteen countries, including six in Africa. Other donors have encouraged the Bank to work with developing countries on such programs, sometimes reinforcing the Bank's efforts through their own bilateral programs. In principle, donors recognize that nonproject aid can sometimes be the most effective way to support policy reforms and to finance the imports an economy needs for completion, rehabilitation, and maintenance of existing projects. On one estimate, up to a third of total ODA is for nonproject assistance. A large part of this aid is special-purpose assistance, such as disaster relief, food aid, and debt relief.

However, most donors still prefer to finance specific projects. Project lending is a highly effective form of assistance. Apart from finance, it provides countries with institutional support and other technical assistance that many badly need. However, the preference for project lending, coupled with a lack of aid coordination, can produce an inordinate proliferation of projects, straining the financial and manpower capacity of recipient countries to implement, monitor, and maintain them. For example, Kenya in the early 1980s was trying to cope with 600 projects from sixty donors. Similarly, the UNDP has estimated that there were 188 projects from fifty donors in Malawi; 321 projects from sixty-one donors in Lesotho; and 614 projects from sixty-nine donors in Zambia. In such numbers, the effectiveness of aid can be severely reduced; in sub-Saharan Africa, the proliferation of projects may actually have undermined the development effort of individual countries. The keys to dealing with this problem are the formulation of well-articulated investment programs by recipient countries and coordination by donors of their activities (discussed below).

Meeting the needs of recipients

The distinction between project and nonproject lending should not be exaggerated. Indeed, they can be viewed as part of a spectrum of assistance. Several donors, including the World Bank, have created a variety of flexible forms of assistance, tailored to the specific needs of the recipient. The World Bank adopted a Special Action Program in 1983, which concentrated on accelerating disbursements to rehabilitate existing capacity and complete priority projects in response to the urgent needs of developing countries. Bilateral donors have also funded the local and recurrent cost component of projects in individual cases. In 1979 DAC adopted its "Guidelines on Local and Recurrent Cost Financing" and in 1982 supplemented these with "Guidelines for Maintenance and Strengthening of Existing Services and Facilities." Direct financing of local costs by DAC members, however, still averages only about 8 percent of their ODA.

One challenge for all donors is to increase the proportion of concessional assistance going to low-income countries. There has been some progress in increasing the level and share of concessional assistance going to low-income Africa. Its share of total ODA has increased by roughly five percentage points since the mid-1970s, to approximately one-fifth of the total today. This increase, however, seems to have come largely from a shift of aid away from other low-income countries, such as India, not from middle-income countries. India and China, which account for 50 percent of the developing world's population, now together receive only 10 percent of the total net flow of ODA. The reduction in the level of IDA resources provided by the current replenishment represents a further serious constraint to expanding concessional flows to the low-income countries (Box 7.7).

The need for more aid for Africa was highlighted in the recent World Bank report on sub-Saharan Africa mentioned earlier. The report recommended additional assistance to support policy reforms, structural adjustment, and rehabilitation, and donors have responded by recently committing some $750 million in direct contributions and about $500 million in special joint financing for the World Bank's Special Facility for Africa. Several bilateral donors have also increased their African programs. The United States "economic policy reform program" would provide additional aid up to $500 million over five years to African countries that undertake to reform their price structures and other policies. Commitments to the African Development Fund of the African Development Bank for 1985–87 are up by 50 percent ($500 million) over the previous replenishment. But the resources provided by these initiatives will still fall short of requirements, and projections still indicate a decline in the net concessional capital flows to these countries over the next several years.

Coordinating assistance

Effective coordination among donors, and
between donors and recipients, is needed to avoid duplication and proliferation of projects, to share information and experience, and to increase the overall impact of aid efforts. Yet coordination has often been superficial at best, and many low-income countries have not developed their own machinery to coordinate aid flows and programs. Donors and recipients have increasingly recognized this need and have started to act on it. The World Bank is now taking action to increase the number of consultative groups in sub-Saharan Africa from the current eleven to possibly as many as eighteen. Existing consultative groups are paying special attention to sectoral problems and to improving their coordination within the countries concerned (see Box 7.8).

Despite these efforts to improve the effectiveness of aid there remain significant barriers. Non-developmental motives still play a major role in aid programs. They can sometimes stand in the way of multilateral institutions’ efforts to promote a policy dialogue with aid recipients. A high proportion of aid remains tied; if anything, its share is increasing, particularly through the use of mixed credits. Although donors have recently tried to negotiate a framework for reducing mixed credits, the results of their efforts are unclear.

