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Special Briefing Paper

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The Resources of the International Development Association (IDA)

1. In March 1968 agreement was reached on a second replenishment of the resources of IDA. The agreement now has to be ratified by member states; a Bill to this effect is being introduced in the Commons this month (June).

The agreement provides for a replenishment of \$1,200m (\$400m annually for three years) for lending commitments up to 30 June 1970. The first payment is to be made in November 1968. Britain's total share is to be \$155.5m (see table 4). The amount agreed thus falls substantially below the \$3,000m put forward by the World Bank when discussions started in 1966.

2. IDA within the World Bank Group

The IDA is a member of the group of institutions known collectively as the World Bank. The other institutions in the group are the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC). The IBRD and the IDA, although technically separate, are in effect two funds administered by a single institution, sharing the same staff. The IDA provides development finance on very soft terms - repayment over 50 years, with no instalments in the first ten years, and a service charge of 0.75%. These terms are significantly softer than those of the IBRD.

3. The significance of the IDA

The availability of a large volume of development finance through the IDA is likely to have the following effects on the pattern of economic aid as a whole:

- a) it makes funds available to the developing countries on terms that do not result in a crippling burden of debt;
- b) it draws resources from the developed countries in accordance with an agreed scale, which ensures a reasonably fair distribution of any increase in the amount provided;
- c) it greatly strengthens the World Bank's ability to perform certain functions:
 - i) the provision of development finance to countries in Asia and Africa which cannot afford to accept large amounts on the terms of IBRD loans, especially India and Pakistan;
 - ii) the organisation of machinery for co-ordinating aid from different sources;
 - iii) the influencing of developing countries' policies in directions which the World Bank, the United States, and other major donors think conducive to development of an appropriate sort;
 - iv) the organisation and supervision of large projects, in which contractors from several countries participate on competitive terms - a function which the Bank can only fulfil if it is in a position to put resources of its own into the project in question.

4. The IDA's resources

The IDA came legally into being on 24 September 1960. The subscriptions of the developed countries (Part I members) were fully convertible, but the developing countries (Part II members) paid only 10% of their subscriptions in convertible funds. New accessions raised the total of subscriptions in convertible funds to \$784m, of which \$751m was provided by the Part I members.

In 1963, the Part I members agreed on a replenishment amounting to \$750m, payable in three annual instalments of \$250m, beginning in November 1965. This replenishment was intended to cover new commitments at least up to June 1966. By the end of 1966, a total of \$1,781m had been made available to the IDA in usable form.

5. Use of the IDA's resources

By the end of June 1967 the IDA had committed \$1,694m (with \$1,024m disbursed). The geographical and sectoral distribution of commitments is shown in tables 2 and 3. These commitments left the IDA with only \$86m. Since then, this amount has been fully allocated.

6. Second replenishment

In July 1966 George Woods, the President of the World Bank, submitted to the Part I members a proposal for a second replenishment. Various suggestions had already been discussed informally, ranging from a continuation at the existing rate of \$250m a year to a massive increase up to \$1,000m a year. Mr. Woods is reported to have endorsed the larger figure.

Negotiations were delayed, partly by the disruptive effect of events such as the Kashmir War, but also by the difficulties - especially balance of payments difficulties - in which some Part I members found themselves.

The USA suggested that new contributions should be tied to procurement in the subscribing country. The World Bank resisted this proposal, on the ground that its standing and efficiency would be gravely impaired by any departure from its practice of insisting that contract should be put out to international tender. (The tying of contributions would also have impaired the Bank's ability to act as the impartial chairman of international project syndicates.)

The UK, which was also in balance of payments difficulties, did not support the American proposal. Because IDA credits went overwhelmingly to Commonwealth countries, procurement in the UK out of IDA funds greatly exceeded the volume of the UK's contribution. The UK, therefore, would have suffered from the introduction of tying.

In April 1967 the USA submitted a new proposal. It proposed a replenishment of \$2,400m, in three annual instalments. Of this contribution, 40% was to be tied to procurement in the subscribing country, with an added condition that this tied portion could only be used to finance 50% of such purchases. On the face of it, therefore, the US proposal would have resulted in 80% tying, though a number of complicating factors might affect this calculation. After further delays a compromise agreement was reached on 9 March 1968. It provides for a total replenishment of \$1,200m. This amount, if fully utilised (see below), will represent a 60% increase in money terms. The increase in real terms will be less. It is known that several members would have supported a larger increase, and the figure finally agreed was in fact the lowest that was ever seriously discussed.

Even though the principle of maintaining international competition for procurement of goods and services financed by IDA has not been abandoned, the US, the major contributor, has been allowed to subscribe its funds on special terms. Up to June 1971 (or even later) IDA will not utilise US contributed funds unless they are to be used for purchases in the United States; this may make it impossible to utilise its full contribution. (Despite this special arrangement speedy US Congressional approval is not yet assured.)

Table 1 Sources of IDA funds

Subscriptions) Part I	1,496
First replenishment)	
Part II (convertible currencies)	43
Special contribution (Sweden)	28
Transfers from the IBRD	200
Cumulative net income	14
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	\$1,781m

Table 2 Geographical distribution

Africa	12%	
Asia	77%	
of which: India 54%		
Pakistan 20%		
Europe (Turkey)	5%	(Discrepancies due
Western Hemisphere	7%	to rounding)
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	100%	

Table 3 Sectoral distribution

Electric Power	7%
Transportation	34%
Telecommunications	5%
Agriculture	16%
Industry	30%
Water Supply	3%
Education	6%
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	100%

Table 4 Second replenishment

<u>Agreed Part I country contributions (\$m)</u>	
Australia	24.0
Austria	8.2
Belgium	20.4
Canada	67.2
Denmark	12.1
Finland	3.7
France	97.2
Germany	117.0
Italy	48.4
Japan	66.5
Kuwait	5.4
Luxembourg	0.6
Netherlands	26.5
Norway	10.7
South Africa	3.0
Sweden	24.1
United Kingdom	155.5
United States	480.0
Special contributions:	
Members	17.5
Switzerland	12.0
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Total	1,200.0