

Richards, J. H.

Article — Digitized Version

IDA — shortcomings in the lending policy

Intereconomics

Suggested Citation: Richards, J. H. (1970) : IDA — shortcomings in the lending policy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 05, Iss. 1, pp. 23-25,
<https://doi.org/10.1007/BF02928253>

This Version is available at:

<https://hdl.handle.net/10419/138302>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

(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 de-

cadres 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 funds¹ and the Horowitz proposal for substantially increasing them², 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

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.

* University College of South Wales and Monmouthshire.

made are for a period of 50 years. Repayments in convertible currency will not begin until after the 10. year. Then for 10 years 1 p.c. of the principal will be repaid each year. For the final 30 years of the loan, 3 p.c. of the principal will be repaid each year. The loans are interest free but borrowers have to pay 0.75 p.c. p.a. on outstanding amounts in order to meet the Association's administrative costs.

Five Significant Features

In making loans IDA implements the same principles as the World Bank uses. That is, it makes a general appraisal of the merits and priority of the proposed project and if these are satisfactory it then investigates the project in detail in terms of expected returns, management potentialities, technical design and potential construction problems. If these investigations provide acceptable results the credit is negotiated. The credit is disbursed over the construction period as payments for the credit's agreed purpose become due. Purchases are obtained on an international basis. While the project is being executed it is periodically inspected by members of the World Bank staff and the recipient has to submit periodic reports. Even after completion of the project, when it is fully operative, the Association receives progress reports and it is the intention to continue these throughout the life of the loan.

IDA extended its first credit in May 1961. By April 1969 it had made 144 credits. The total value of these credits exceeded \$ 2,000 mn. Table 1 contains a geographical breakdown of loans by sectors.

Table 1
IDA Credits to April 1969
(\$ mn)

Sector	Africa	Asia	Europe	The Americas	Total Value	Percentage Distribution
Electrical Power	10.0	65.8	25.7	19.0	120.5	6.0
Transport	175.4	394.9	—	77.3	647.6	32.3
Tele-communications	0.8	90.8	—	—	91.6	4.6
Agriculture	75.1	226.9	32.0	13.1	347.1	17.3
Industry	—	591.3	34.8	—	626.1	31.2
Education	94.3	29.5	—	8.0	131.8	6.6
Water Systems	1.1	29.9	—	3.0	34.0	1.6
Others	1.1	8.5	—	—	9.6	0.4
Total	357.8	1,437.6	92.5	120.4	2,008.3	100.0
Percentage Distribution	17.8	71.7	4.5	6.0	100.0	—

Source: World Bank, The World Bank Group, Washington, 1969, p. 32.

Analysis by Sectors

Almost a third of the total credits made by IDA have gone into the transport sector: these range from the improvement in passenger and cargo facilities at inland river ports in East Pakistan, through highway development in Colombia, to road building in Swaziland.

Industry, starting from a very narrow base, has recorded impressive growth rates in many Asian countries apart from Japan and Hong Kong. Over 40 p.c. of IDA credits going to Asia have been earmarked for the industrial sector: of the total credits for industry over 93 p.c. went to Asian countries and the remainder to Turkey.

Of the \$ 358 mn going to Africa, almost 99 p.c. went to three sectors: 49 p.c. to transport, 26 p.c. to education and 24 p.c. to the agricultural sector. Not only did 49 p.c. of IDA's credits to Africa enter the transport sector, but 45 p.c. of World Bank loans were also used in this way. Even now, means of communication in Africa are sub-standard but the economic future of the continent depends to a large extent on rapid progress being made in this sphere. The raw materials and primary commodities that are such a vital part of Africa's exports have a very low value/bulk ratio, for example, ores, coffee and cocoa, consequently good transport facilities are an essential prerequisite for economic growth.

The education sector has received less than \$ 132 mn worth of IDA credits but this modest total compares well with World Bank loans of only \$ 61 mn. It is not difficult, however, to explain the paucity of World Bank lending to the educational sector. World Bank loans are made at market rates of interest and are repayable over a relatively short-time period. In many instances, governments of developing countries cannot afford—politically speaking—to borrow in order to invest in a project with such a lengthy gestation period as education. Hence the funds required for investment designed to improve a country's human resources must be sought elsewhere. The logical choice should be the IDA with interest free credits and a 50 year repayment period.

Educational Needs

When one considers the long term economic benefits to be derived from increased and improved educational opportunities it is surprising that all IDA's limited resources have not been directed to the education sectors of the poorer countries. The needs as well as the gains to be derived from investment in the education sector are appreciated by the World Bank Group, but despite this fact, only 6.6 p.c. of IDA credits have been granted to the education sector.

