Multilateral Development Assistance: Good, Bad and Just Plain Ugly?

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I. Introduction

Bilateral development assistance (aid) has been criticised heavily for well over 40 years, and especially during the Cold War years. To many, bilateral aid was just plain ugly. Bilateral donors were not so concerned with the developmental impact of aid, or ensuring that it was allocated equitably, according to the relative needs of recipient countries. Instead, they were more concerned about whether their aid generated commercial export opportunities, propped-up governments and promoted stability in strategically important countries, ensured support in international forums, could be used to induce desired behaviour from recipient countries and so on. There was of course diversity among bilateral donors: not all were plain ugly. But recognising that no bilateral aid agency can ignore broader foreign policy interests some were simply bad or approaching good. Unfortunately these agencies often administered small aid programs, so that bilateral aid was on balance plain ugly. Since bilateral aid constituted the majority of aid flows, some attributed the ambiguity over the overall developmental effectiveness of aid - whether it increased growth and by implication reduced poverty – to the overall ugliness of bilateral flows.

Multilateral aid has been viewed rather differently. Multilateral agencies were able to more easily pursue purely developmental criteria and allocate aid more equitably among recipient countries. Multilateral aid was thought to be more effective, and there were widespread calls for the share of multilateral aid in total aid to increase – donor governments were pressured to provide more aid via multilateral agencies. This is not to say that multilateral agencies were exempt from criticism. Some were accused of ideological bias, World Bank projects were often criticised and World Bank and IMF supported structural adjustment was in many circles roundly condemned. So while the activities of some multilateral development agencies were considered bad, on balance multilateral aid was thought to be quite good. Compared with bilateral aid, it was considered to be unambiguously good.

Times have certainly changed since the demise of the Cold War. Bilateral agencies are now thought to be freer to pursue developmental objectives. The allocation

of their aid among recipients is thought to be based less on overt commercial, political and other self-interest criteria. The effectiveness of aid is thought to have increased as a partial consequence of this shift. There is real evidence that bilateral donors are taking steps to improve the developmental effectiveness of their aid programs. But what about multilateral aid? Some multilateral agencies are still criticised. The World Bank has not totally changed its spots, but they are not as prominent was once was the case and the IMF in some circles is as unpopular as ever. But there are claims that the poverty focus of multilateral aid has increased, that it is less fragmented and better co-ordinated than bilateral aid and that it remains a more effective and more developmentally oriented. If this is truly the case, then concerns regarding greater 'bilateralism' in aid policy, with greater proportions of global aid being allocated through bilateral agencies and less through multilateral agencies, would appear well founded.

This paper provides a quantitative assessment of multilateral aid from a developmental perspective. It is specifically concerned with the question of whether multilateral aid is more developmental than bilateral aid, and whether bilateral aid has become more developmental, relative to multilateral aid, since 1990. The basic premise of the paper is that multilateral aid is under threat. By this, it is meant that donor governments will over time gradually provide substantially fewer funds to multilateral development agencies, instead switching funding to their own bilateral development assistance agencies, over which they have more control. As a result, multilateral agencies will have to substantially reduce the scale of their programs in developing countries. This premise might indeed be wrong. But its contemplation leads us to a possible defence of multilateral aid. The strongest case for a defence of multilateral aid is that it is more developmental than bilateral aid, that it is of better quality developmentally and has a greater positive impact on human well-being in developing countries. This impact obviously includes poverty reduction as a first priority, as the Millennium Development Goals emphasise. This paper finds that the case for a defence of multilateral aid remains strong on some criteria but not on others. Multilateral aid in recent years is in general good, and certainly bad. It is absolute not plain ugly; this dubious distinction goes to United States aid. There is however sometimes significant variation in the quality of aid by multilateral agency, not surprisingly.

The paper is structured as follows. Section II provides an overview of aid and other financial flows during the period 1960 to 2002, highlighting multilateral development assistance. Section II provides a more analytical perspective of multilateral

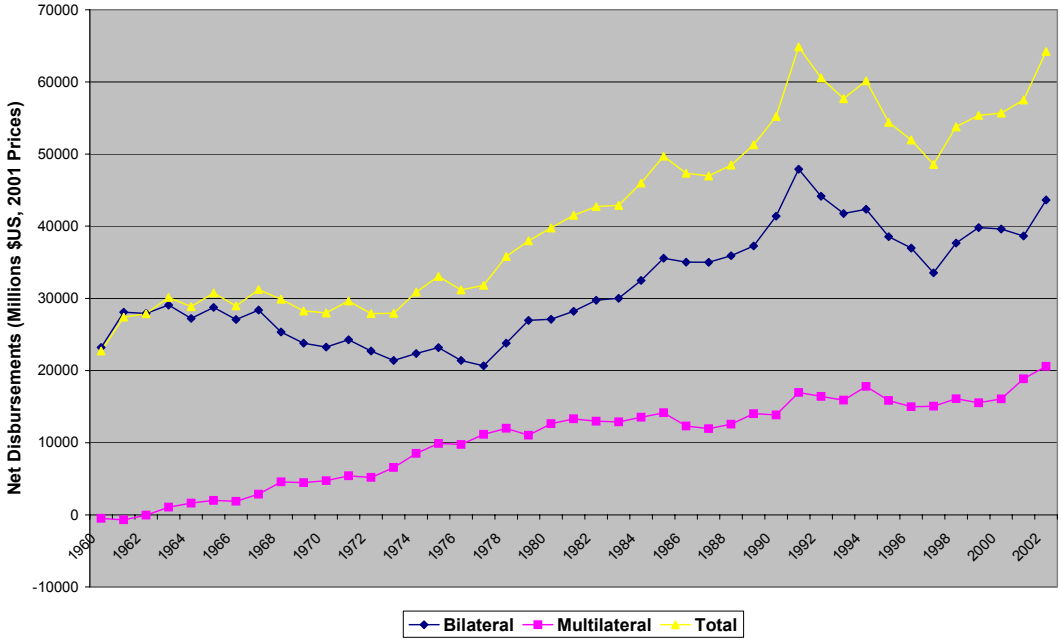
aid relative to bilateral aid, by looking at primarily at evidence from previously published studies of the developmental performance of each category of aid. Section III concludes.

II. Aid and Financial Flows to Developing Countries, 1960 to 2002

The level of development aid has grown solidly since the early 1960s. The most commonly used measure of development aid is the OECD's Development Assistance Committee (DAC) concept of Official Development (ODA). A definition of this concept is provided below. ODA flows to all developing countries amounted to $US22.7 billion. By 2002 the level of ODA had risen by two and a half times that amount, to $US56.9 billion.[1]

Figure 1 charts total, bilateral and multilateral ODA from 1960 to 2002. Bilateral ODA is that provided by country members of the DAC. From 1964 to 1978 the real level of bilateral aid trended downward. It fell to its lowest level for the entire period of 1960 to 2002 in 1978, which amounted to $US23.8. Bilateral aid grew at a solid rate from 1978, reaching $US42.9 billion in 1991, its highest level for the period 1960 to 2002. It fell dramatically from 1992 to 1997, reaching $US29.5 in the second of these years. Since 1999 bilateral ODA has trended upwards, reaching $US39.3 billion in 2002. The level of

Figure 1. Total Bilateral and Multilateral ODA, 1960 to 2002



multilateral aid has followed a much more stable trend since 1960. It trended upward from 1960 to 1978. From the early 1980s through to 2000 multilateral aid has trended

slightly upward, exhibiting only modest growth. The annual average yearly real growth rate of multilateral aid during this period was 1.1 percent. During 2000 to 2002 multilateral aid grew at a faster rate, reaching its peak for the period 1960 to 2002, of $US17.6, in 2002. Multilateral aid grew at a real annual average of 8.7 percent during 1964 to 2002, almost six times the rate of growth in bilateral ODA over the same period of one percent. [2] Total ODA, given the trend in multilateral aid, has followed virtually the same trend as bilateral ODA since the late 1970s. It peaked at $US58.3 billion in 1991, dropped to $43.2 billion in 1997 and climbed to $US56.9 billion in 2002, its second highest level since 1960. The annual average real growth rate of total ODA over the period 1961 to 2002 is 2.5 percent.

Aid flows are the largest part of official flows. The DAC recognises as "aid" flows to developing countries and multilateral institutions from official agencies which satisfy two criteria: (1) be primarily intended for development purposes (which rules out both military aid and export credits), and (2) be highly concessional, defined as having a grant element of at least 25 per cent.[3] The DAC maintains a two-part list of "eligible recipients". Flows meeting the above criteria to countries on Part I are deemed ODA, and those to countries on Part II called Official Aid (OA). [4] OA flows have been recorded since 1990, following the start of the demise of the Soviet Union. A further category, Official Development Finance (ODF), comprises bilateral ODA, multilateral receipts (both concessional and non-concessional) and non-trade related official flows (in particular loans to refinance debt). Other Official Flows (OOF) are official transactions for which the main objective is not development, or if it is, the funds are insufficiently concessional to qualify as ODA or OA. The main items of OOF are export credits, official sector equity and portfolio investment and debt re-organisation at non-concessional terms.

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[1] All data reported in this section of the paper are taken from OECD (2004). All dollar amounts are in constant 2001 prices.

[2] Calculations of growth rates for which include those for 1961 to 1964 are not reported here, given that multilateral ODA was negative in 1960 to 1963.

[3] The grant element is the grant equivalent divided by the face value, where the grant equivalent is the face value of the loan less the present value of repayments discounted at 10 per cent. A grant has a grant element of 100% and a loan with an interest rate of 10% a grant element of 0%.

