

SAILING BACK TO THE FUTURE: HISTORY AND POLICY MAKING AT THE WORLD BANK

IDA and Debt Relief: An illustrative example of history and policy-making

Alex Iorio
Chief Counsel



International Development Association

- IBRD and IMF

Established in 1948 to help post-war reconstruction and address the root conditions that led to the depression that preceded WW II.

- IDA Established in 1960 amongst growing competition for influence in developing countries:

- For the US, IDA a tool in the anti-communist effort.
- For European powers, a means to deliver aid programs for former colonies.



MONRONEY URGES A 2D WORLD BANK

It Would Make Low-Interest
Loans to Poor Nations

By E. W. KENWORTHY

Special to The New York Times.
WASHINGTON, Feb. 22—

Senator A. S. Mike Monroney will recommend to the Senate Monday the creation of a new international agency to make long-term, low-interest loans to underdeveloped nations.

The international development association—as the Oklahoma Democrat tentatively calls the agency—would be associated with the International Bank for Reconstruction and Development, familiarly known as the World Bank.

However, the new agency would limit itself to making loans that the World Bank, under present regulations, must reject.

Studied by Administration

For the last eighteen months Senator Monroney has been discussing with financial leaders here and abroad a new approach to the problem of financing economic development in countries that cannot always meet the loan terms of the World Bank but would prefer to get credits through an international agency.

Senator Monroney said today that in the hope of getting a bipartisan approach to the problem, he had discussed his plan "with many leaders in the present Administration."

He said that while "there has been no final determination of the Administration's position" on his proposal, Administration leaders "are giving it a continuing study."

What Senator Monroney, like many other legislators, has been seeking is a change from the unilateral grants and loans that have been the basis of the United States foreign economic aid program for the last twelve years.

He has also been seeking a

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THE NEW YORK TIMES

February 23, 1958

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way to use foreign currencies that will accrue to the United States from the sale of agricultural surpluses. The proceeds are usually loaned back to the purchaser. In a few years, when repayments of these loans are in full swing, the United States will be faced with the problem of what to do with this accumulation of local currencies.

Billion Capitalization

The Monroney plan envisages a new agency initially capitalized at \$1,000,000,000. Of this the United States would put up \$300,000,000 and other countries \$700,000,000. These currencies would be convertible.

This \$1,000,000,000 would provide the agency with the necessary hard money base. The subscribers would have the voting stock in the agency proportionate to their subscription, in the same way that voting stock is distributed in the World Bank.

It has been suggested that for its purchase of capital stock the United States might use the \$300,000,000 appropriated by Congress last year for the Development Loan Fund. This idea, it is thought, might be attractive to Congress because it would avoid any new appropriation for capital stock.

The initial \$300,000,000 appropriated for the development loan fund remains intact, since no loans have been made.

It has also been suggested that the United States for a few years might use interest payments on earlier foreign aid loans at the rate of \$75,000,000 a year.

Similarly, it is believed, hard currency countries in Europe might find some of the money for capital stock purchases in their unexpended counterpart funds. Under Mutual Security agreements in past years, these countries, set aside in their own currencies roughly the equivalent of the military aid they received. This was to be used for economic development. Not all of it has been expended.

Non-Voting Stock Planned

The Monroney plan also provides for a non-voting stock to be purchased with soft local currencies. It is here that the United States would find a use for the local currencies accruing from the sale of surplus farm commodities.

Out of this mixture of hard and soft currencies the international development association could make long-term multilateral loans at low interest rates.

Officials at the World Bank have pointed out to Senator Monroney that many times the bank has had to refuse a loan application because it did not regard the total loan requested as "bankable." That is, the bank did not believe the applicant able to repay the whole loan and meet the interest payments

On the other hand, the bank has often regarded 50 to 80 per cent of a loan request as "bankable." But for lack of an institution that would take the other 20 to 50 per cent, the loan has been refused.

Mr. Monroney's agency, then, is envisaged as just such a "secondary mortgage" bank, which might supply what the World Bank could not. The interest rate of the new bank's loans would be 2 per cent repayable over forty years, compared with World Bank terms of 4 to 6 per cent over twenty years.

Senator Monroney gives this example of who the proposed bank might operate in conjunction with the World Bank:

Suppose a \$400,000,000 loan was requested by India and Pakistan for a joint, multi-purpose river development project. The World Bank might decide that it could supply half the loan. The remainder would be provided by the new bank.

The new bank could make its loan in several currencies. Dollars could be used to purchase earth-moving equipment; deutschmarks for the erection of a cement factory; pounds, francs and guilders for generating equipment and rups for local labor.

Avoid 'Handout' Label

By getting development aid on an international, multi-lateral basis, Senator Monroney believes that the American people would no longer regard economic aid as a handout and underdeveloped countries would no longer feel they were accepting charity, with political strings attached.

Furthermore, the Senator has been told that such an agency could be created with little addition to the personnel of the World Bank.

Loans at 2 per cent, the Senator points out, would be competitive with those the Soviet bloc offers.

By contrast, loans under the Development Loan Fund would carry interest from 3½ to 5½ per cent.