Virtually all the IDA funds made available for education have been on construction of buildings and the supply of equipment. A \$ 11 mn credit to Morocco will enable 30,000 more students to attend specialised secondary schools which will eventually provide trained manpower for all sectors of the economy. A \$ 7 mn IDA credit made in 1966 has helped to provide improved facilities and new equipment for 42 secondary schools, 9 tech-

nical schools and 11 primary teachers' training colleges in Kenya. This illustrates the point that by far the greatest proportion of IDA's educational financing has been in secondary education.

Table 2
IDA Credits to April 1969
Geographical Distribution

Area	Number of Credits	Value (\$ mn)	
		Total	Percentage
The Americas	79	120.4	6.0
Africa		357.8	17.8
Europe		92.5	4.5
Asia	65	1,437.6	71.7
Total	144	2,008.3	100.0

Source: Table 1 and World Bank Group, The World Bank Group, Washington, 1969.

Biased Aid

Of the total IDA credits arranged up to April 1969 about 44 p.c. went to Asian countries (Table 2). The startling feature of Table 2 is that while 44 p.c. of IDA credits went to Asia these accounted for over 70 p.c. of the total value but they went to only 9 countries. The recipient countries were: Afghanistan, Ceylon, China (Taiwan), India, Indonesia, Jordan, Korea, Pakistan, and Syria. But 48 of the 65 Asian credits went to India and Pakistan; China (Taiwan) and Jordan received 4 each, Korea 3, Ceylon and Indonesia 2 each, and Syria and Afghanistan 1 each. Of the total value of Asian credits, only 4.5 p.c. were received by the seven smaller countries while India took 70.5 p.c. and Pakistan the other 25 p.c.

India has received just over half the IDA credits made available: together, India, Pakistan, Turkey and Kenya have received over three-quarters of the total. According to official statements "the International Development Association (is) the affiliate of the (World) Bank which lends to poorer member countries on concessionary terms"³.

Poorest without Support

The World Bank Atlas⁴ which presents estimates of per capita GNP, lists 20 countries with a per capita GNP lower than the \$ 90 per annum aver-

³ World Bank, Annual Report 1966/67, Washington, 1967, p. 5.

⁴ World Bank, The World Bank Atlas (1969 edition), Washington, 1969.

age for both India and Pakistan. Of these 20, no fewer than 15 are in Africa: 4 in Asia and Haiti in the Americas. These 20 poorest countries have received 29 IDA credits valued at \$ 141.4 mn or precisely 13.6 p.c. of the value received by India. It may be argued that because of the very large populations in India and Pakistan more aid on the most favourable terms is required in these countries, but even on a per capita basis one cannot justify the imbalance between the credits destined for the Indian subcontinent on the one hand and the really poor countries on the other. The per capita situation is:

India: \$ 203 per 100 population
Pakistan: \$ 307 per 100 population
Poorest countries: \$ 96 per 100 population

Of the 29 IDA credits made to the 20 poorest countries, 14 were to 3 African countries, namely, Ethiopia, Malawi and Tansania who between them, received 65 p.c. of the total value of these credits. If these three countries are excluded from the poorest countries category the \$ 96 per 100 population is reduced to \$ 46 per 100 population.

Aid According to Need

There is no doubt that there is a growing number of less developed countries whose need for foreign capital is greater than their ability to service conventional loans. And these are the countries that IDA was created to help. The aims of IDA allocate it a more exalted role than being a vehicle for soft loans to India and Pakistan. Unless the Association concentrates on the provision of aid for the poorest countries of the world and rations its limited resources in as equitable a manner as possible, it will be difficult to justify any appeal for increased contributions from the Part I countries. If, in future, IDA's limited resources are to be distributed according to need rather than any other criteria, the sheer poverty of the less developed countries should be a sufficient stimulus to increased participation on the part of the developed countries. But this means recognising the fact that, at the present time, educational needs in Africa are as important, if not more important, than industrial development needs in India, especially if the slogan is to be "Aid leading to Self-Aid".



F. LAEISZ · 2 HAMBURG 11 · TROSTBRÜCKE 1

SHIPOWNER AND SHIPBROKER · IMPORTER · EXPORTER · UNDERWRITER

PASSENGER-DEPARTMENT · FREIGHTAGENT FOR FERRY-SERVICE HAMBURG-HARWICH

TELEX 02 15741 FLHM D · TELEPHONE 36 88 1 · TELEGRAMS LAEISZ HAMBURG