[4] Part I countries are mostly low and middle-income countries (in 2000 two high-income countries, Malta and Slovenia were on Part I). Part II countries are high income countries, including those in Eastern and Central Europe. A review of the list takes place every three years. Those countries which have been above the upper middle income country threshold should be graduated, though DAC reserve the right not to graduate by taken into account other criteria (or to graduate countries not satisfying the income criterion on the same basis).

Table 1 shows the changing pattern in the importance of different financial flows to developing countries since 1971. For developing countries as a whole, the importance of total ODA and bilateral ODA as a source of financing increased during the 1980s but has fallen during the 1990s although they still remain higher than in the 1970s. An explanatory factor in the changing importance of financial flows is the reduction in private flows to developing countries during the debt crisis of the 1980s. Other Official Flows and grants from NGOs to developing countries have remained fairly stable across the last three decades. However, the importance of multilateral aid has increased throughout the last three decades and since 1991 have accounted, on average, for almost 13 per cent of total flows to developing countries. The Table also shows the great importance of ODA to sub-Saharan Africa. ODA to sub-Saharan Africa accounted for almost 90 per cent of total flows to this region since 1991, demonstrating that many of these sub-Saharan African countries are unable to attract private capital flows. Multilateral aid to these countries is more important than to developing countries as a whole, accounting for over one-third of total ODA since 1991. We return to the vital issue of aid to SSA below.

Table 1. Total Net Disbursements of Total Official and Private Flows by Type, 1971-2001 (%)

	1971-80	1981-90	1991-2002
All Developing Countries			
Official Development Assistance (ODA)	36.7	50.8	43.6
Bilateral	29.0	38.3	30.9
Multilateral	7.7	12.5	12.7
Other Official Flows (OOF)	8.7	6.6	4.3
Private Flows	50.7	38.2	47.7
Grants from NGOs	3.9	4.4	4.8
Total	100.0	100.0	100.00
sub-Saharan African Countries			
Official Development Assistance (ODA)	59.5	77.8	88.3
Bilateral	42.0	52.9	54.2
Multilateral	17.5	24.9	34.1
Other Official Flows (OOF)	11.2	14.4	0.2
Private Flows	29.3	7.9	11.5
Grants from NGOs	n.a.	n.a.	n.a.
Total	100.0	100.0	100.0

Figure 2 shows OA flows since 1990. There is much less year on year stability in the volume of these flows, again due largely to the volatility of bilateral flows. Total OA have grown from $US2.3 billion in 1990 to $US7.9 billion in 2002. Multilateral OA has increased from $US416 million in 1990 to $US2.9 billion in 2002. OA flows are

combined with ODA flows in Figure 3 to show total official aid, for the period 1960 to 2002. Given that OA flows are quite small compared to ODA, year on year changes and trends in OA largely follow those shown in Figure 1 above.

Figure 2. Total Bilateral and Multilateral OA, 1960 to 2002

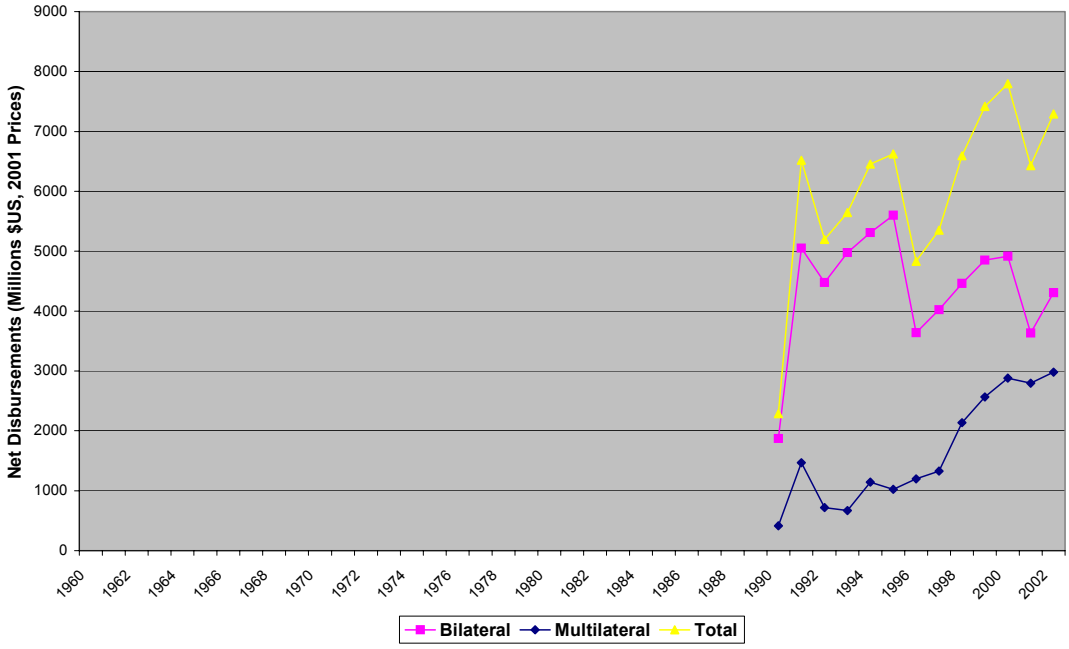
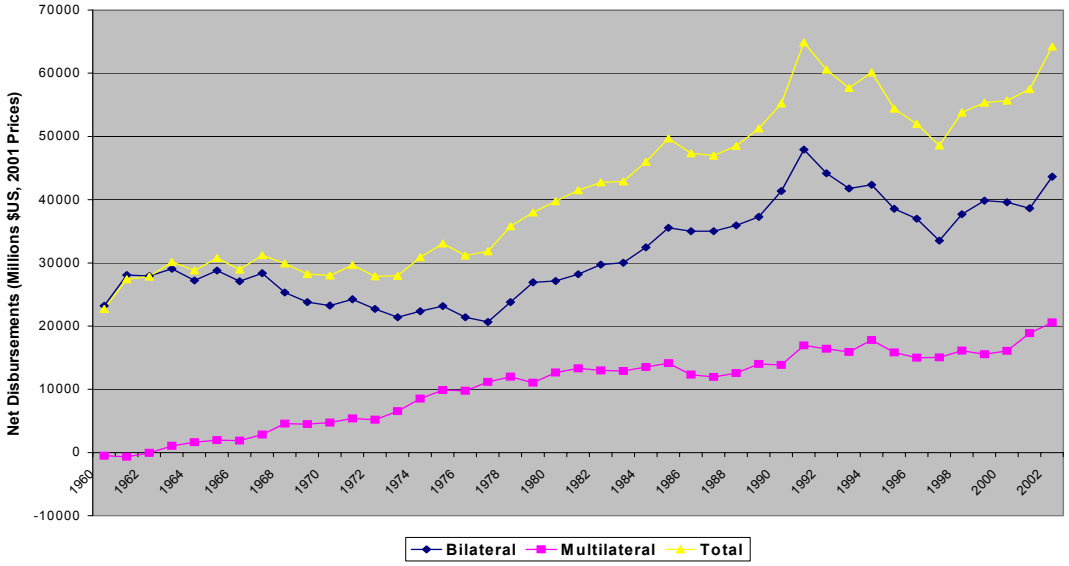


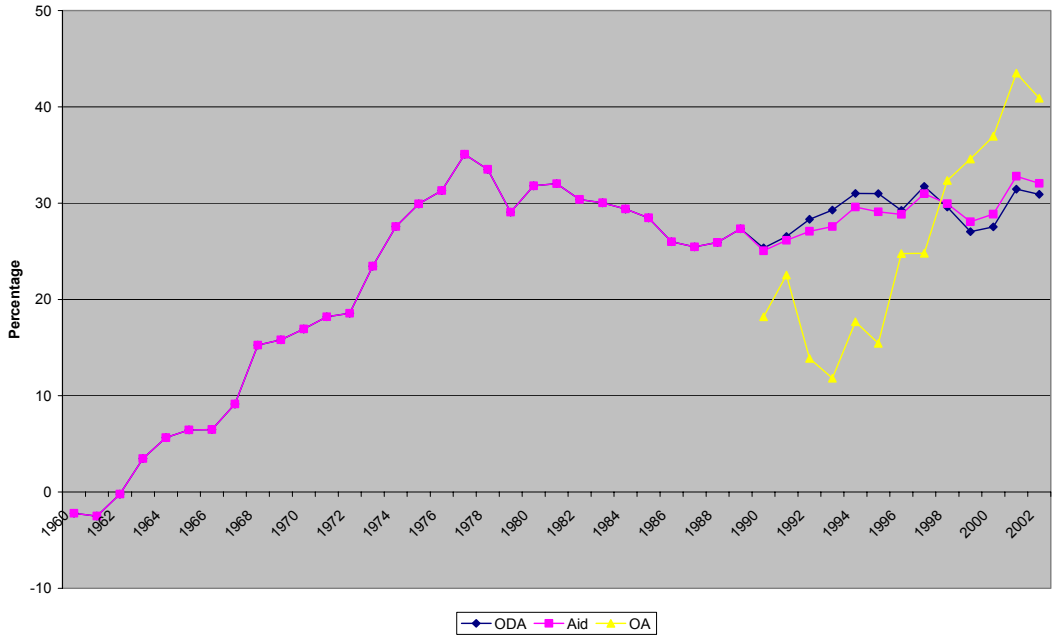
Figure 3. Total Bilateral and Multilateral Aid, 1960 to 2002



Shares of multilateral aid, ODA and OA are shown in Figure 4. The share in total aid and ODA increased dramatically during the 1960s and much of the 1970s, reaching 35 percent in 1977. This is the highest share for the period 1960 to 2002. It then trends downward, falling in most years until 1990. It trends upward from 1990, falls in 1998, 1999 and 2002 notwithstanding. In 2002 the share of multilateral aid in total aid

was 32 percent. The multilateral share in total OA has increased sharply since 1991, despite falls in some years. The multilateral share in OA in 2002 was 41 percent.

