

European Communities

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REPORT

drawn up on behalf of the Committee on Development  
and Cooperation

on the International Development Association

Rapporteur: Mrs T. CARETONI ROMAGNOLI



At its sitting of 15 November 1982, the European Parliament referred the motion for a resolution by Mr G. Fuchs (Doc. 1-740/82) to the Committee on Development and Cooperation as the committee responsible.

At its meeting of 20 January 1983, the committee decided to draw up a report and on 17 March 1982 it appointed Mrs Caretoni Romagnoli rapporteur.

The committee considered the draft report at its meetings of 25/26 April 1983 and 18 October 1983, and at this latter meeting unanimously adopted the motion for a resolution as a whole.

With Mr Bersani, vice-chairman and acting chairman, in the chair, the following took part in the vote: Mrs Caretoni Romagnoli, rapporteur; Mr Cohen, Mr Enright, Mr Fellermaier, Mr Ferrero, Mr C. Jackson, Mr Narducci and Mr Wedekind.

The report was tabled on 24 October 1983.

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The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the International Development Association (IDA)

The European Parliament,

- (a) having regard to the motion for a resolution of 14 October 1982, Doc. 1-740/82,
- (b) having regard to the report: 'The IDA in retrospect' (the first two decades of the International Development Association, Oxford University Press, August 1982),
- (c) having regard to the 1982 annual report by the World Bank on world development.
- (d) having regard to the Cohen report on the United Nations conference on the Least developed countries (OJ No. C 234 of 14 September 1981),
- (e) having regard to the Cohen report on the VIth United Nations Conference on Trade and Development (UNCTAD VI) Doc. 1-255/83,
- (f) having regard to the report of the Committee on Development and Cooperation (Doc. 1-933/83),
  1. Reaffirms its previous resolutions in which it declared that the fight against poverty and hunger in the world is one of the cornerstones of the Community's development policy;
  2. Stresses yet again the importance of multilateral aid, for which the International Development Association is one of the most important channels;
  3. Points to the positive role played by the IDA in its twenty years of activity in helping and supporting the development of the least developed countries, which are its natural beneficiaries;
  4. Reiterates the unacceptability of using cooperation policy as a means of exerting political influence;

5. Is extremely concerned that the IDA is at present unable to meet commitments which are now more necessary than ever;
6. Therefore repeats its appeal to the Member States of the Community to fulfil their commitments and hopes that their financial contributions will be paid in such a way as to preserve and guarantee the operational independence of the association;
7. Requests the EEC and its Member States to bring all possible pressure to bear so that the sixth refinancing of the IDA is completed as soon as possible;
8. Views with concern the discussions under way on the seventh refinancing and hopes that agreement can be reached to provide an adequate sum which also takes account both of the increase in the number of recipient countries and of their balance of payments situation;
9. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTINTRODUCTION

The international Development Association (IDA) was set up in 1960 as an organization of the World Bank dealing with the least developed developing countries (LDDC).

In January 1960, its charter was drawn up and the IDA became operational as from September of the same year. The purpose of the IDA is to promote development by providing technical and financial aid to meet the most pressing needs of the least developed countries, which are unable to secure loans on the world's financial markets at current prices.

The sectors to which priority is accorded when selecting projects are agriculture and rural development, health measures and basic infrastructures. When schemes are being chosen, account is taken not only of their immediate profitability but also of the medium and long term advantages and changes which might result from the investment.

The IDA, which is refinanced regularly for three-year periods, grants loans, which are paid back in instalments, on very favourable conditions. These loans extend over fifty years, interest-free (save 1% for servicing), and repayment starts only from the tenth year.

QUOTAS

Over the years the IDA has sought to maintain the original quotas paid by donor countries which were fixed in accordance with their respective revenues and international economic strength. With time, modifications to the original quotas have proved necessary and changes have been made.

Consequently, there has been a reduction in the American and British contributions and a corresponding increase in those of Japan, the Federal Republic of Germany and the member countries of OPEC: the American contribution has fallen from its initial 42% to 27% and that of the United Kingdom from 17% to 10%, while Japan has increased its share from 4% to 15% and the FRG from 7% to 13%.