Finally, the overall level of aid is a major cause of concern. The low- and middle-income oil-importing countries now face serious debt and balance of

Box 7.7  IDA

The International Development Association (IDA) is currently the largest single multilateral source of concessional assistance for low-income countries. While the terms of IDA are highly concessional, its projects are generally identical in scope and rigor to IBRD projects. Since its inception, twenty-seven countries have graduated from IDA to IBRD lending, and thirteen countries, including India, receive a blend of IBRD and IDA financing.

Following its establishment in 1960 with an initial subscription of $750 million, IDA’s resources have been augmented through seven replenishments totaling $40 billion. The association provided 5 percent of net ODA flows during 1979–83 to eligible countries, namely, those with 1983 GNP per capita of $790 or less. Within the eligible group, IDA has concentrated its lending in the poorest countries. Over 80 percent of total commitments since 1960 have been made to countries with 1983 per capita incomes below $400. In 1981–83, this share of IDA commitments increased to 89 percent.

Since the beginning of the 1980s, IDA’s resources have become increasingly constrained, because of slower than anticipated contributions to the sixth replenishment (IDA 6) and, more recently, because of the reduced size of the seventh replenishment (IDA 7)—$9 billion compared with $12 billion for IDA 6. These reductions have caused a decline in IDA lending, in current dollars, from an annual level of $3.8 billion in 1980 to $3.2 billion on average over the subsequent three years. A further decline in real annual lending is in prospect over the next several years.

In 1980 China joined IDA and became eligible for IDA credits. This addition, coupled with the overall decline in IDA lending, produced a sharp fall in per capita lending levels from an average of $2.24 between 1978 and 1980 to an average of $1.47 in 1984. Under the IDA 7 replenishment per capita lending is expected to decline further, to an average of $1.15.

In order for IDA to concentrate its resources on the poorest countries, it has been necessary to put a ceiling on its lending to those recipients economically capable of servicing funds on harder terms. These countries, which receive a blend of IDA and IBRD loans, include India and China and would on a strict application of IDA’s allocation criteria receive three-quarters of its resources. The ceiling has reduced their share substantially below that, and it will fall further during the IDA 7 period, with India’s share being reduced and China’s share being increased.

The 1980–83 period was also characterized by increased external financing requirements on the part of a number of IDA recipients, particularly those in sub-Saharan Africa. The plight of sub-Saharan African countries has been recognized by IDA in its shift in allocation toward these countries in recent years. Lending to this region has increased to an average of 32 percent of IDA commitments between 1981 and 1984 from 24 percent in the previous three years. Further increases are planned. On a per capita basis, IDA lending to sub-Saharan African countries increased from an average of $2.10 over the 1978–80 period to an average of $2.79 over the 1981–84 period. Because of the sharply reduced resources of the seventh replenishment, per capita lending to sub-Saharan African countries is expected to remain about the same as during the early 1980s.

In recognition of the resource needs of low-income African countries, a meeting of donor countries in January 1985 agreed to establish a Special Facility for the region. This facility, which will be administered by IDA, is important to maintaining adequate levels of concessional assistance to some of IDA’s poorest recipients. These funds along with IDA credits will support policy dialogue with governments on sectoral and institutional adjustments that are critical for their economic development.
payments problems, a result in part of their reliance on commercial borrowing, particularly short-term trade credits, to finance long-term development requirements during the 1970s. For low-income Africa debt service has reached about 20 percent of export earnings, and for middle-income oil-importing countries 25 percent. This necessitates difficult stabilization and adjustment programs. These countries will need substantial flows of official assistance to undertake, maintain, and extend these policy reforms and support the efforts to restructure their development and investment programs. Current trends, however, point to (a) a substantial drop in net capital flows to low-income countries because of a stagnation of gross flows in nominal terms and the substantial growth in debt service, and (b) a continuing overall stagnation in assistance levels or at best a small increase. As a result, many developing countries may face an undesirable choice: either they try to borrow more from commercial sources, running the risk that their debt-servicing burden will become unsustainable, or they retrench even more, creating further economic dislocation, losing the opportunity to make better use of their existing resources, and by cutting investment harming their long-term economic potential. For many of these countries this could translate into little if any increase in per capita incomes over the remainder of the decade. Both courses imply increased hardship for people living in the developing countries. They also threaten an unnecessary loss in efficiency and global economic growth.