Figure 4. Multilateral Shares in Total Aid, 1960 to 2002



The largest multilateral agencies in terms of aid volume since 1960 are the International Development Association (IDA) of the World Bank Group, the European Commission (EC), the United Nations Development Program (UNDP) and the World Food Program (WFP). These agencies have provided 65 percent of total multilateral ODA since 1960. The IDA and EC are by far the largest agencies in terms of volume, providing 29 and 23 percent, respectively, of total multilateral ODA. Multilateral OA is dominated by the EC. Ninety-five percent of OA flows since 1990 emanate from the EC. Trends in ODA volume, ODA share and OA volume for these big four multilateral agencies are shown in Figures 5, 6 and 7, respectively. IDA and EC ODA volumes ODA have trended upward since 1960, despite often falling from one year to the next. In 2002 IDA and EC ODA volumes were $US5.2 billion and $US5.8 billion respectively, the highest in any year since 1960. The EC share in total multilateral ODA has trended upwards since the early 1980s, reaching a 1960-2002 period peak of 34 percent in 2001. IDA shares have been more volatile, and have trended downward since 1997. UNDP and WFP ODA volumes and shares in total multilateral ODA have trended downward since the early 1970s. For both agencies, ODA volumes are substantially lower in 2002 than in the late 1960s and early to mid-1970s. Indeed, for each agency, 2002 volumes are approximately one-third and one-half, respectively, of the average volumes for these early

years. For instance, UNDP ODA volumes were $US861 million in 1975 and $US265 million in 2002. WFP ODA volumes, for the same years, were and $US338.

Figure 5. Multilateral ODA, Largest Four Agencies by Volume, 1960 to 2002

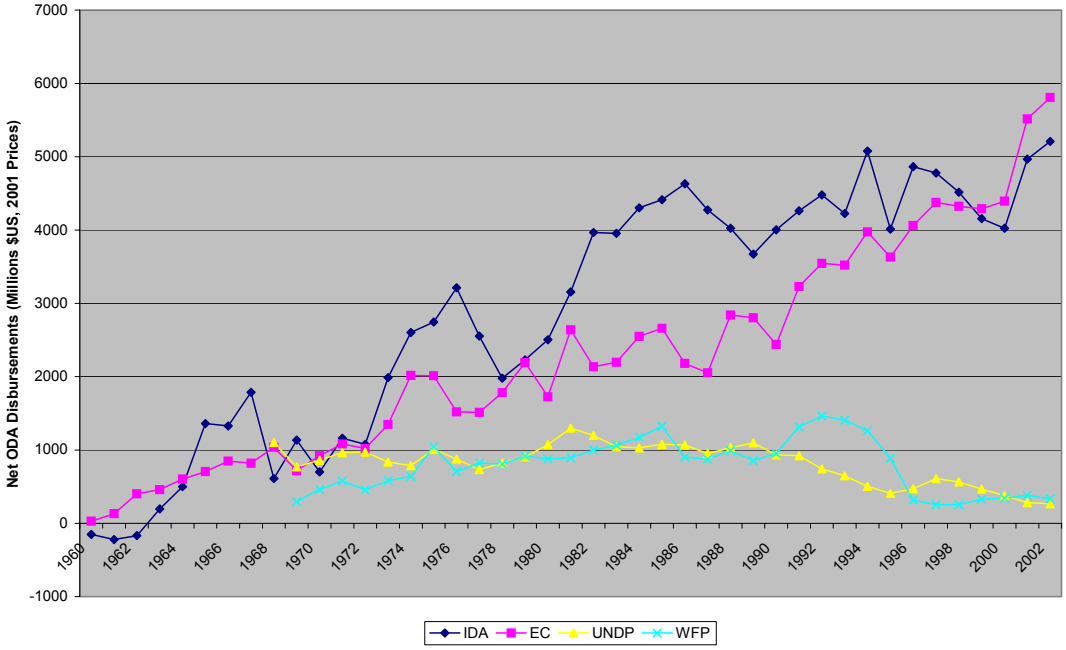


Figure 6. Shares in Multilateral ODA, Largest Four Agencies, 1963 to 2002

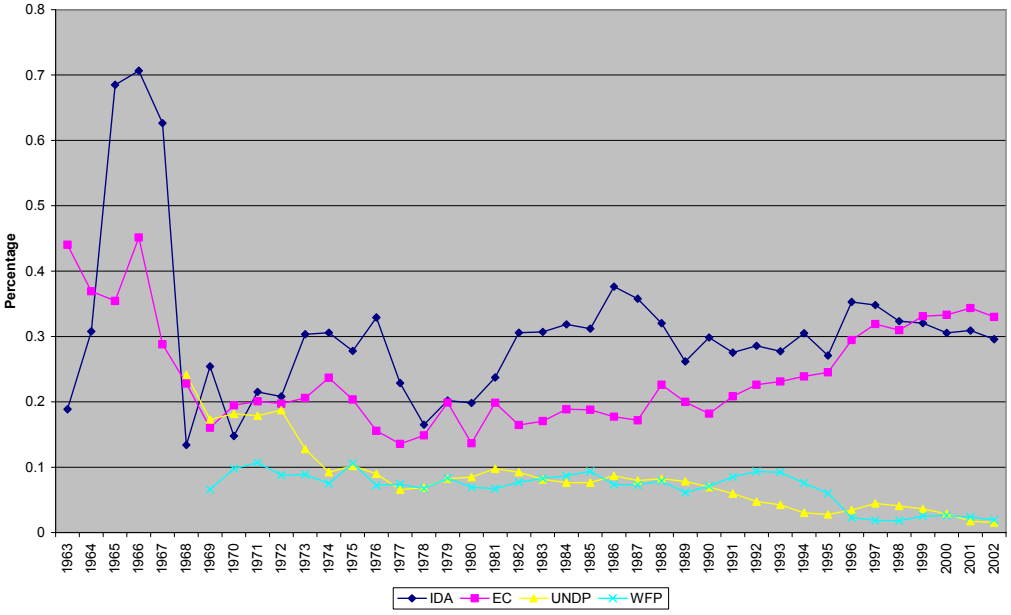


Figure 7. Multilateral OA, 1991 to 2002

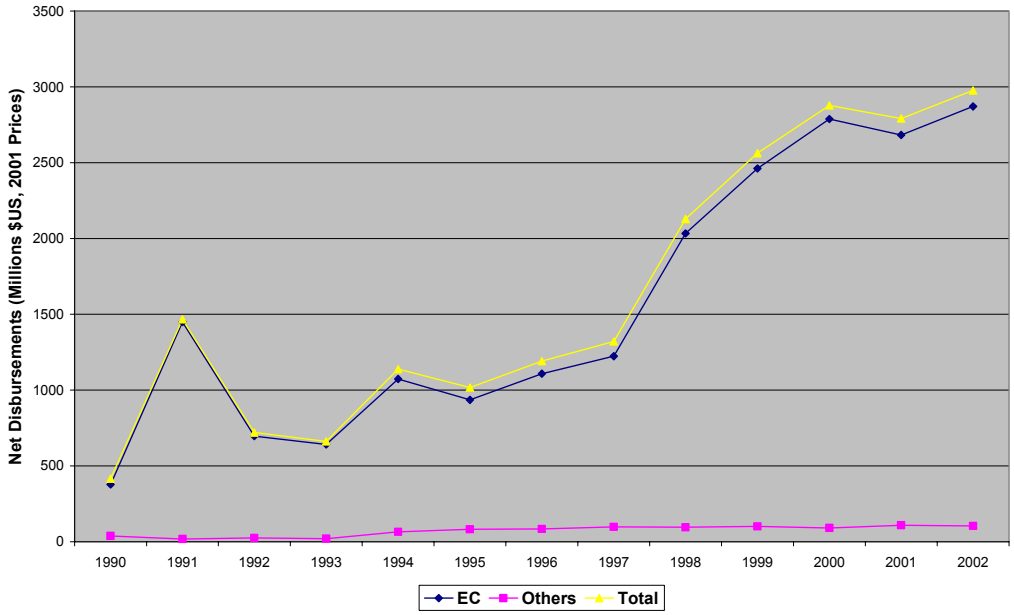


Figure 8 shows per capita official aid flows, obtained by dividing by total aid (ODA plus OA) by total developing country population, in each year for the period 1960 to 2002. A dismal picture is painted. Total and bilateral aid per capita has fallen, from one year to the next, in 28 and 32 years, respectively, during the period 1961 to 2002. As a result, total per capita aid has fallen from a peak of $US131 in 1961 to just $US13 in 2002. Similarly, bilateral per capita aid has fallen from a peak of $US134 in 1961 to $US9 in 2002. Multilateral per capita aid, while been much smaller in magnitude and also falling for most of the period under consideration, has been more stable. It reached a peak of $US12 in 1968, and in 2002 was $US4. For the last 20 years it has hovered at between $US3 and $US6.

Aid as a percentage of developing country GNI is shown in Figure 9. It follows a rather different trend to per capita aid, rising throughout the 1960s to early 1990s. Total aid rose from two percent in 1960 to 1.6 percent of GNI in 1.6 in 1991. It trends downward from 1991, falling to 1.2 percent in 1997, but then recovering slightly to reach 1.4 percent. Bilateral and multilateral aid follow similar trends. In 2002 bilateral and multilateral aid were 0.9 and 0.4 percent of developing country GNI. For the period 1960 to 2002, bilateral aid and multilateral aid as percentages of developing country GNI reached their respective peaks in 1991 and 2002, recording levels of 1.14 and 0.44 percent respectively. Perhaps the strongest message coming from Figure 9 does not so much relate to trends, but to the very small absolute amounts of aid, when expressed as a

proportion of developing country GNI. This has obvious implications for the effectiveness of aid.