The voting rights of each country reflect their percentage of contributions, although corrective mechanisms have always been used to defend the rights of small donor countries. This criterion has given rise to successive adjustments including the quota changes mentioned above and special contributions from various donor countries to enable the IDA to survive specific crises.

#### REFINANCING

Under the original agreement, funds donated to the IDA were to be used over a period of five years, but very soon this proved impossible because of the number of projects submitted and the resulting lack of funds.

To date, the IDA has been refinanced six times, each time for three years. On each occasion there have been problems and controversies; in addition to the amounts to be paid by individual states, other questions have also gradually been raised, in particular by the Americans. Although a study carried out in 1981 by the American Treasury Department concluded that the Association's activities were on the whole positive, there was criticism of the options chosen and some thought it necessary to recognize the need to set up a monitoring system to limit the Association's independence.

For the IDA-2, the United States, under pressure from a persistent balance of payments deficit, paid its share of the IDA funds only on condition that they were used to purchase goods and services in America. It also brought up the issue of the distribution of funds among the various eligible countries, which it did not consider to be fairly balanced. Indeed, it did seem excessive that 70% of the funds from the first subscription and the IDA-1 had been allocated to India and Pakistan (which at that time included Bangladesh). Consequently, the management bodies of the IDA proposed, in agreement with the delegates of the donor countries, to limit the funds for India to 40% and those for Pakistan to 12.5%. These percentages were further modified following the states of emergency in Indonesia and Bangladesh.

In accordance with the IDA statute, the commitments made by donor states must reach 80% of the target figure in order for each refinancing operation to become effective. In practice, this clause has given the USA a dominant role, since its contribution has always exceeded 20%. The American Congress approved the American contribution to the IDA-1 only after some delay, a situation which grew worse during the negotiations and voting on the IDA-2, resulting in a slowing down of the Association's operations in 1968.

The situation did not appreciably improve in subsequent negotiations and each refinancing operation has encountered problems.

## ACTIVITIES

Over the last twenty years, the percentage of official development aid channelled through multilateral organizations has increased sharply from 13% to 28% of total aid, with 30% being handled by the IDA.

During its first twenty-two years of operation, the International Development Association has approved 1,302 loans totalling 26,700 million dollars in seventy-eight developing countries.

Currently, there are thirty-three donor countries, of which nine are still regarded as developing countries, including South Korea and Colombia, two former recipients of IDA aid.

Subscriptions and contributions account for 93% of the resources which the IDA had available between 1961 and 1982, the rest being provided by the World Bank or internal funds.

## ELIGIBILITY

Since the very beginning, three basic criteria have been used to determine which countries are eligible to receive funds:

1. Poverty, on the basis of per capita income.
2. Limited possibilities of obtaining loans on the financial markets.
3. The economic framework, including the country's ability to make effective use of its resources and the availability of projects.

Account is also taken of population size.

## PER CAPITA INCOME

The IDA has always considered the poorest countries, with the lowest per capita income, as natural recipients of its aid. In 1964, it was decided that preference should be given to countries with a per capita income of less than 250 dollars a year. This limit has since been increased, largely owing to the effects of inflation, and in 1980 amounted to 730 dollars.

## CREDITWORTHINESS

Limited financial possibilities are another factor which is taken into account. As has already been said, the IDA helps the poorest countries in the world, which do not have sufficient finance available to obtain loans on normal market terms.

There are nevertheless exceptions. India and Pakistan, countries which are economically sound and enjoy excellent reputations in financial circles, also figure on the list of recipient countries. On the other hand, Indonesia, whose per capita income falls within the prescribed limits, is excluded from the list of recipients because it is one of the world's major petroleum-exporting countries.

## ECONOMIC FRAMEWORK

The IDA charter lays down that due attention should be given to economic considerations, together with factors of efficiency and international competitiveness, and not to political or other non-economic elements. In assessing results, an attempt is made not to penalize countries for failures due to external circumstances, lack of resources, or even weaknesses in the state apparatus, since one of the IDA's objectives is to eliminate such obstacles.

