

CRS Report for Congress

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The World Bank: The International Development Association's 14th Replenishment (2006-2008)

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Summary

On April 18, 2005, the Board of Governors of the International Development Association (IDA) approved the fourteenth replenishment of IDA's resources. The World Bank's concessional lending and grant making facility, IDA is funded by transfers from World Bank resources and periodic replenishments from World Bank donor countries.

The Bush Administration pursued and achieved a number of objectives at the IDA-14 negotiations. These include implementing a results measurement framework, increasing the allocation of grants, implementing performance-based allocation, increasing transparency of IDA decision-making, and promoting opportunities for private sector development in the poorest countries. Congress is currently considering both authorization of U.S. participation in the three-year IDA-14 agreement, and a FY2006 \$950 million appropriation request for the first year contribution. This report discusses key aspects of the agreement and will be updated as authorizing and appropriating legislation move forward.

On April 18, 2005, the Board of Governors of the International Development Association (IDA) approved the fourteenth replenishment of IDA's resources.¹ IDA, the World Bank's concessional lending and grant-making facility, provides development assistance to the world's 81 poorest countries. Eligibility for IDA resources is determined by a country's level of poverty as measured by per capita income. In 2004, countries with annual per capita gross national income of up to \$865 were eligible for IDA assistance. IDA is funded annually by the United States and other donor governments, with major agreements and funding strategies determined approximately every three years.

¹ The World Bank, "Additions to IDA Resources: Fourteenth Replenishment," available at [http://siteresources.worldbank.org/IDA/Resources/14th_Replenishment_Final.pdf]

IDA commitments in FY2004 reached \$9 billion for 158 operations, consisting of \$7.3 billion in loans and \$1.7 billion in grants. The largest share of IDA resources was committed to Africa, with \$4.1 billion, constituting 45% of total IDA commitments. South Asia and East Asia and Pacific followed with \$3 billion and \$0.9 billion, respectively. Among countries, Bangladesh, the Democratic Republic of Congo, India, Pakistan, and Vietnam represented the largest single recipients in nominal terms.

The IDA Agreement

At the conclusion of the IDA-14 negotiations, IDA donors announced that at least \$34 billion in resources will be made available to the 81 IDA-eligible countries during the three years of IDA-14 (2005-2008). Of the \$34 billion, \$18 billion will be in new donations from the 40 contributor countries. The remaining \$16 billion will come from reflows (repayments on former IDA loans) and transfers from the International Bank for Reconstruction and Development (IBRD), the World Bank's market-rate lending facility.

The \$34 billion in resources made available by IDA-14 is an \$11.6 billion increase from the total IDA-13 level of \$22.8 billion. It includes an \$8 billion increase in donor contributions from \$12.7 billion in IDA-13 to \$20.7 billion in IDA-14, an almost 40% increase.

The Bush Administration has pledged \$2.85 billion to IDA between FY2006 and FY2008, and seeks \$950 million of this total in FY2006. This represents no real increase from the amount budgeted and requested by the United States for IDA-13. For that replenishment, the Administration requested \$2.55 billion over three years (\$850 million per year, FY2003-FY2005) as well as \$300 million in incentive agreements if the World Bank met certain Treasury-specified performance targets (\$100 million in FY2004 and \$200 million in FY2004).

Since the total size of donor contributions to IDA has increased by 40% while the U.S. contribution has remained constant, the U.S. share of IDA decreases to 13% in IDA-14 from 21% in IDA-13. Whether this decrease in the U.S. IDA share will have any effect on the ability of the United States to pursue future objectives at IDA has not yet been determined. The decline in U.S. percentage contributions does not affect voting share. The United States is still the largest shareholder in IDA with 13.98% percentage of votes as of June 1, 2005. However, since the European member countries combined hold a much larger percentage of World Bank shares than the United States, as well as an increased share of IDA contributions, some analysts argue that they could exert more force in IDA lending decisions and/or future replenishment negotiations if they negotiate together.²

² Current IDA voting status of all contributor countries is available at [<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:20124817~menuPK:64020035~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html>].

U.S. Objectives

The United States Government pursued many priorities at the IDA-14 negotiations. Major U.S. objectives at IDA-14 were: implementing a results measurement framework, increasing the allocation of grants, implementing performance-based allocation, and increasing World Bank transparency.³

Measuring Results. In recent years, many observers — both critics and supporters of the multilateral development banks — have cited a need to better measure the performance of World Bank projects. A criticism, often voiced by the U.S. Administration, is that it is unclear what MDB assistance has accomplished due to vague objectives and too much emphasis on outputs (volume of aid) rather than country outcomes. Introducing stronger performance requirements thus became one of the Administration's most sought after goals at IDA.