Figure 8. Aid Per Capita, 1960 to 2002

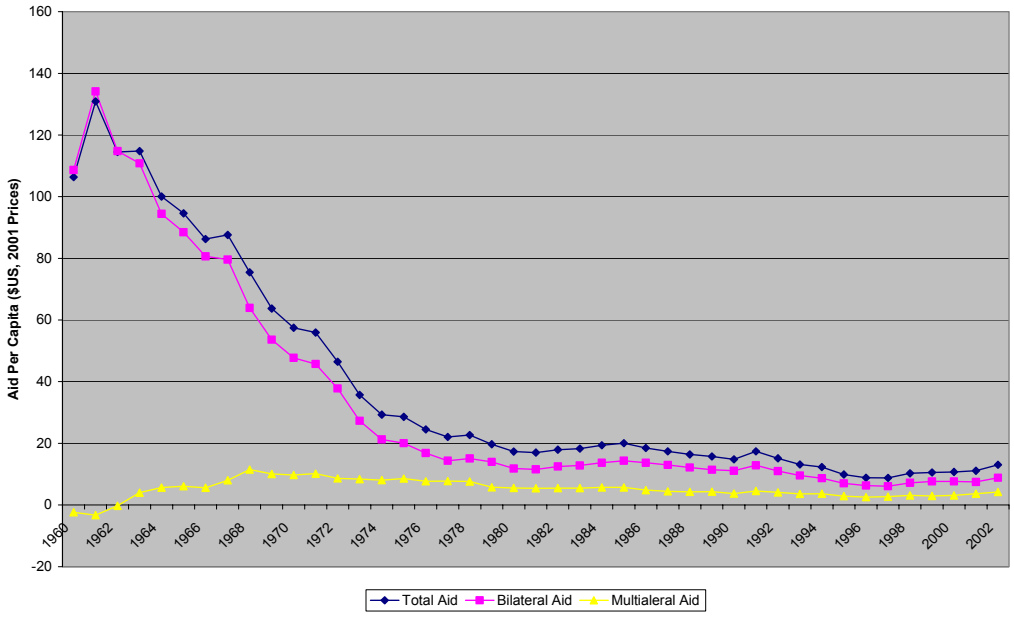


Figure 9. Aid as a Percentage of GNI, 1960 to 2002

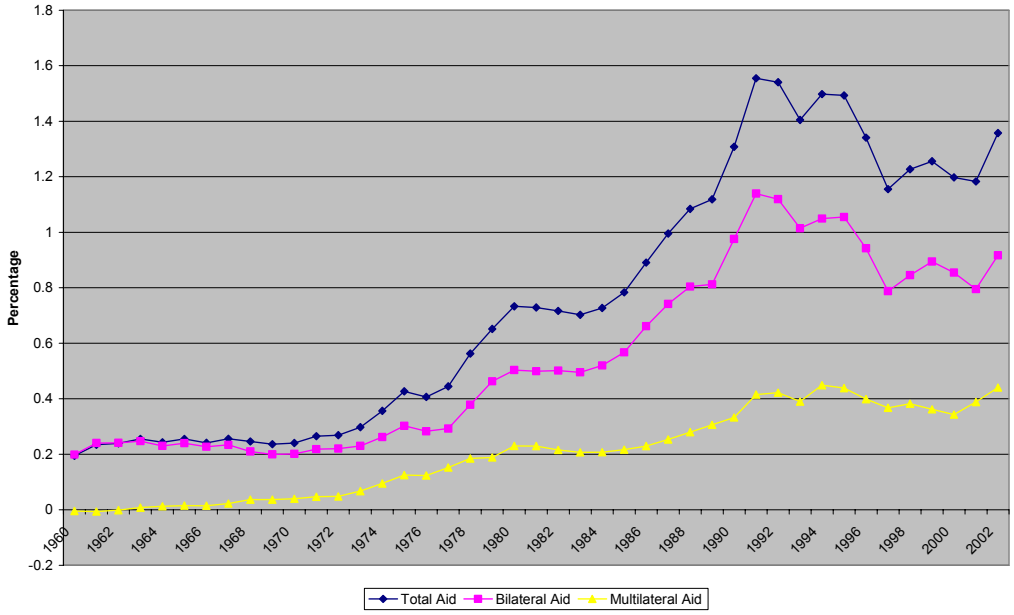


Table 2 provides a comparison between the type of aid provided by bilateral and multilateral donors. Aid is disaggregated into aid grants and aid loans. For bilateral donors, the importance of aid grants has grown considerably since 1971 and accounted for almost 95 per cent of total bilateral aid in 2002. The share of grants in total

multilateral aid is much lower in comparison to bilateral aid and has remained fairly stable over the last three decades, accounting for roughly 50 per cent of total multilateral aid.

Table 2. Net ODA Disbursements, by Type and Donor, 1971-2000
(Period Averages, Per Cent)

	1971-80	1981-90	1991-2000	2001	2002
Bilateral					
Grants	65.5	77.2	89.1	94.6	94.8
Loans	34.5	22.8	10.9	5.4	5.2
Total	100.0	100.0	100.0	100.0	100.0
Multilateral					
Grants	50.0	52.4	53.7	55.2	51.2
Loans	50.0	47.6	46.3	44.8	48.8
Total	100.0	100.0	100.0	100.0	100.0

Table 3 provides a breakdown of bilateral and multilateral aid flows by region. Bilateral aid flows are widely dispersed across a number of regions. The most important region is SSA, accounting for one-quarter of bilateral aid flows in 1980 and rising to almost a third in 2002. The proportion of bilateral aid allocated to European countries has increased since 1980, at the expense of countries situated in North Africa and the Middle East. In contrast, multilateral aid is concentrated in SSA and South and Central Asia. The proportion of multilateral aid to SSA was 41 per cent in 2002 after climbing to almost 50 per cent in 1990. The proportion of multilateral aid to South and Central Asia has fallen from over one-third in 1980 to one-fifth in 2002. However, this region remains the second largest recipient of multilateral aid.

Figures 10 and 11 provide a closer look at aid to sub-Saharan Africa. Aid to this region is of great importance. It is now well-established that this region is clearly the poorest in the world, and one that has become poorer over the last decade. In 1990 47 percent of the population in sub-Saharan Africa lived in conditions of extreme poverty, with less an income of less than one dollar (in PPP terms) per day. By 1999 this percentage had risen to 49 percent. It is widely believed that the principal Millennium Development Goal – reducing the proportion of people living in extreme poverty to half the 1990 level by 2015 - will certainly not be achieved in sub-Saharan Africa. Even seemingly optimistic forecasts suggest the MDG poverty target will not be achieved in sub-Saharan Africa until 2147, some 132 years late (UNDP, 2003). Given that it is now reasonably well-established that aid works in increasing growth and by implication reducing poverty (Benyon, 2001, 2002, McGillivray, 2003), the issue is of paramount importance.

Table 3. Regional Allocation of Net ODA, 1980-2001

	Share of bilateral aid that is geographically allocatable (%)			Share of multilateral aid that is geographically allocatable (%)		
	1980	1990	2002	1980	1990	2002
North Africa	11.5	17.3	5.7	4.1	2.4	4.8
Sub-Saharan Africa	24.9	30.7	33.5	32.0	48.4	41.0
South America	2.7	4.1	5.8	3.1	4.0	2.4
Middle East	23.6	10.7	7.9	5.3	4.9	5.8
South & Central Asia	14.4	8.6	14.5	34.3	23.0	20.9
Far East Asia	9.1	14.6	14.6	9.4	10.1	8.3
Other	13.8	14.0	18.0	11.8	7.2	16.8
of which Europe	5.3	3.6	10.2	1.1	0.2	11.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Figures 10 and 11, against this background, are quite alarming and reveal information hidden by comparisons of aid shares for selected years. Total, bilateral and multilateral aid to sub-Saharan Africa trended upward until the early to mid-1990s. However, sharps declines are evident from the mid through to 2000 or 2001. The share of multilateral aid to sub-Saharan Africa declined from 1995 to 2000, indicating that this form of aid made the overall decline in aid larger than would have been otherwise been the case. ODA levels in 2002 recovered roughly to levels of the early 1990s, fortunately. Clearly poverty is now much higher in sub-Saharan African as a result of these declines; one is left to speculate as to the extent of poverty that might have prevailed without them.

