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USA-Europe: Conflict over Development Financing?

The recent discussions in the Joint Development Committee of the World Bank and the International Monetary Fund in Helsinki have shown that the degree of agreement between the USA and Europe on development policy is becoming increasingly smaller. The way is possibly being paved for a conflict which will be fought out at the cost of the poorest sections of the world's population.

The subject of the controversy is the financing of the International Development Association (IDA), which was founded in 1960 at the instigation of the USA as a legally independent organisation, whose business is, however, conducted by World Bank employees. As opposed to the World Bank, the IDA grants credits over a longer period of time (50 years), with a longer grace period (10 years) and demands no interest apart from a service charge of 0.75 % on the disbursed portion of each credit. It was to be the task of the IDA to grant credits to those countries which are so poor that they cannot even afford World Bank loans, much less have the possibility of borrowing on the international capital markets.

But such an offer of aid has its snags. Since the poverty in the Third World is great, the demand for such credits is naturally large. The initial subscription did not last for long and had repeatedly to be replenished by the countries of Group 1, i.e. principally by the industrialised countries. The current Sixth Replenishment for the period 1981-1983 has proved to be the most difficult to date. It was decided in March 1980 to replenish the IDA funds to the tune of US \$ 12 billion. The USA agreed to provide US \$ 3.2 billion, i.e. 27 %. The Federal Republic of Germany was willing to provide a further 12.5 % or US \$ 1.5 billion. But the Reagan Administration then showed little initiative in bringing this commitment through Congress. Rather, the annual tranches were reduced and the time-period for the Replenishment increased by one year. Up to the present, Washington has altogether transferred about 40 % less than originally promised.

The agreements on the Replenishment allow the remaining donor countries, that is, especially, Western Europe and Japan, to reduce their planned contributions to the same extent as the USA. The aim of this agreement is the maintenance of the original burden sharing. This is precisely what the remaining donor countries had in mind in their first reaction to the behaviour of the USA, when they decided to reduce their contributions for the IDA financial year 1981/82.

In the meantime it appears, however, that a change of opinion is taking place in Europe and elsewhere. Not only are some countries prepared to forego a reduction of their IDA contributions in the current year, but a discussion took place in Helsinki on the plan to launch a Special Fund. France, supported by Canada and the Netherlands, proposes that the remaining IDA-creditors should pay the difference between their inpayment obligations to the IDA and their actual inpayments into a Special Fund under the auspices of the World Bank Organisation. The most important aspect of this proposal is that only those countries which make payments into the Fund are to be allowed to tender for projects being financed by the new fund. America would thus have succeeded in enforcing the relief of its financial burden but would no longer profit from possible returns in the form of contracts.

Perhaps some countries only want to use a favourable moment to change in their favour the situation in the multilateral development organisations, World Bank and IDA, which – in their opinion – have up to now been too strongly dominated by the Americans. It is also possible that this proposal has simply been pulled out of the political bag of tricks because it is believed that signs of a change of opinion are also to be found in the USA and that this process can be speeded up by the exertion of a little pressure. The American Secretary of the Treasury stated unmistakably in Helsinki, however, that the attitude of his government remains unchanged.

The West German government is, for the time being, still keeping to its plan to reduce its contribution and extend the payment period. But the Minister for Economic Cooperation also clearly criticised the behaviour of the USA in Helsinki. Germany would like to place more funds at the IDA's disposal than it is doing at present. It is thus becoming clear that Europe – as opposed to the Reagan Administration – is sticking to the IDA, and fully accepts its function for development policy.

For many Europeans, the IDA is a symbol of the development policy which was introduced by McNamara's address to the Board of Governors in Nairobi. "Poverty-oriented strategy", "integrated rural development" and "basic needs" are the slogans which are associated with the IDA. The development aid policies of many European countries, including the Federal Republic of Germany, are guided by these ideas. For the American government under President Reagan, such a policy is simply "social security" and therefore unproductive and a waste of capital – something which they can just as ill-afford as the excessive social expenditure in their own country. The reduction of funds, the demand for support of private investment and for the encouragement of market forces are the consequence.

The World Bank group under its new president opposed these arguments and was assisted in this by the supporters of its hitherto existing lending policy. It was emphasised, above all, that the criteria for the granting of IDA credits were just as strict as those of the World Bank. Macroeconomic and financial returns were, as a result, just as large as in the case of World Bank projects, and often even larger.

If this is the case – and the reviews of the independent Operations Evaluation Department of the World Bank allow no doubt about it – then one must ask why no interest can be demanded in the case of such large returns, since a considerable surplus would still be left over for the debtors. And one must ask why the World Bank is satisfied with less profitable projects, especially in the rural sector. This is even more surprising in view of the fact that the IDA credits have to be justified by income ceilings, but a large proportion of the poor are to be found in countries whose per capita income is over and above the foreseen ceilings. Furthermore, these ceilings will certainly have to be brought down or supplemented by other criteria, since with the accession of the People's Republic of China the IDA now has an applicant for credit which, because of its problems and its political importance, demands that it be treated similarly to India which has taken up the lion's share – at about 40 % – of the IDA credits. Finally, one must ask if the effects of such poverty-oriented projects – even if the projects yield adequate returns – can be more than a mere drop in the ocean if governments continue to insist upon a political framework which discriminates, for example, against agriculture. The World Bank also frankly admits that these are the weak points. Should stricter conditionality not then be used to try to create a situation in which lasting successes in the struggle against poverty are possible?

The fact that the IDA finances similar projects to the World Bank, only better (and free of charge), is not a convincing justification for the existence of such an institution. The European countries would be well advised not to seek a confrontation with the USA over the founding of a new, similar institution. They can in any case scarcely compensate for the losses caused by a permanent American withdrawal. Rather, the problem of poverty compels them to rethink, together with the USA, the IDA-criteria for the granting of credit in order to make the World Bank group as a whole, including the International Finance Corporation, more efficient. The moment appears to be opportune for this.

Manfred Holthus