## DISTRIBUTION OF LOANS

The list of countries eligible for IDA loans has greatly changed over the last twenty years. Fifty-six countries have joined those on the list drawn up at the time of the first subscription, while twenty-seven have been removed because they are near or have surpassed the limit on per capita income, and believe that they can in any case manage by themselves. Of the twenty-two original countries, only eight are still on the list: India, Pakistan, Bangladesh, Ethiopia, Niger, Sudan, Tanzania and Haiti.

The Association's activities have concentrated increasingly on southern Asia and sub-Saharan Africa: about 16,000 million dollars, or 59% of total funds, have been invested in the former area, whereas commitments in sub-Saharan Africa have doubled, increasing from 10% of the total at the beginning to 20% at the end of the 1970s.

## AGRICULTURE

When the IDA started its activities in the 1960s, it was believed that the main objective of development should be to bring about rapid industrialization, which would be possible once the basic infrastructure had been set up.

Thus investments were concentrated on the construction of railway lines, ports, roads and electric power stations. Such ideas proved to be misguided and the efforts made towards industrialization have not, with a few exceptions, proved successful. At the same time, agriculture was totally abandoned, producing a double negative effect.

Subsequently, priorities were changed and it was decided to increase resources for the agricultural sector, which rose from 23% to 32% of the total, giving an overall investment of approximately 10,000 million dollars.

Most of this finance went to India where it achieved striking results, helping the country to attain self-sufficiency in food production. The increase in productivity and in farmers' incomes in India has been achieved through a series of operations ranging from the selection of seeds best suited to the type of land, to the opening of minor canals and the sinking of new wells. The important role of improved agricultural credit facilities should also be taken into account.

### IDA-6

The sixth refinancing of the International Development Association anticipated contributions from donor countries amounting to 9,150 million in SDR (special drawing rights), i.e. 12,000 million dollars at the official exchange rate in October 1979 for a period of three years, 1981-1983.

The IDA-6 became effective a year later than scheduled in August 1981, when the USA decided on a contribution amounting to 3,240 million dollars.

To enable the IDA to operate during the first year of the three-year period, most of the other contributing countries paid their quotas in full, thus obviating the crisis.

At the meeting of 5-6 April 1982, the USA explained its new position: the sums initially intended to cover three years, would now be spread over four

years. Consequently, the contributions for the tax year 1982 amounted to only 2,690 m, 35% less than the expected 4,100 m. Owing to this reduction, the IDA was obliged to cut back its own loans by 1,500 m dollars. Most cuts were made in loans to countries in southern Asia (approximately 1,200 m), with smaller cuts (approximately 200 m) for countries in sub-Saharan Africa.

In order to face this emergency situation, at least in part, the World Bank granted additional loans of 800 m dollars to some countries in southern Asia whose financial position was considered sufficiently strong to enable them to pay the higher interest charged by the Bank.

To avoid a repetition of the steep fall in the level of operations which had taken place in the tax year 1982, at the same meeting in April 1982 various proposals were made to improve the Association's resources for the tax years 1983 and 1984.

These proposals included a more flexible system of proportional quotas and the setting up of a special fund to function in parallel with the IDA, into which donor countries could pay the difference between their full and proportional quotas.

Accordingly, some countries, including France and Italy, indicated that they would make their payments through the parallel fund, whereas other Community countries, including Germany and the United Kingdom, expressed their preference for the advance payment system.

The main characteristics of the two forms of funding are the following: sums paid into the parallel fund must be used to purchase goods and services only in the contributing countries to the exclusion of any others but such payments do not confer voting rights.

The advance payment system, on the other hand, is directly managed by the IDA in accordance with its own criteria and practices; this leaves its administrative independence intact since such payments have no conditions attached.

Taking into account the various positions adopted in the past by our committee, which tend to favour multilateral as opposed to bilateral aid, the advance payment system is apparently one which gives a doubly positive effect,

as we have pointed out several times before: on the one hand, it enables the IDA to continue its work, which has produced fruitful results and which on the whole can be considered satisfactory, without donor states imposing any conditions; on the other hand, fuller guarantees can be offered to the LDDC that choices will be taken which are free from political implications.

