Date introduced: 15 October 1986
House: House of Representatives
Presented by: Hon. Chris Hurford, M.P.,
Minister Assisting the Treasurer

DIGEST OF BILL

Purpose

To authorise the Treasurer to take up Australia's increased subscription to the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

Background

The IBRD and the IFC, together with the International Development Authority, comprise the World Bank. The IBRD was established on 27 December 1945 and commenced business on 25 June 1946. The IBRD was the result of the Bretton Woods agreement that also led to the establishment of the International Monetary Fund. As the name suggests, the IBRD was established to help finance the reconstruction and development of its member countries following the Second World War. When established, the IBRD had 29 members though that number has since increased to approximately 140.

The IBRD's major aim is to foster investment through the provision of loans and guarantees. The use of guarantees is important in conserving the IBRD's own funds and in mobilising private finance. The IBRD's major activities are in agriculture, education, industrialisation and urban development. The IBRD commenced with capital of $US10 000 million and this amount had been increased by resolutions to $US71 650 million (1944 value) by 1984.

The IBRD's capital is provided by member countries which take shares in the organisation. However, generally only 10% of a country's subscription is paid in, the remaining 90% being on call if required to meet obligations arising out of the IBRD's borrowings or guarantees.
In resolution number 395, which was adopted on 30 August 1984, the IBRD decided to increase its capital by $US7 billion (1944 dollars) through the issue of 70 000 additional shares. Australia was authorised to take a maximum of 745 additional shares. For this issue, 91.25% is to remain on call while the remaining 8.75% ($US8.6 million) is to be paid in. Of the paid in proportion, 10% is to be in gold or US dollars and the remainder may be in Australian dollars. The initial 10% is to be paid by 1 December 1986 and the remainder will be paid in eight, equal biannual instalments. The issue of the additional shares, however, distorted the voting rights of the member countries and, as a result, resolution number 398 was adopted on 12 September 1984 and allocated additional shares to 54 countries including Australia. The maximum number of shares that Australia may take under this resolution is 70.

The IBRD's Articles require it to obtain a government guarantee for a loan to a private organisation and many governments are unwilling or unable to provide such a guarantee and many businesses are reluctant to accept one. A 1952 report to the IBRD pointed to a need for increased private investment in less developed areas and proposed the creation of an international finance corporation as an affiliate of the IBRD. Following three and a half years discussions, the IFC came into existence in July 1956. There were initially 31 member though this has subsequently increased to approximately 125. The IFC's object is to promote private foreign investment and, where such investment is not available on reasonable terms, to supplement such investment from its own funds. The IFC generally concentrates on agriculture, manufacture and processing, though its operations have not been without critics.[1] For example, a IFC backed project to grow vegetables in Senegal for export to Europe failed though considerable taxation concessions were given and infrastructure provided. The business had also involved the expropriation of people from 800 hectares.[2]

In December 1985 the Governors of the IFC approved a resolution to double IFC's capital which involved the raising of $US650 million. Australia is entitled to an additional 14 560 shares valued at $US1000 each, a total of $US14.56 million. The shares are to be fully paid up. The initial payment is to be made by 1 February 1987 ($US5.824 million) and the remainder will be paid in three equal, annual payments ($US2.912 million each).
Main Provisions

Clause 4 will authorise the Treasurer to purchase 815 additional shares in the IBRD at $US100,000 (1944 value) per share.

Clause 5 will authorise the Treasurer to purchase 14,560 additional shares in the IFC at $US1000 per share.

For further information, if required, contact the Economics and Commerce Group.

References

1. For example, see Cheryl Payer, The World Bank, A Critical Analysis, New York 1982.
2. Ibid., p.277.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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