Figure 10. ODA to sub-Saharan Africa, 1960 to 2002

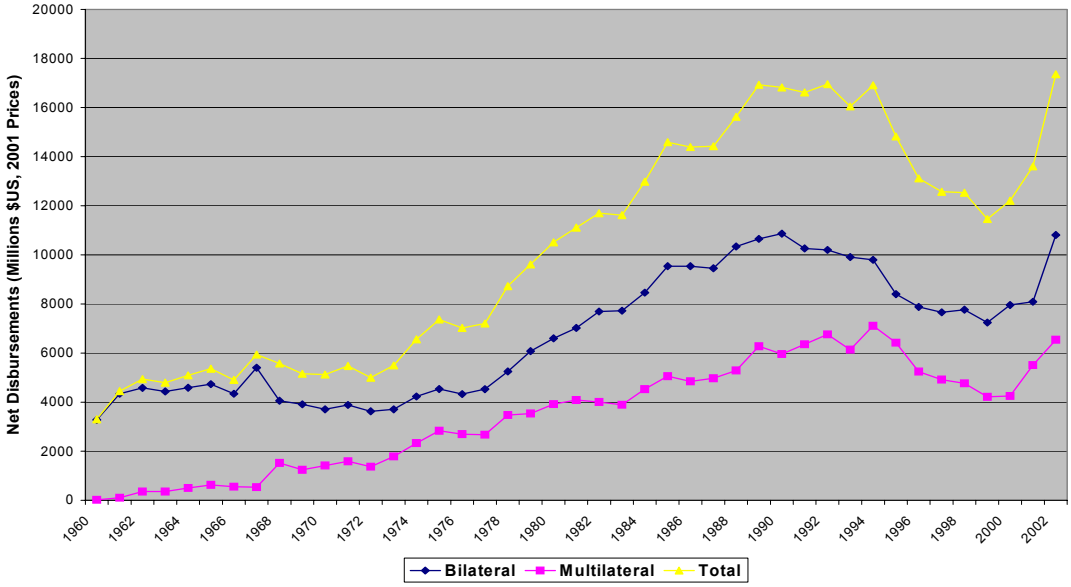
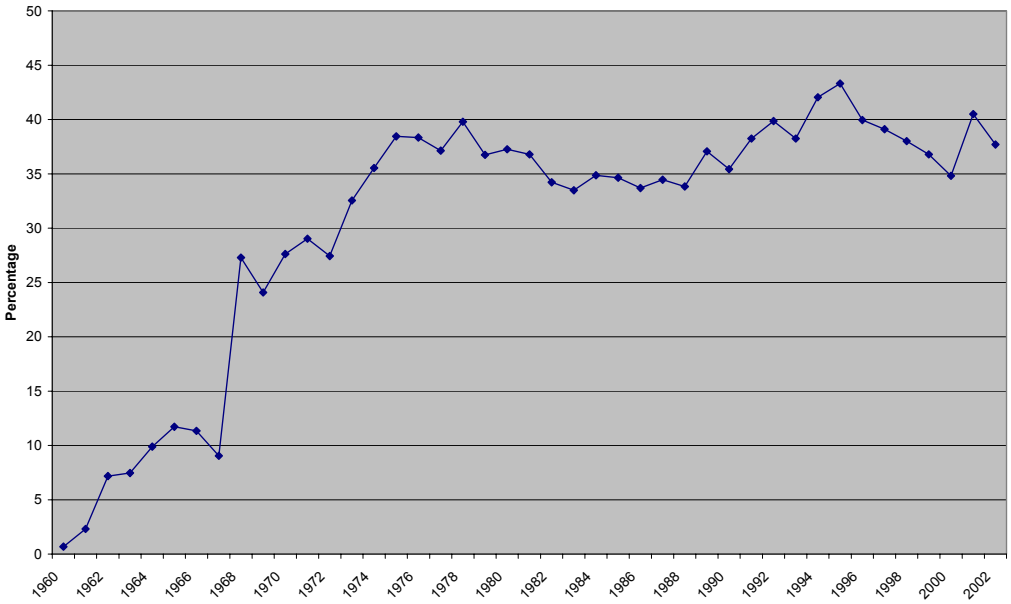


Figure 11. Multilateral Share in ODA to sub-Saharan Africa, 1960 to 2002



That the share of multilateral aid in 2002, as compared with the early 1980s, has gone to sub-Saharan Africa suggests that it is more pro-poor than bilateral aid. This is confirmed by Table 4, which provides information on the allocation of bilateral and multilateral aid flows by income group. It reveals that multilateral aid is more pro-poor than bilateral aid, based on shares among income groups. The proportion of bilateral aid allocated to low-income countries fell from over two-thirds in 1971 to less than half in 1981. In 2001, low-income countries received just over 60 per cent of total bilateral aid. Until recently, upper-middle and high-income countries received approximately 10 per cent of bilateral aid although in 2001 this fell to five percent. About one-third of bilateral aid is allocated to low middle-income countries. In 1971, about 56 per cent of multilateral aid was allocated to low-income countries while upper-middle and high-income countries received almost 20 per cent. However, since 1971, multilateral donors have become more pro-poor in their allocation of aid and provide a far greater proportion of their aid to low-income countries than bilateral agencies. Despite low-middle-income countries receiving a greater share of multilateral aid in 2001 than in 1991, over 70 per cent of multilateral aid was provided to low-income countries.

Table 4. Allocation of Bilateral and Multilateral ODA by Income Groups (Percentage Shares of Net Disbursements)

	Low-income countries	Low middle-income countries	Upper middle- and high-income countries	Total
Total Bilateral				
1971	68.1	22.5	9.4	100
1981	48.8	38.8	12.4	100
1990	53.4	37.2	9.4	100
2001	60.3	34.5	5.2	100
Multilateral				
1971	56.5	23.8	19.7	100
1981	78.5	17.9	3.6	100
1990	78.7	18.3	3.0	100
2001	70.9	23.1	6.0	100

Major recipients of multilateral ODA and OA are provided in Tables 5 and 6, respectively. While the major recipients of ODA have changed over time, India, Bangladesh and Pakistan have consistently been major yearly recipients. Poland, Romania and Hungry were the largest recipients of multilateral official aid although the Czech Republic, Bulgaria and Russia have also been large recipients during the 1990s. In comparison, the destination of bilateral OA is heavily influenced by protectorates of DAC donors. French Polynesia, New Caledonia and the Netherlands Antilles are all large recipients of bilateral official aid.

Table 7 provides a comparison of the bilateral and multilateral ODA commitments by sector during the period 1990 to 2002. The table shows that over one-third of multilateral ODA commitments are allocated to "social infrastructure and services" indicating that multilateral assistance might be more pro-poor than bilateral assistance. A higher share of multilateral aid is also allocated to "economic infrastructure and services" and "production sectors". Part of the explanation for the differences is that over ten per cent of bilateral ODA commitments were allocated to "action related to debt" in comparison to just 0.3 for multilateral donors. Bilateral donors also allocate a greater share to emergency assistance and support for NGOs in comparison to multilateral donors.

Table 5. Major Recipients of Multilateral Official Development Assistance, 1970-2002 (Net Disbursement, $US million, 2001 Prices)

	$US	Share in total (%)		$US	Share in total (%)
1960			**1990**		
1. Madagascar	20.56		1. Bangladesh	1021.4	7.7
2.Congo, Dem. Rep.	1.97		2. India	663.2	5.0
3. Indonesia	1.1		3. China	587.2	4.4
4. Somalia	0.5		4. Pakistan	505.4	3.8
5. Niger	0.2		5. Kenya	453.7	3.4
1970			**2000**		
1. India	315.6	6.7	1. India	817.6	6.2
2. Mexico	263.6	5.6	2. Serbia & Montenegro	536.4	4.1
3. Brazil	248.3	5.2	3. Bangladesh	502.7	3.8
4. Colombia	163.0	3.4	4. China	444.5	3.4
5. Pakistan	161.3	2.8	5. Vietnam	404.7	3.1
1980			**2002**		
1. India	2473.9	19.6	1. Pakistan	1343.9	7.6
2. Pakistan	679.9	5.4	2. Ethiopia	750.6	4.3
3. Bangladesh	589.0	4.7	3. India	651.4	3.7
4. Cambodia	376.8	3.0	4. Vietnam	491.5	2.8
5. Eqypt	318.8	2.5	5. Congo, Dem. Rep.	436.1	2.5

Shares for 1960 not provided due to negative total Multilateral ODA. Source: OECD (2004).

Table 6. Major Recipients of Multilateral Official Aid, 1991-2002 (US$ million)

	Multilateral Official Aid				Bilateral Official Aid		
	1991	1996	2002	Share in 2002 (%)		2002	DAC share in 2002 (%)
Poland	72.7	286.33	770.64	24.0	Russia	1109.27	24.8
Romania	118.88	122.69	510.8	15.9	Israel	749.31	16.8
Hungary	514.8	96.77	430.45	13.4	French Polynesia	417.37	9.3
Czech Republic	187.05	57.09	342.23	10.7	Poland	388.57	8.7
Bulgaria	266.94	112.21	189.33	5.9	Ukraine	358.19	8.0
Russia	na	186.78	152.53	4.7	New Caledonia	323.23	7.2
Slovak Republic	93.32	57.17	149.22	4.6	Bulgaria	189.22	4.2
Lithuania	na	32.12	108.44	3.4	Romania	176.64	4.0
Ukraine	na	24.94	79.21	2.5	Netherlands Antilles	94.24	2.1
Latvia	na	29.95	58.83	1.8	Czech Republic	48.49	1.1
Estonia	na	23.71	51.62	1.6	Hungary	40.32	0.9
Cyprus	na	na	27.62	0.9	Slovak Republic	39.15	0.9
Israel	na	na	4.57	0.1	Lithuania	35.98	0.8
Libya	na	na	4.57	0.1	Latvia	26.2	0.6
Belarus	na	15.03	3.42	0.1	Belarus	25.98	0.6
Kuwait	na	1.15	1.63	0.1	Cyprus	17.67	0.4
Part II, Total	1582.15	1545.57	3212.37	-	Part II, Total	4471.53	-

Table 8. ODA Commitments by Sector and Purpose, by Donor, 1971-2001

	Share of DAC bilateral aid 1990-2002	Share of multilateral aid 1990-2002
Social infrastructure and services	28.3	34.0
Economic infrastructure and services	18.6	27.1
Production sectors	10.4	16.8
Multisector (crosscutting)	5.7	8.4
Commodity aid and general programme aid	9.1	6.2
Action related to debt	10.3	0.3
Emergency assistance	6.1	2.8
Administrative costs of donors	4.8	2.4
Support to NGOs	1.9	0.2
Unallocated/unspecified	4.9	1.8
Total	100.0	100.0

Table 9 provides measures of the concentration of DAC bilateral aid and multilateral aid for the period 1990 to 1996. There are valid concerns in the international aid community that the aid programs of most donors are thinly spread over many recipients. There are good developmental grounds for concentrating the assistance of any one donor on a few countries. First, the staff of the agency, and the consultants working for them, build up expertise on a particular country. Second, concentration will reduce donor proliferation in developing countries, by which the scarce time and skills of government are taken up in satisfying the multiple demands of many different donors. In recognition of this problem several donors have at various times sought to concentrate their aid on fewer countries (White, 2003).

