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# Highly Successful Work of IDB

by Professor Albrecht Kruse-Rodenacker, Stuttgart

International credit and capital movements have always been chafing against certain obstacles and extraneous risks, including the existence of geographical areas with different legal systems, the difficulties of transferring payments, the instability of currencies, and discrimination against foreigners. Ever since the big inter-war slump, the scope and liberties of international capital movements in the private capital markets have been narrowed down badly. An unending sequence of moratoria and transfer difficulties prevented even those debtors who were able and willing to pay from meeting their obligations of capital redemption and interest payment on time.

### Earlier Requests for an Inter-Regional Bank

Latin American advocates of setting up an Inter-American Development Bank (IDB) [1] naturally looked to the United States as their most important partner. And it was the United States, too, which channelled more and more of their handouts of development aid to genuine development countries, after the middle of the "fifties". However, the regional breakdown of this aid was governed by political considerations. The lion's share was poured into the countries on the periphery of the Soviet Bloc, whilst Latin America was considered a quiet backwater protected by the roof of the US's Good Neighbourhood Policies. Virtually nothing from the big "pump-priming process" of development aid ever reached it. The State Department in Washington might have been ever so much in favour of aid through an Inter-American Bank, but vested commercial interests within the US were usually sharply against such a plan.

Incidentally, it had been as early as 1890, at the first Inter-American Conference in Washington, during which most Latin America representatives expressed the desire for the creation of an inter-regional bank. But the United States refused to countenance it and thus sealed its fate—to be precise, its destroyers were the US Congress and the vested commercial and business interests. A new attempt in the same direction was made in 1901. The Second Inter-American Conference had been convened to Mexico City, and again the project of an Inter-American Bank was tabled. By now, the United Kingdom had joined the United States in opposing this desire, as more and more British merchant banks had become active in Latin America.

### Persistant Opposition in the US

When the world slump had virtually ruined the Latin American republics through the drop of their export prices to rock bottom and the painful reduction of their income from foreign trade, the old project was revived and brought forward again in 1933, during the Seventh Inter-American Conference at Montevideo. It was supplemented: together with a bank, certain efforts were proposed for harmonising the general aspects of American economic policies. Again, it proved impossible to carry these proposals to universal adoption. Later, it was President Roosevelt who, with his Good Neighbourhood Policy, renewed the initiative. A draft agreement, much enlarged in scope, was submitted to interested governments in February, 1940. However, when the ratification bill came to be debated in the US Congress, resistance against it by Congress members proved again much stronger than expected.

During later years, up to the end of World War Two and even after that, right into the middle "fifties", renewed efforts were doomed to failure.

[1] A. Kruse-Rodenacker, "Die Interamerikanische Entwicklungsbank" (The Inter-American Development Bank), contains a full discussion of the problem. The study was published in 1968 in Hamburg.

Even a proposal to set up a commission of experts, on the programme of work and terms of reference of which discussions had been held for years, was turned down in the end, in 1955. However, as in the whole field of Inter-American relations, 1958 marked the watershed also in the history of the Bank. Fidel Castro was then on the point of seizing power in Cuba. Many Latin American republics were in dire straits economically, their relations with the US growing more tense almost daily. When President Kubitschek of Brazil, still in 1958, launched his appeal for an "Operación Panamericana" to overcome Latin America's economic and social problems through its own unaided efforts, things began at last to move. Already on December 30, 1959, the agreement on the formation of the Bank came into force.

### Objectives of the Bank

The Bank, on principle, provides finance only for part of the capital requirements of individual and approved development projects. One of the main tasks of the Bank is the provision of foreign capital for industry and farming. Support is to be given especially to such projects which, by their very nature, fail to gain access to the international credit and capital markets, e.g. smaller and medium-sized companies.

The Bank's business volume has grown rapidly. Its share in the total volume of credits granted independently by official institutions had been only 1.5 p.c. in 1961, but it had grown to 19.3 p.c. by 1966 (or, rather, even to 33.5 p.c., if binding promises of credit grants are added). Estimating total gross investments in Latin America during the years 1961-1966 at about US $ 100,000 mn, the share in capital mobilisation claimed by the projects which were supported by the Bank in Latin America may be put at roundabout 5 p.c., and the Bank's own share in the total of investments through financing these at 2 p.c.