In a statement today, Senator Monroney said that the Mutual Security programs of the past "served a splendid purpose," but that the world had now changed and a different aid concept was needed.

"The free and uncommitted nations of the world now expect and demand to progress on a basis of equality," he said. "There is no place in the world today for anything that can be construed as a handout. Instead we need to stress multilateral loans which can be made on a completely self-respecting basis."

He continued: "Dozens of nations are emerging from colonialism. We must together finance those projects which will give them their economic independence. Every young nation needs an international line of credit and through a multilateral lending association the currencies of



Using History to Inform Development Policy: The Role of Archives

THE WHITE HOUSE

Sec. N 58-152

Washington

August 26, 1958

Dear Mr. Secretary:

I have read with great interest your letter concerning the adequacy of the present resources of the International Monetary Fund and the International Bank for Reconstruction and Development.

Third: With respect to the proposal for an International Development Association, I believe that such an affiliate of the International Bank, if adequately supported by a number of countries able to contribute, could provide a useful supplement to the existing lending activities of the Bank and thereby accelerate the pace of economic development in the less developed member countries of the Bank. In connection with the study of this matter that you are undertaking in the National Advisory Council pursuant to the Senate Resolution, I note that you contemplate informal discussions with other member governments of the Bank with a view to ascertaining their attitude toward an expansion of the Bank's responsibilities along these lines. If the results indicate that the creation of the International Development Association would be feasible, I request that, as a third step, you initiate promptly negotiations looking toward the establishment of such an affiliate of the Bank.

The three-point program I have suggested for consideration would require intensified international cooperation directed to a broad attack upon some of the major economic problems of our time. A concerted and successful international effort along these lines would, I feel certain, create a great new source of hope for all those who share our conviction that with material betterment and free institutions flourishing side by side we can look forward with confidence to a peaceful world.

Sincerely,

/s/ Dwight D. Eisenhower

The Honorable Robert B. Anderson
Secretary of the Treasury
Washington, D.C.



50 + years

- IDA as maker of concessional loans to poorest countries.
- \$ 400 billion since 1960.
- Purpose to raise standards of living in less – developed areas of the world in IDA's membership – (GNI cut-off \$ 1195).
- Periodic replenishments – 3 years cycle.
In 1960, 18 donors
In 2011, 52 donors
- 36 Countries have graduated from IDA to become donors.
- Last IDA replenishment almost \$50bn.



IDA and Debt Relief

- IDA's Articles of Agreement allow IDA to make loans.
- Grant making by IDA always much debated. IDA can make grants, but only if a specific replenishment allows for grant – making.
- IDA's Articles also provide that IDA may:
“agree to a relaxation or other modification of the terms on which any of its financing shall have been provided”.

Could IDA provide debt relief?

- 1990s campaign by NGOs for debt relief “Jubilee 2000”.
- **Partial** debt relief under the Heavily Indebted Poor Countries Initiative.
 - Legal Opinion dated January 7, 2000.
 - Looked to archives to establish intent of the provision.
 - Formal interpretation of Articles’ provision by Executive Directors allowing forgiveness of a **portion** of debt service.



Using History to Inform Development Policy: The Role of Archives

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

IDA/59-37

December 21, 1959

*Memorandum of Meeting of Financial Policy Committee held on Friday, December 18, 1959, from 10:00 a.m. to 12:35 p.m. on the International Development Association Draft Charter (IDA/59-18)

1. There were present:

<u>Chairman</u>	<u>Management</u>
Eugene R. Black	D. Sommers
<u>Executive Directors and Alternates acting as Executive Directors</u>	<u>Alternates not acting as Executive Directors</u>
Jose Aragones	Prayad Buranasiri
C. Brignone	Costa P. Caramicas
Jean Cottier	Tyge Dahlgard
The Earl of Cromer	Nikola Miljancic
Otto Donner	William V. Turnage
J. M. Garland	A.J.J. van Vuuren
Lennart Hammarstiold	George H. Willis
Ismail bin Mohamed Ali	Geoffrey M. Wilson
Ali Akbar Khosropur	
Kan Lee	
Pieter Liefstinck	
Luis Machado	
Jorge Mejia-Palacio	
I. G. Patel	
Louis Rasminsky	
T. Graydon Upton	
Andre van Campenhout	
Takeshi Watanabe	

Staff

M. M. Mendels	Richard H. Demuth
Aron Broches	Lester Murick
Y. L. Chang	Marinus van der Mel
Mrs. Shirley Boskey	Lyell Doucet

*This memorandum consists of staff notes of the discussions in the Committee and is not an approved record.

Distribution:

Members of the Financial Policy Committee
President
Vice Presidents
Department Heads

IDA Sec. 59-38

MDRI

- G8 Summit at Gleneagles in 2005 followed by Live8 concerts.
- Proposal for 100% debt relief under which IDA would forgive \$37 billion of loans. The “Multilateral Debt Relief Initiative”.
- Drafting history unclear.
- Inter-dependent package agreed under which IDA agreed to provide debt relief but would receive dollar-for-dollar compensation from donors.