Table 6 demonstrates that DAC and multilateral aid flows are widely, and reasonably evenly, dispersed across a large number of countries. Multilateral agencies provide aid to 173 countries. The largest recipient receives six per cent of total multilateral while the ten largest recipients receive 37 per cent of the total. Aid provided by DAC donors exhibits a similar pattern of concentration. There are, however, considerable differences in the concentration of aid between multilateral donors. Not surprisingly, the African Development Bank (ADB) only provides aid to its 48 members. Multilateral aid provided by the World Bank is more concentrated in comparison to multilateral aid provided by the UNDP, and the EU. The latter two donors provide aid to over 160 countries in comparison to the World Bank's 68.

Table 9. Measure of the Concentration of Donor Aid, 1991-96

	No. of countries receiving aid			Share in donor's aid of:		
	At all	>1%	>5%	Top recipient	Top 3 Recipients	Top 10 recipients
	Of donor allocation					
DAC total	175	30	2	8	19	39
Multilateral						
ADB (ADF)	48	30	3	12	23	51
World Bank (IDA)	68	2	0	3	6	10
UNDP	162	32	2	7	17	33
EU (ED)	164	34	0	5	13	30
Multilateral total	173	29	2	6	16	37

Note: Shares are calculated from total of that donor's aid allocation on a country basis.

III. Multilateral Agency Performance: Further Assessments

The preceding section looked at aid from a largely descriptive perspective, using data published by the DAC. There is a small, more analytical literature which evaluates the quality of aid, from various donors, based on subjective criteria. The specific issue addressed concerns the manner in which aid is allocated among recipient countries. A very widely publicised critique of donor country policies was recently released by the Centre for Global Development (GGD). This critique is based on values of the Commitment to Development Index (CDI) (Birdsall and Roodman, 2003). The CDI is a multi-component index. One of its seven components relates to aid (Roodman, 2003). While the CDI has been the subject of widespread criticism (which should be kept in mind below) it CDI does provide information on multilateral aid that should not be ignored.

The aid component of the CDI evaluates the aid-giving performance of bilateral donors, including the 'aid worthiness' of recipients. The underlying rationale for this is the notion of "selectivity". This notion is based on the premise that if aid is to maximize global poverty reduction - to be poverty-efficient - it should go primarily to those countries which use it best, that are most "aid worthy". Put differently, this notion recognizes that the marginal poverty efficiency of aid differs across recipient countries, and the poverty-efficiency of donor aid programs depends, therefore, on the countries that receive their aid. The Birdsall and Roodman (2003) approach is consistent with a view that the translation of aid into poverty reduction primarily depends on the quality of governance in recipient countries. They also recognize that the quality of governance is an increasing function of the per capita income (or level of economic development) of

a country. Thus, they define aid worthiness in terms of country income levels and achievement in translating income level achievements into quality governance. Those with low incomes per capita and high governance qualities relative to their per capita incomes are considered most aid worthy and *vice versa*. Selectivity weights for each recipient country are calculated on this basis.[5] Selectivity weights for each donor are then obtained, by taking the weighted average of selectivity weights for each recipient country to which they allocate aid.

Since donor countries provide aid not only bilaterally but via multilateral agencies, Roodman (2003) provides information on average selectivity weights for multilateral agencies. The results are shown in Table 10. The agency with the highest average selectivity weight is, not surprisingly given low per capita incomes among the countries for which it is responsible, the African Development Fund (AfDF). This indicates that the AfDF provides a greater proportion of its aid to more 'worthy' aid recipients, in which the development impact of these inflows is greatest. The agencies

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5. Governance quality is measured using the indicator developed by Kaufman, Kraay and Zoido-Lobaton (KKZ) (2002). This indicator is a composite of indicators of democracy, rule of law, bureaucratic regulation, government effectiveness and corruption.

The actual procedure is to fit the following governance regression equation to cross country data:

$$G_i = \alpha + \beta \ln Y_i + \mu_i$$

where G_i is the quality of governance of aid recipient i measured using the KKZ indicator, α is a constant term, β is a slope coefficient, $\ln Y_i$ is the logarithm of recipient i's purchasing power parity GDP per capita and μ_i is a residual. The residual may be interpreted as that component of recipient governance quality which is not empirically accounted for by the constant term and the term $\beta \ln Y_i$. Countries with high governance qualities and low incomes per capita will have numerically larger residuals than those with low governance qualities. It follows that the larger the residual the better is governance relative to income, or the better recipient has performs in converting income into governance quality.

The selectivity weight for each recipient, W_i, is:

$$W_i = \mu_i - \beta \ln Y_i$$

provided β is positive (which was the case in fitting the governance regression equation to recipient country data), the selectivity weight is higher the higher the value of the residual and the lower is the level of income per capita.

Prior to adjusting aid for selectivity the weights are linearly transformed to range between 0.5 and 1.0, indicating lowest and highest worthiness for aid, respectively. Recipient selectivity weights are reported in Roodman (2003). Tanzania and Malawi have the highest weights (1.00 and 0.99, respectively), while Belarus and Russia have the lowest weights (0.50 each). Weights to countries receiving relatively large shares of Australian ODA are as follows: Papua New Guinea (0.75), Indonesia (0.66), Vietnam (0.76), Philippines (0.71), China (0.69) and Cambodia (0.87). Weights for 121 countries were calculated, based on data availability.

with the second and third highest weights are the (not surprisingly) the IDA and (possibly surprisingly) the IMF. Table 10 also shows 'Quality Adjustment' data. These data are ratios of reported (or actual) to discounted aid flows. The discount is based on a number of subjective criteria in addition to selectivity, including the level of donor administrative costs, interest repayments on previous years' aid and tying. Thus the ratio can be considered a broader measure of agency performance, broader than one based on selectivity only. UN agencies perform best in this regard, with the UNDP and UNICEF leading the way.

Table 10. Multilateral Agency Performance in Commitment to Development Index, 2001

Multilateral Agency or Donor Country	Selectivity	Quality Adjustment
AfDF	0.86	0.75
AsDF	0.77	0.49
CarDB	0.75	0.35
EBRD	0.60	0.60
EC	0.71	0.63
GEF	0.69	0.69
IBRD	0.77	0.77
IDA	0.82	0.57
IDB	0.75	0.17
IFAD	0.80	0.42
Montreal Protocol	0.74	0.74
Nordic Dev. Fund	0.80	0.78
Other UN	0.75	0.75
IMF	0.84	0.08
UNDP	0.80	0.80
UNFPA	0.78	0.78
UNHCR	0.75	0.75
UNICEF	0.79	0.79
UNRWA	0.72	0.72
UNTA	0.74	0.74
Ireland	0.85	0.85
United Kingdom	0.84	0.79
United States	0.69	0.55
Japan	0.78	0.34
Multilateral Agency Average	**0.69**	**0.56**
Donor Country Average	**0.77**	**0.68**

Source: Roodman (2003).

Table 10 also shows selectivity weights and quality adjustment ratios for the best and worst two performing donors, and averages for all multilateral agencies and all (DAC) donor countries (based on the latter's bilateral aid only) in terms of the quality adjustment. The top two performing countries – Ireland and the United Kingdom – exhibit better performance than most multilateral agencies. The United Kingdom

exhibits the same assessed performance at UNICEF (each have adjustment ratios of 0.79), while the performance of Ireland surpasses that of the UNDP. Indeed, the average (unweighted) performance of the DAC bilateral donors agencies exceeds that of their multilateral counterparts based on both the selectivity weights and quality adjustment ratios. Bilateral aid is of better quality than multilateral aid, according to the aid component of the CDI.

A number of indices have been designed specifically for the evaluating donor performance with respect inter-recipient aid allocation. Reviewed in White and McGillivray (1992, 1995) and McGillivray (2003a, 2004), these indices have the following general form:

$$I_j = \sum_{i=1}^{n} w_i \frac{A_{i,j}}{A_j} \tag{1}$$

where I_i is the index for donor j, w_j is a weight relating to the 'developmental status' of recipient i and A_j is total donor i aid. Developmental status can be assessed in a number of ways, be it in terms of average income (income per capita), human development, the extent of poverty and so on. The interpretation of the general form of these indices is straightforward. The greater the share of aid allocated to countries with larger weight values, the higher the value of the index. If the weight is some measure of poverty in recipient i, for example, the greater the proportion of donor j aid allocated to recipients in which poverty is more prevalent, the greater the value of the index. Its maximum value is one, which would occur if the donor in question allocates all its aid to the country for which the weight takes the highest value. In the case of a poverty-based weight, this would occur if the donor gave all its aid to the country with the greatest prevalence of poverty.[6]

A number of variants of these indices have been used to evaluate bilateral and multilateral donors. McGillivray (1989, 1992) proposed a donor 'performance index', and applied it do data for the period 1969 to 1984. Rao (1994, 1997) proposed a 'equity index' and applied it to data for the period 1970 to 1993. McGillivray and White (1994) proposed what can be considered a 'concordance index' and applied it to data for the period 1974 to 1990. The McGillivray-White index is a little different in structure to

[6] McGillivray and White (1992, 1995) look critically at a range of quantitative measures used to evaluate inter-recipient aid allocation. While none of these measures are problem free, the index defined by equation (1), based on the application of McGillivray (1992), is consistent with a number of desirable properties. Moreover, as McGillivray (2003b, 2004), it is advantageous over other measures in that it can incorporate weights which are non-income based.

equation (1), although can still be considered the sum of weighted aid shares. It is written as follows:

$$\Phi_j = 1 - \sum_{i=1}^{n} \left| \frac{A_{i,j} - \tilde{A}_{i,j}}{A_j} \right|$$

where $A_{i,j}$ is a prescribed allocation derived from a non-linear optimization problem, taking into a range of variables, and $\tilde{A}_{i,i}$ is the actual amount of aid allocated to *i*. It follows that since the sum of $\tilde{A}_{i,j}$ equals A_i, the maximum value of Φ_j is one, which would occur if $\tilde{A}_i$ equals A_i for all *i*. The minimum value approaches minus one. More generally, the greater the value of Φ_j the greater the performance of the donor.