On the whole, it is the Bank's objective to maximise the share of debtor countries' own capital funds in projects supported by the Bank. Consequently, in all the supported projects, the capital share of other funds in projects of member countries drawing credits from the Bank in total project costs has always been more than half, this half having been financed mainly from local sources. Up to now, the Bank has found finance for about one third of both industrial and agricultural project costs—but one third is only an average figure for all the Latin American countries taken together. In individual countries, industrial and farming enterprise were supported to very different degrees. The Bank has recently turned more and more towards part-financing of integration projects.

### In Favour of Integration

It is true that economic integration of the Latin American republics was mentioned in the Bank's Charter only as a marginal afterthought, among the objectives worth supporting, but the Bank's policy on financing has progessively turned towards support for projects from which integration may benefit. This policy was determined by the knowledge that many of the Latin American republics would not be able to carry on effective economic development without first reaching a certain level of regional integration. If there is a choice between a number of projects, the one with the likelihood of exerting a strong prospective regional influence will be awarded credit support. A typical instance of such a decision was the provision of finance for the Carretera Marginal de la Selva, a through road linking the Andean mountain states of Peru, Bolivia, Ecuador, and Colombia.

But the Bank does not only grant support to national projects liable to be of high integration value, it has turned increasingly to favouring multinational development projects. For this purpose, it has been cooperating with CAFTA

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(Central American Common Market) and LAFTA (Latin American Free Trade Area). IDB was also the first bank ever to create a multinational system of export financing. It offers medium-term credits for financing international trade with capital goods, to whose production Latin American efforts must have contributed at least 50 p.c., by value. The formation of a new Institute for Latin American Integration (ILAI) by the Bank is pending.

### A Model for Similar Institutions

Today, it can no longer be doubted that, in spite of the delay in its creation, the Inter-American Development Bank has passed through two decades of highly successful work. The cornerstone of this success has been the big growth in co-operation by all the partners, upon which the Bank's management has operated with a high degree of flexibility, adapting its methods to the ever changing requirements of Latin American national economies. Without the dynamism, admired by everybody who knows him, of the Bank's President, Sr. Felipe Herrera, and his capacity to see far ahead, such flexibility and adaptability could not easily have been built. Therefore, it has not been a result of arbitrary chance that the Inter-American Development Bank has now been accepted as a model for similar institutions all over the world.

# IDA – Shortcomings in the Lending Policy

by J. H. Richards *, Cardiff

The International Development Association (IDA) was established in 1960 to assist the poorest of the developing countries by providing investment funds on easier terms than are generally available. IDA credits bear no interest and extend over a 50 year period. Consequently the Association is intended to be a "soft loan" agency designed to meet the special needs of developing countries with serious balance of payments problems. These countries are either too poor to borrow on conventional terms or else the structure of their international debt is such that they cannot undertake to repay any further loans in the short and even the medium period.

### Lending Policies

The motivating force behind IDA should, therefore, be the attempt to alleviate poverty: IDA credits should be placed with reference to need, expressed perhaps in terms of GNP per capita data rather than the recipient country's absorption level: its growth potential or its ability to repay foreign debts. But the evidence available in mid-1969 suggests that, through its inaugural decade, the activity of the youngest member of the World Bank Group may have been misplaced. While attention has been drawn to the limited funds which the Association has at its disposal, the slowness of Part I countries to replenish the funds [1] and the Horowitz proposal for substantially increasing them [2], the purpose of this article is to indicate shortcomings in IDA's lending policy.

At its inception IDA member countries were divided into two groups: Part I and Part II countries. In general, Part I countries were to provide the resources and Part II countries were to be the recipients. The seventeen Part I countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Kuwait, Luxemburg, the Netherlands, Norway, South Africa, UK and the United States. The remaining 85 members are described as Part II countries, and are entitled to receive IDA credits, so are dependent and associated territories of Part I countries. Depending on the circumstances, recipient countries may receive IDA credits only or a combination of IDA credits and World Bank loans.

IDA credits are loans, not grants; they are repayable in convertible currencies but the time involved is very considerable. The loans so far

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[1] See "An Interview With Mr McNamara", in: The Banker, March 1969, and World Bank, Annual Report, 1968, pp. 25-27.

[2] See M. Mushkat, "The Horowitz Plan and Developing Countries", INTERECONOMICS No. 7, 1969, pp. 215-218.