

The political utility of multilateral borrowing: Middle income countries and demand for multilateral loans

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Abstract

Over the past 30 years, at least two radical changes have taken place in the world of development finance. First, a number of countries who were once highly dependent on bilateral and multilateral sovereign debt have become more economically stable and creditworthy, significantly increasing their access to and use of private sovereign debt flows, particularly sovereign bonds. Secondly, multilateral development banks (MDBs) and other international financial institutions (IFIs) have been heavily criticized by policy makers and academics for their intrusive lending terms and failure to achieve results with their projects. Nevertheless, the demand for multilateral lending persists, even amongst countries whose financing needs could be entirely met by the private markets. This paper examines the political economy of the demand for this lending among middle income countries, arguing that unlike private borrowing, multilateral borrowing has significant political benefits for borrowing countries, and limited negative externalities. In particular, governments use multilateral borrowing projects as a communication device to their electorates that they are putting money into intractable problems, allowing them to utilize multilateral loans to generate political good will and in some cases, enhance their electability, while outsourcing blame of failed projects to external actors. Further, this framing fits with the justification MDBs and IFIs themselves use to explain ongoing lending in MICs. The paper investigates this hypothesis by analysing public statements and media coverage about multilateral development loans in a series of middle income countries.