Date Introduced: 28 February 1980
House: House of Representatives

Purpose

To enable Australia to make a further payment to the International Development Association (IDA) of $A203,530,000.

Background

The IDA is one of the three major member institutions of the World Bank: the others being the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation. The IBRD, the oldest and most important member of the World Bank group, was established in 1946 to channel financial resources towards the war-devastated countries of Europe and the underdeveloped countries. As the countries of Europe recovered from World War II and the process of decolonisation gained momentum, the IBRD devoted its attention almost exclusively towards the underdeveloped world, but it offered loans only to "credit-worthy" countries and its interest rates were close to those charged by private institutions. In the late 1950s it became increasingly clear that the development process was tremendously complex and that the IBRD, with its stress on "credit-worthiness", was unable to extend assistance to the poorest countries most in need of resources, particularly in South Asia. It was therefore decided to establish a new institution to assist the poorest countries and the International Development Association was introduced in 1960.

The IDA has its own identity but it shares in common the staff and headquarters of the IBRD in Washington, D.C. The IDA's membership has increased from an original 68 to 122 and the number of contributors has grown from 17 to 33. The IDA's purpose is to extend long-term loans to less developed countries for periods of up to 40 years with a ten-year "grace" period. IDA loans bear no interest, only a service change of 3/4%. They are granted primarily to countries with an annual GNP per capita of less than $US300,
although countries with higher rates of GNP can still obtain some IDA funds which can be granted in combination with funding from the IBRD. The IDA draws some funds from the IBRD but most of its resources are granted in regular "replenishments" from contributing member countries. Since 1960, the IDA has lent over $16.7 billion for over 900 development projects: more than half this amount has gone to the nations of South Asia, especially India, Pakistan and Bangladesh. In its early years of operation the IDA lent mainly to "infrastructure" projects in fields such as power generation, water supplies and transport. In recent years and under the influence of World Bank President Robert McNamara, the IDA has increasingly oriented its lending towards social as well as economic goals, to directly assist the urban and rural poor. In a speech in October 1979, McNamara emphasised again that existing rates of absolute poverty and continuing high population growth rates necessitated a direct attack on poverty by the richer nations. Even if current economic growth rates continued, he argued, there would still be 600 million people trapped in "absolute poverty" in the year 2000. He emphasised the importance of the IDA as "the largest source of economic assistance to the 1.25 billion people living in the poorest developing nations".

Australia has strongly supported the IDA since its inception in 1960. It is now proposed that Australia should contribute $A203.53 million to the sixth replenishment of the IDA. This replenishment will provide the IDA with an additional $US12 billion which will be expended in the three year period from 1 July 1980.

Provisions

The Bill approves the payment of $A203,530,000 to the IDA (clause 4); and clause 5 enables the Minister for Foreign Affairs to notify the Association of Australia's intention to make the payment. In clause 4, it is specified that a proportion of the payment, $A307,758.60, shall be considered as an additional subscription to the Association. The provision of an additional subscription is in accordance with IDA policy and it is designed to maintain the relative voting power of each of the developed members of the Association in accordance with the relative proportion of the resources which they contribute to the Association.

Sub-clause 6(1) specifies that the Treasurer, on behalf of Australia, may provide Australia's IDA contribution in the form of promissory notes rather than as an immediate cash payment. Sub-clause (6)(2) of this section specifies that section 6 of the International Development Act 1960 does not apply to a payment under the
current Bill. The reason for this sub-section is that, in the original Act, it was specified that the Governor-General should be the authorising authority in the provision of promissory notes or securities for payments to the IDA. It is now thought to be unnecessary for the Governor-General to act in this role.

The necessary appropriation of the payments by Australia is made by clause 7.

3 March 1980

Foreign Affairs Group
LEGISLATIVE RESEARCH SERVICE