At the following delegates' meeting, on 8 September 1982 in Toronto, most of the donor countries decided once again to pay their quotas in full. This meant that the IDA had 3,500 m dollars at its disposal for the tax year 1983. A further 3,500 m ought already to be available for the tax year 1984, on the basis of commitments made in previous years, as follows:

- (a) the equivalent of 2,000 m dollars in additional contributions from some countries;
- (b) 1,095 m dollars from the United States which is the amount still outstanding from the agreed commitments entered into under the IDA-6;
- (c) 400 m dollars from other sources.

In Toronto, the American administration stressed its intention to honour its obligations under the IDA-6 for the tax year 1984.

#### THE AMERICAN CONTRIBUTION

For the tax year 1983, the American Government requested 945 m dollars for the IDA. Last December, Congress approved only 700 m and the remaining 245 m was agreed to when the budget was approved in June.

American contribution approved for the IDA-6 .....	\$ 3,240 m
Contribution for tax year 1981 .....	\$ 500 m
Contribution for tax year 1982 .....	\$ 700 m
Contribution for tax year 1983 .....	\$ 945 m
Sum remaining to meet obligations under IDA-6 .....	\$ 1,095 m

#### IDA-7

A series of preliminary meetings between the delegates of the donor countries is under way to discuss the IDA-7. At these discussions, various

objections have been raised regarding the terms on which IDA loans are granted. Proposals have been made to reduce the period covered from fifty to twenty years and to raise the interest rate to 6%.

The management of the IDA has undertaken to examine the matter and to submit solutions for the future.

As regards the sums to be provided for the seventh refinancing, a start was made on discussing figures at the meeting in Washington last September in the context of the Annual Assembly of the IMF and the World Bank. The positions which emerged were somewhat contrasting. The Americans expect the refinancing of the IDA to total only 9,000 million dollars, whereas the other industrialized countries favour a figure of about 12,000 million and the World Bank considers 16,000 million to be the absolute minimum. According to the conclusions of the annual report of the World Bank<sup>1</sup>, world recovery cannot, in itself, lead to faster and stable growth in low-income countries; there is a danger that persistent recession in these countries may undermine the economic recovery of the industrialized countries. The report goes on to suggest the aim of raising the growth in GDP of the developing countries to 4/5%, partly by increasing capital flows to the Third World. In his address to the Assembly, the President of the World Bank, Mr T. CLAUSEN, added that the American policy on development was suicidal (the economic crisis facing the developing countries was a time-bomb which would eventually explode, engulfing rich and poor countries alike)<sup>2</sup>. Despite these alarming statements, it seems most unlikely, on the basis of available data, that it will be possible to maintain the contributions, in real terms, at previous levels.

This comes at a very awkward time for the Association, in view of the increasing difficulties of many recipient countries. Moreover, the Chinese People's Republic, with its immense problems and needs, has recently become a recipient country, thus considerably enlarging the IDA's field of action.

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<sup>1</sup> World Development Report 1983, The World Bank, published by the World Bank, Oxford University Press 1983, p. 125

<sup>2</sup> Speech delivered at the Annual Assembly of the International Monetary Fund/World Bank, held in Washington in September 1983

With regard to the amounts to be paid for the seventh refinancing, no figures have yet been mentioned, but it seems most unlikely that it will be possible to maintain the contributions in real terms at previous levels. This comes at a very awkward time for the Association, in view of the increasing difficulties of many recipient countries. Moreover, the Chinese People's Republic, with its immense problems and needs, has recently become a recipient country, thus considerably enlarging the IDA's field of action.

#### CONCLUSIONS

Your rapporteur believes that we on the Committee on Development of the European Parliament, in line with all our previous positions on cooperation and support for the poorest countries, must insist yet again on the need to provide aid for the LDDC.

In over twenty years of activity, the IDA has shown that it is an effective organization dealing with needs which we believe are of top priority. It would be a serious mistake to abolish this body or even to reduce its effectiveness, when all contributions, including that of the IDA, whose role is considered to be very positive, are more necessary than ever, given the present inadequate resources made available to developing countries.

It is therefore justifiable for this subject to have been brought to the attention of the European Parliament and it is right that a serious and constructive position should be adopted to encourage the Commission to take all necessary steps in its power as outlined above.

