International Development Association Bill 1987

Date Introduced: 19 November 1987
House: House of Representatives
Presented by: The Hon. Michael Duffy, M.P., Minister for Trade

Digists of Bill

Purpose

To provide for Australia's contribution to the International Development Association (IDA) for the period 1987–88 to 1994–95.

Background

This Bill is part of a package dealing with Australia's contributions to international development financial institutions. The other Bills in the package are the Asian Development Fund Bill 1987 and the International Fund for Agricultural Development Bill 1987.

The IDA forms part of the World Bank and was established in 1960. The purposes of IDA are contained in the Articles of Agreement that led to the establishment of the body. They include the provision of funds to meet important development requirements on terms that are more flexible and bear less heavily on the balance of payments than conventional loans. To achieve this aim, the IDA lends on concessional or minimal interest rates. As the IDA cannot borrow at the rates at which it lends, its finances are provided through donations by the world’s wealthier countries, principally the developed countries. While the general source of funds has remained relatively constant, the share provided by various countries has changed. For example, the percentage provided by the US has fallen from approximately 42% on the establishment of the IDA to approximately 25% in the sixth replenishment. In that time the percentage provided by Japan and European nations has increased as their relative wealth has increased. The 1970s also saw OPEC increasing it’s funding of the IDA, though this has declined in recent years with the fall in the price of oil. The major recipients of loans from the IDA have been countries in the Indian sub-continent (eg. India and Bangladesh) and sub-Sahara Africa and China. These areas represent the poorest in the world and those where famine is the most common.

The Asian Development Fund (ADF) is part of the Asian Development Bank (ADB). Prior to 1973, the ADB had special funds to lend at concessional interest rates to Asian countries. These funds were formalised into the
ADF in 1973 and loans are generally for agricultural purposes. As with IDA, funds for lending are generally made available by donor nations, although the ADF has borrowed on the open market. The International Fund for Agricultural Development (IFAD) is another body that lends at concessional rates, in this case to increase agricultural production in developing countries. The principal contributors to IFAD are the OECD and OPEC countries. This body has faced funding problems in recent years associated with the fall in the price of oil which has effected OPEC's contributions.

A common feature of all of these bodies is the need for new contributions to replenish the funds available for lending at concessional rates. In the agreement concerning the IDA, reached in December 1986, donors agreed to contribute an additional $US11.5 billion over the period 1987–88 to 1994–95. This, combined with donations from non-member countries, will maintain funds at approximately the same real level as under the previous agreement. Australia's contribution will remain at approximately 2% of total contributions, which represents $A335 million. Following currency fluctuations in the 1970s donations may now be made in the donor nations currency.

In relation to the ADF, Australia's contribution to the fifth replenishment (1987–88 to 1998–99) will be $A410 million, which represents a slight increase in the percentage of total contributions. This arose as Australia agreed to maintain the level of contribution at approximately 7.2% if the real value of the ADF's funds were maintained. However, total contributions in the fifth replenishment were $US3.6 billion rather than the $US4 billion needed to maintain the real level.

The funds available to the IFAD in its second replenishment represent a considerable fall in real value of funds available. To maintain the real level, contributions of $US1 billion were required. However, total replenishment of only $US460 million was pledged. This was mainly due to a fall in contributions from OPEC countries which represents the lower funds available to those countries due to the fall in the price of oil and the cost of the Iran–Iraq war. Australia's contribution over the period 1987–88 to 1991–92 will be $A8.48 million. This represents a decline in both nominal and real terms.

Another common factor regarding funding of these bodies is the use of promisory notes. These allow donor countries to issue promisory notes to the relevant organisation rather than cash with the notes being cashed in (or drawn upon) as the need for funds arises.

Australia's contributions to the International Development Financial Institutions in 1987–88 will total $94.2 million, which represents a fall of $11.6 million or 10.9% compared with 1986–87. Total multilateral aid through these bodies, UN programs and other organisations in 1987–88 will be $195.3 million, an increase of $7.7 million or 4.1% over 1986–87.\(^2\)
The efficiency of all these bodies has been called into doubt at some time. The principal argument against the bodies is that they represent another level of bureaucracy between the donors and recipients. It is argued that this not only imposes an additional cost structure but can also lead to a lack of local knowledge with decisions being made by bureaucrats divorced from local needs rather than the people involved at the grass roots level. Against this, it may be argued that the decisions are made by specialists in the aid area with a wide view of the needs and that the scrutiny of the donors ensures efficiency. Another area that has had a great effect on aid is the changed world economic situation. The effect of the fall in revenue available to OPEC countries has been noted. Perhaps more important is the increasing foreign debt of developing countries, which makes it very difficult for them to borrow on the open market and increases the importance of concessional interest loans.

Main Provisions

Australia is to contribute $A335 million to the IDA (clause 4). (The Explanatory Memorandum to this Bill estimates that the rate that the promissory notes will be cashed will be:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>$A millions</th>
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<tr>
<td>1987-88</td>
<td>10</td>
</tr>
<tr>
<td>1988-89</td>
<td>27.8</td>
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<tr>
<td>1989-90</td>
<td>50.9</td>
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<td>40.2</td>
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<td>1994-95</td>
<td>32.3</td>
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</tbody>
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These are estimates, subject to exchange rate fluctuations and the actual rate of disbursement.

Clause 5 deals with the issue of the promisory notes, while clause 6 appropriates the necessary funds.

References

1. International Development Association, IDA in Retrospective, p. 4.

For further information, if required, contact the Economics and Commerce Group.

17 December 1987

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