Selected results of the Rao (1997), McGillivray (1989) and McGillivray and White (1994) studies are shown in Figures 12 to 14. Rao's results tend not to significantly differentiate donors, although it was found actually finds that bilateral aid marginally out-performs multilateral aid (see Figure 12) during the period under consideration. The IDA, however, out-performed all donors, exhibiting better performance than the best performing bilateral donor, Denmark. The United States exhibited the worst performance in most years under consideration, and by far the worst average performance for the entire period under consideration. McGillivray (1989) found that while multilateral aid outperformed bilateral aid, it fell somewhat short of the performance of the best performing bilateral donor, Belgium. The United States was also the worst performer in the McGillivray study. The performance of this donor fell appreciably in the early 1970s, largely due to very large shares of its aid to Israel. McGillivray and White (1994), who only provide results for aggregated aid flows, find that multilateral aid, on average, slightly outperforms bilateral aid. However, they find that for much of the 1970s and the reverse was true. That multilateral aid on average out-performs bilateral aid is due to substantial increases in multilateral performance in the early 1980s, which were sustained through the decade.

Figure 12. Rao Equity Index, 1970 to 1993

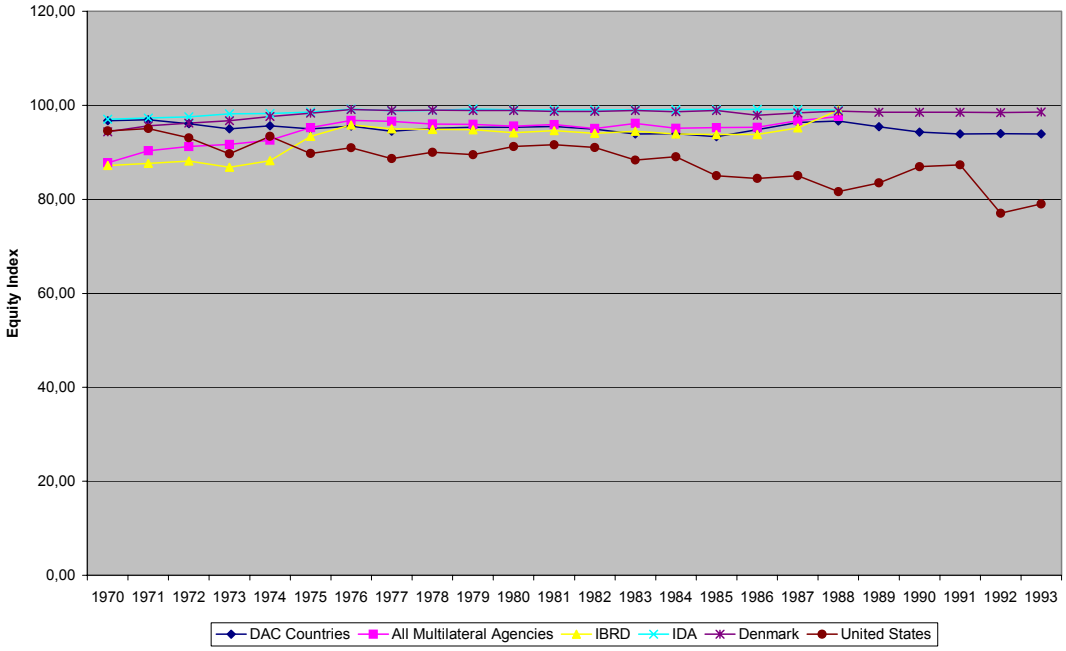


Figure 13. McGillivray Performance Index, 1969 to 1984

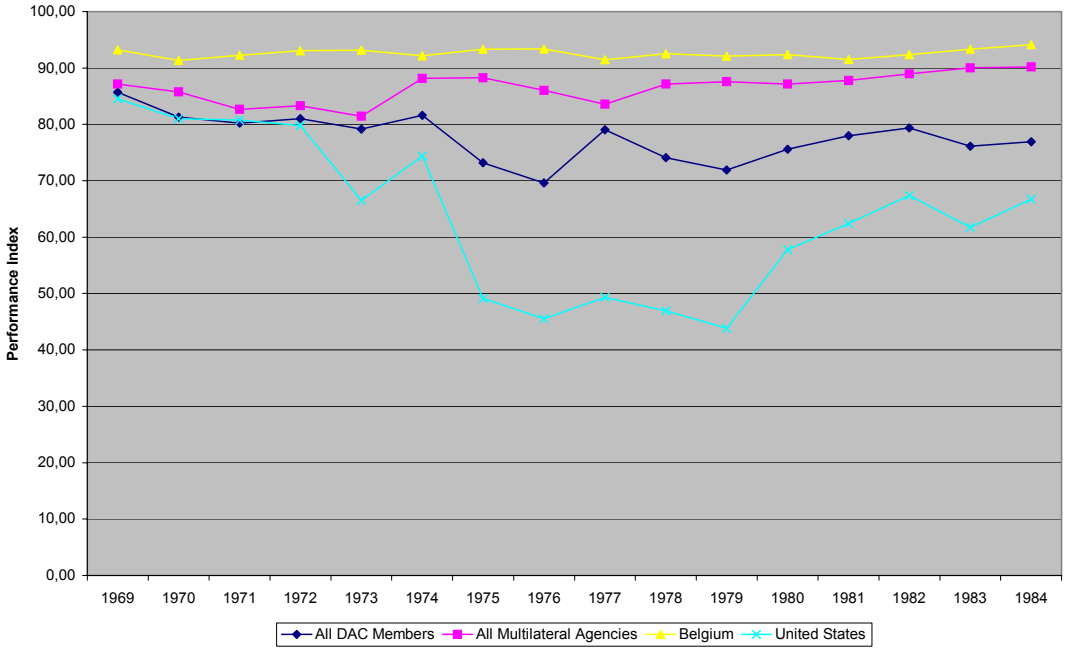
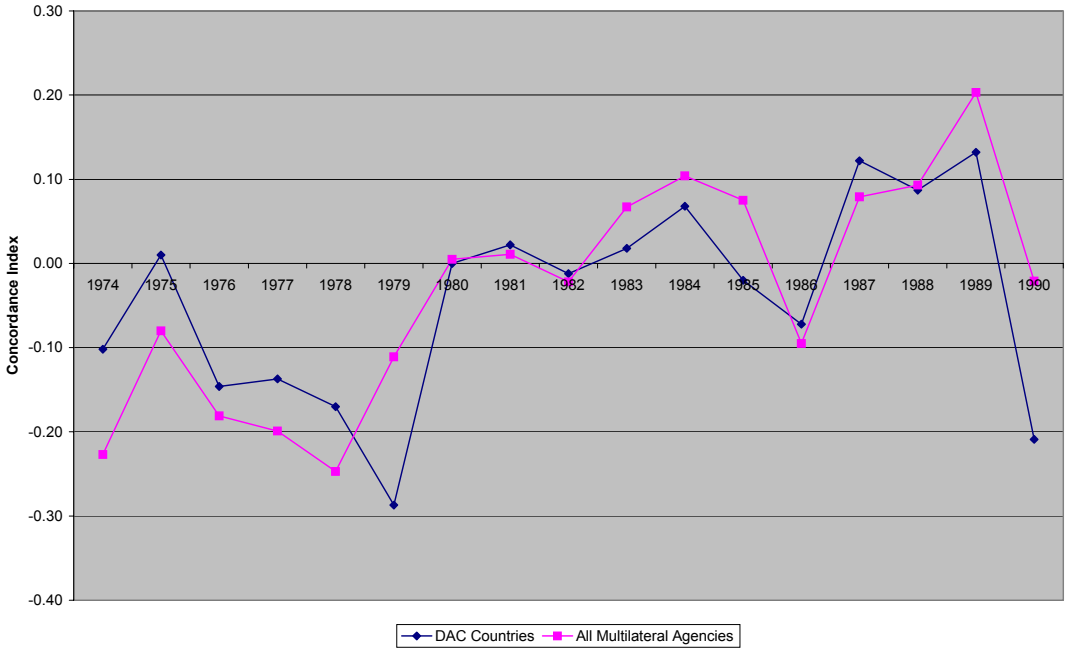


Figure 14. McGillivray-White Concordance Index, 1974 to 1990



Updated performance index values, weighted using PPP GDP per capita, the HDI and the $2 per day poverty headcount are provided in Figures 15, 16 and 17, respectively. Population also appears in the weights. Thus, a donor's index value will be greater the higher the proportion of aid allocated to (i) countries with larger populations and (ii) countries with either lower PPP GDPs per capita, lower HDIs or higher poverty headcounts. Index values for total DAC bilateral aid, total multilateral aid and the big four multilateral agencies, the EC, IDA, UNDP and WFP. The yearly sample of recipient countries varies according to weight data availability. For GDP per capita the sample size is 140 countries. It varies from 113 to 152 countries for the HDI and from 37 to 55 countries for the headcount. The results based on the headcount (shown in Figure 17) should be treated with caution, therefore.