The IDA-14 performance measurement system is two-fold, assessing both (1) progress on aggregate country outcomes, and (2) IDA's contribution to country outcomes. To assess country performance, the World Bank will monitor a set of 14 country indicators for all IDA countries.⁴ To analyze IDA performance, the World Bank will create output indicators measuring IDA's contribution in the health, education, water supply and transportation sectors. In addition to country performance and IDA performance indicators, the World Bank will design country-level institutional indicators and project-level indicators. The IDA-14 Agreement also stipulates that World Bank management work to ensure that 100% of IDA investment projects and development policy loans include indicators connected to a timeline with baseline data and periodic assessments of project and program performance.

Performance-Based Allocation. Building on the new results measurement system, the U.S. Administration would like to channel more IDA resources to the strongest performing countries. Total IDA-14 allocations will be determined using a formula that includes the IDA Country Performance Rating⁵, Gross National Income

³ See Secretary of the Treasury John Snow, *Remarks: IDA-14 Replenishment Meeting*, February 22, 2005, available at [<http://www.treas.gov/press/releases/js2270.htm>].

⁴ Country indicators are: proportion of population below \$1/day poverty line, under-5 child mortality, HIV prevalency rate of women aged 15-24, proportion of births attended by skilled health personnel, ratio of girls to boys in primary and secondary education, primary school completion rate, proportion of population with sustainable access to an improved water source, fixed lines and mobile telephone per 1,000 inhabitants, formal cost required for business start-up, time required for business start-up, public expenditure management, GDP per capita, access of rural population to an all-season road, household electrification rate.

⁵ The IDA country performance rating is determined by two World Bank ratings: the Country Policy and Institutional Assessment (CPIA) and the Portfolio Performance Rating (ARPP). The CPIA constitutes 80% of IDA's country performance rating, and is a combined index of 16 pieces of information evaluating economic management, structural policies, policies for social inclusion/equity, and governance. The CPIA system was a U.S. initiative and was put in place during the IDA negotiations in 1998. The ARPP assesses each country's performance on implementing prior programs, and accounts for 20% of the performance rating. The CPIA/ARPP

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(GNI) per capita, and population. The IDA Performance Rating is the dominant factor, and higher performance can increase IDA allocations exponentially.

Grants. The United States has advocated for several years the use of grants rather than loans at the MDBs concessional lending facilities. This view is a response to the debt situation of many of the poorest countries, principally in sub-Saharan Africa. Bilateral and multilateral debt of the poorest countries increased heavily between the 1970s and the present. It has become increasingly clear that the poorest countries are unable to service their old loans let alone new loans. In 1996, the multilateral banks, the International Monetary Fund, and the major creditor nations introduced the Heavily Indebted Poor Countries (HIPC) initiative to reduce debt levels for the poorest countries. Building on this initiative, President Bush, in 2001, introduced his proposal that the World Bank shift its assistance to the poorest countries away from loans to grants.⁶

According to Bobby Pittman, Treasury Deputy Assistant Secretary for Multilateral Development Banks, “grants can be useful for ending the lend-and-forgive cycle.”⁷ Other donor countries agree with the concept of grants, yet note that without commensurate increases in IDA funding, the bank’s financial strength may suffer. Some analysts note that an unstated component of the long-term U.S. Administration policy-shift towards increased MDB grants may be a shrinking of the institution. Barring additional donor funds, the capacity to provide future assistance will decline because of fewer loan repayments. Critics of grants also note that the World Bank’s IDA loans are already provided on highly concessional terms, with little or no interest.

At IDA-14, deputies agreed on 30% of total IDA assistance in the form of grants, an 8% increase from IDA-13. Which IDA countries are eligible for grants depends on their level of “debt distress.” Under the new “debt distress” framework, 47 countries are projected to receive grant financing, 42 of which will receive 100% of their IDA assistance in grants. Special dispensation will be given for HIV/AIDS grants to IDA-only countries that would be ineligible for grant assistance under the new debt distress criterion.

Transparency. Increasing transparency and public disclosure of World Bank documents and policies has also been a longstanding U.S. priority at the World Bank. Section 581 of the FY2004 Consolidated Appropriations Act (PL 108-199) directed the Treasury Department to pursue policy goals related to transparency and accountability across the MDBs.

⁵ (...continued)

number is multiplied by a country measure of good governance to determine the IDA Country Performance Rating.

⁶ “I propose that up to 50 percent of the funds provided by the development banks to the poorest countries be provided as grants for education, health, nutrition, water supply, sanitation and other human needs” President George Bush, speech to the World Bank, July 17, 2001. See also CRS Report RL31136: *World Bank: IDA Loans or IDA Grants?*

⁷ Paul Blustein, “World Bank Plans to Shift to Grant Aid,” *The Washington Post*, January 14, 2005.