Based on the income and HDI weights, two interesting results emerge. The first is that the DAC bilateral aid marginally outperforms total multilateral aid and that of the EC, UNDP and WFP. The second is that the IDA aid substantially outperforms all other aid under consideration. As such, it the top performing agency. These results are almost replicated using the poverty headcount as the weight, except that total multilateral aid outperforms bilateral aid and EC aid is substantially outperformed by all other aid.

Figure 15. Income-weighted Performance Index, 1990 to 2002

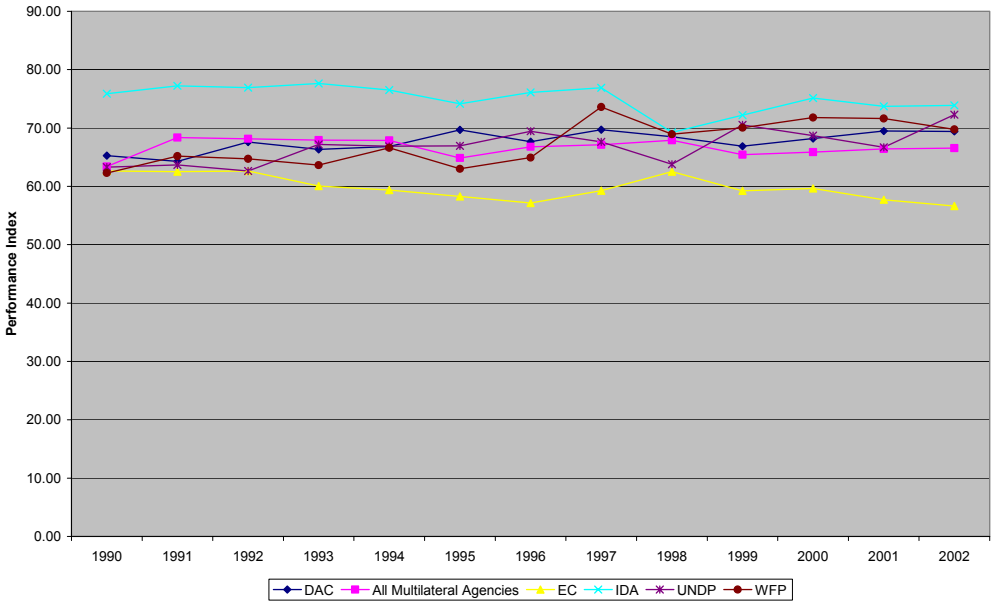


Figure 16. HDI-weighted Performance Index, 1990 to 2002

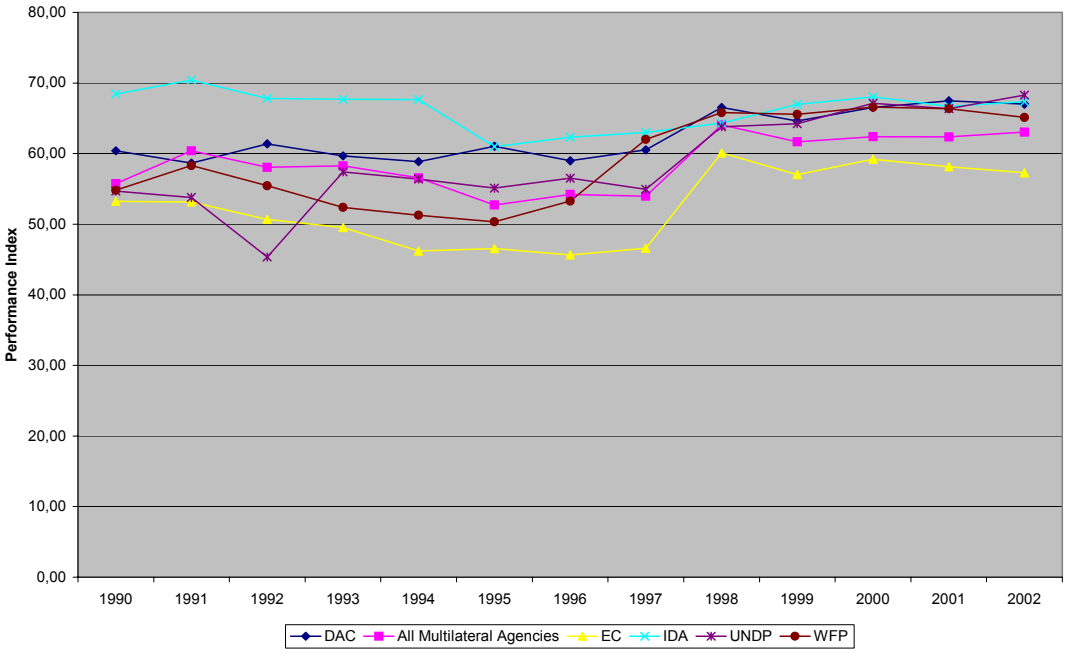
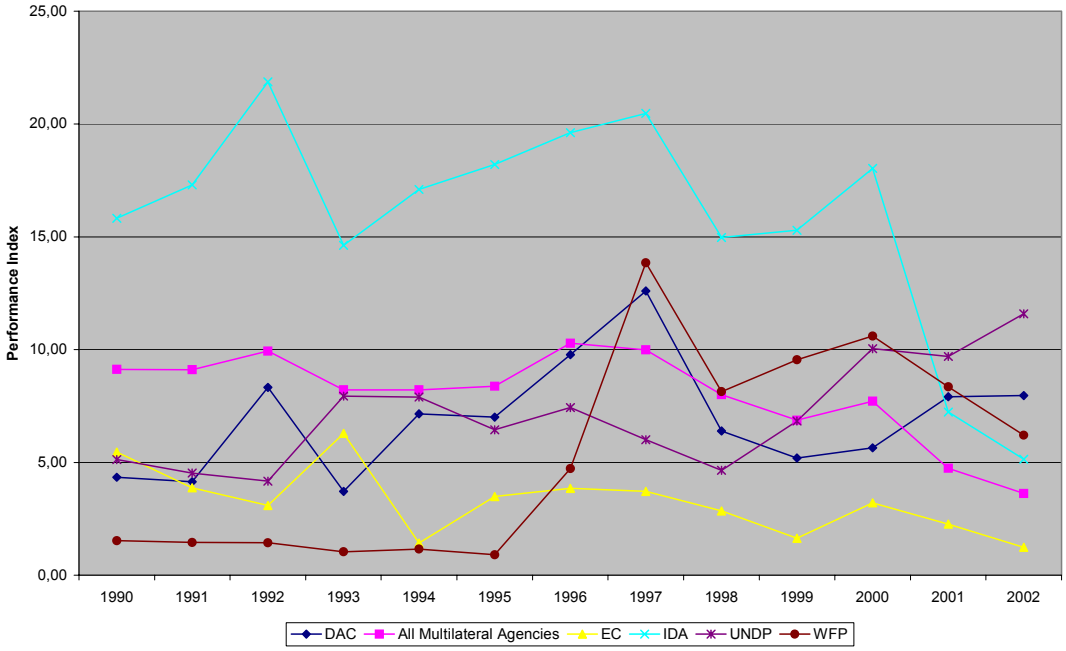


Figure 17. Poverty-weighted Performance Index, 1990 to 2002



Finally, what does the literature say about the developmental effectiveness of multilateral aid, relative to bilateral aid? There is of course a large and growing literature on the impact of aid on growth, and recent literature indicates that the impact is positive. Unfortunately, however, studies do not disaggregate aid in a way which highlights the impact of multilateral aid. This is a substantial gap in the literature on aid effectiveness. The closest the literature comes to filling this gap has been the publication of a number of studies looking at the impact of aid on various public sector fiscal aggregates. A small number of studies (Heller, 1975, Gang and Khan, 1991, Khan and Hoshino, 1992 and McGillivray, 2002) disaggregate aid into bilateral and multilateral components. Mixed conclusions emerge. For instance, Heller finds that there is little difference between the impacts of bilateral and multilateral aid on public investment, Gang and Khan find that a greater share of multilateral aid goes to development projects and McGillivray finds that the impacts of bilateral and multilateral differ according to whether a structural adjustment program is in place. While these results are interesting in their own right, they do not permit one to infer much about the broader impacts of multilateral and bilateral aid, including impacts on poverty. The jury is still out (or is yet to be formed) on this issue.

IV. Conclusion: Can Multilateral Aid be Defended?

The following conclusions, among others emerge from this paper. They are:

i. multilateral aid has a greater poverty focus than bilateral aid, in that a an increasingly larger share of it goes to low-income countries;

ii. a greater proportion of multilateral aid goes to sub-Saharan African countries, as compared with bilateral aid; thus the former is doing more in terms of the MDGs;

iii. declines in multilateral aid to sub-Saharan Africa during 1995 to 2000 were greater than those in bilateral aid – poverty is higher in this region as a consequence;

iv. the concentration of multilateral and bilateral aid is quite similar;

v. that based on assessments provided by CDI calculations, bilateral agencies clearly out-perform multilateral agencies on a number of criteria, although some multilateral agencies perform as well as the best bilateral donors; and

vi. based on subjective evaluations of donor performance with respect to the inter-recipient allocation of aid, mixed evidence emerges, although it is clear that the IDA out-performs all agencies, both bilateral and multilateral, in this regard.

Do these conclusions offer a case in support of multilateral aid over bilateral aid? A majority verdict would appear to be in the affirmative. What is not supported is the position that bilateral aid has become more developmental than multilateral aid, so that a possible case for greater 'bilateralism' of global aid is not founded.

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