These priorities influenced U.S. objectives at IDA-14. A major component of the IDA-14 agreement is the World Bank's commitment to full disclosure of the numerical ratings for the Country Policy and Institutional Assessments (CPIA) ratings beginning in 2005. The CPIAs are the main component for determining IDA lending allocations. Although the World Bank began disclosing the CPIA ratings in 2000, non-governmental organizations argued that they were released in an aggregated format that did not reveal anything about how country rating differed between countries and how the ratings were calculated.⁸

In addition to releasing the CPIA indicators and their supporting data, the IDA-14 Agreement calls on the World Bank Executive Board to implement other important transparency reforms. Specifically, the Agreement directs the Board to: (1) disclose Board minutes; (2) strengthen procedures for documenting public consultation processes; (3) make interim results of projects during their execution publicly available; and (4) require an independent audit or assessment of internal management controls and procedures for meeting operational objectives.

World Bank reports already available to the public include Country Assistance Strategies, Project Appraisal Reports, Tranche Release Documents, Heavily Indebted Poor Country (HIPC) initiative documents, Poverty Reduction Strategy Papers, Joint Staff Assessments, and Implementation Completion Reports. In addition, as required by the 1989 Pelosi Amendment, all environmental assessment reports, resettlement instruments and indigenous people's development plans associated with projects that required the preparation of these documents are to be disclosed to the public.⁹

FY2005 Appropriations and the FY2006 Request

In FY2005, the President requested \$1.061 billion to cover the third of three scheduled annual contributions under IDA-13 (\$850 million base payment plus \$200 million of a U.S.-committed \$300 million incentive contribution for increasing IDA performance standards) and \$11.3 million to cover a portion of U.S. arrears. As enacted, the FY2005 Foreign Operations spending measure (Division D of P.L. 108-447) provides \$843.2 million to IDA in FY2005. The enacted appropriation provided slightly less than the \$850 million annual IDA 13 commitment, and did not fund the Administration's \$200 million incentive payment or make any payments towards U.S. arrears.

Of the Bush Administration \$2.85 billion commitment to IDA-14, the Administration is seeking \$950 million of this total in FY2006. The request for IDA makes up 70% of the \$1.335 billion FY2006 request for the international financial institutions. The Administration has not made any request to cover the \$328 million U.S. arrears to IDA. Since the Administration considers its total authorized IDA subscription amount binding, Congressional appropriations less than the requested amount are counted as arrears. Current U.S. IDA arrears stem principally from the \$300 million incentive

⁸ Jeff Powell, "The World Bank policy scorecard: The new conditionality?" The Bretton Woods Project, November 22, 2004. Document is available at [<http://www.brettonwoodsproject.org/doc/knowledge/cpia.PDF>]

⁹ See CRS Report 98-180, *Multilateral Development Banks' Environmental Assessment and Information Policies: Impact of the Pelosi Amendment*.

contribution that was included in the U.S. IDA-13 commitment of which only \$40 million was appropriated in FY2004. Remaining arrears are due to IDA appropriations less than the requested amount.

Congressional Action

Authorization. Congressional authorization is required for U.S. participation in each IDA replenishment agreement and appropriation of funds to meet the commitment over a multi-year period.¹⁰ On May 26, 2005, the *Development Bank Reform and Authorization Act of 2005* (S. 1129), was introduced in the Senate. The bill would authorize the full \$2.85 billion U.S. request for IDA-14 as well as direct the U.S. Executive Director at the World Bank to advocate several reform measures related to increased transparency and accountability.

The reform measures included in the proposed legislation include (1) setting aside funds in a trust at the World Bank for borrowers to use for investigation and prosecution of fraud and corruption related to development bank loans or projects; (2) requiring a public explanation of each U.S. Executive Director vote on the Treasury website and disclosure of statements on controversial projects; requiring funding documents be distributed to the public; (3) supporting mandatory financial disclosure of all employees (as is done by U.S. senior government employees); and (4) encouraging the implementation of Foreign Corrupt Practices Act guidelines for all entities contracting with the development banks. Other reforms included in the legislation are reforms (5) to strengthen whistleblower policies; (6) to support the independence and efficacy of the audit functions; and (7) to ensure that revenues from extractive industries projects are not stolen. The legislation would also require several GAO reports to monitor the implementation of these recommendations.

Appropriations. IDA appropriations are included in the annual Foreign Operations appropriations bill in the House, and the State, Foreign Operations measure in the Senate. On June 28, 2005, the House passed H.R. 3057, the FY2006 Foreign Operations appropriations bill, recommending the full administration request of \$950 million. The Senate, which passed its version of H.R. 3057 on July 20, 2005, recommended \$900 million. The conference report, setting IDA appropriations at the House level of \$950 million for FY2006, was passed on November 4, 2005, and signed into law (P.L. 109-102) by the President on November 14, 2005.

¹⁰ See also CRS Report RS22133, *Multilateral Development Banks: Current Authorization Requests*.