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Multilateral Development Banks: Issues for the 108th Congress

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SUMMARY

The U.S. is a member of five multilateral development banks (MDBs): the World Bank, Inter-American Development Bank (IDB), Asian Development Bank (ADB), African Development Bank (AFDB), and European Bank for Reconstruction and Development (EBRD). It also belongs to two related organizations, the North American Development Bank (NADB) and the International Fund for Agricultural Development (IFAD).

As a group, the MDBs are the largest source of development aid for middle- and low-income countries. They lent or invested nearly $40 billion in 2000, four-fifths of it at market-related terms and the rest on concessional terms. The World Bank accounted for half of all MDB aid and 62% of all MDB concessional aid in 1997.

In the World Bank and most regional MDBs, the U.S., European Union, and Japan control over half of the vote. U.S. participation in the MDBs is managed by the Treasury Department. Congress has substantial influence over the direction and focus of U.S. policy. The MDB market-based loan windows have quasi-permanent funding authority. By contrast, the concessional loan windows require periodic contributions by donor countries in order to continue operations.

In February 2003, Congress approved legislation appropriating $1.304 billion for contributions to MDB programs. The Administration had sought $1.437 billion. With this legislation, the United States is $518 million in arrears on U.S. arrears to MDB programs – The Administration will soon propose budget language covering appropriations for MDBs in fiscal 2004. to fund U.S. contributions in the

Congress did not include in the fiscal 2003 legislation authorizing U.S. participation in several pending MDB funding plans. Prominent among these is an authorization for $2.85 billion (to be appropriated over 3 years, for the International Development Association (IDA), the World Bank's concessional aid facility. The new program for IDA grants will not become effective until the U.S. approves this enabling legislation. Also pending are authorizations of $354 million (over 3 years) for the African Development Fund and $412 million (over 4 years for the Asian Development Fund. The United States is $385 million in arrears in its payments to MDBs, much of it to the ADF. The congressional leaders and the Administration are currently discussing their authorization options for 2003.

The MDBs have taken several initiatives to help middle- and low-income countries deal with their foreign debt problems. The MDBs have traditionally made poverty alleviation their first priority goal, though some critics say they should target more of their aid for direct poverty alleviation programs and for encouraging private sector growth. The IMF and MDBs have also increased substantially their transparency and the amount of information they provide to the public on their operations. Many believe this will make them more effective. Critics say that more data should be available. Some borrowers believe they are being forced to reveal too much. Countries may bar the MDBs from releasing information about themselves.

MOST RECENT DEVELOPMENTS

On July 23, 2003, the House of Representatives approved a floor amendment to H.R. 2800, the fiscal 2004 foreign operations appropriations bill, authorizing U.S. participation in the World Bank's International Development Association (IDA), the Asian Development Fund (ADF), and the African Development Fund (AFDF). A subcommittee of the House Financial Service Committee had approved the same language in June. On July 23, the Senate Foreign Relations Committee reported (S.Rept. 108-56) legislation (S. 1161) recommending full approval of pending MDB authorization legislation. H.R. 2800 also includes an authorization and appropriation, sought by the Administration, for a new $75 million U.S. contribution to the Trust Fund for heavily indebted poor countries (HIPCs). This would facilitate debt forgiveness for debts owed by HIPCs to regional and sub-regional development banks. The existing HIPC contribution authority was exhausted in 2002.

BACKGROUND AND ANALYSIS

Introduction

For 50 years, the MDBs have been major forums for economic cooperation and key vehicles through which the United States and other countries have channeled development aid. The cost of U.S. participation in them has been controversial. The Banks have also come under substantial criticism – from many different perspectives – for presumed weaknesses or errors in their policies and operations. In recent years, there has been much discussion in public and official circles about possible changes in the architecture of the international financial system, particularly the relationship between the MDBs and the International Monetary Fund (IMF). For information on specific issues, see: CRS Report RL31136,*World Bank: IDA Loans or IDA Grants?;* CRS Report RL31418, *World Bank: Funding IDA's Assistance Program*; *Russia and the International Financial Institutions: From Special Case to a Normal Country,* in the Joint Economic Committee's publication (S.Prt. 107-50) *Russia's Uncertain Economic Future* (available from author); and CRS Report RS21329, *African Debt to the United States and Multilateral Agencies*.

U.S. Participation in the Multilateral Banks

The MDBs are autonomous international agencies that finance development programs in poor countries using money borrowed in world capital markets or contributed by developed country governments. Run by their own managements and staffs of international civil servants, they are supervised by boards of executive directors and boards of governors selected by member country governments. Voting shares are weighted on the basis of countries' contributions. The IMF is a monetary institution, not a development bank. Still, in recent decades it has lent mainly to developing countries and its policies often affect economic conditions in borrower countries.

The United States belongs to the World Bank and four regional banks: the African Development Bank (AFDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB).

It also belongs to two other institutions, the North American Development Bank (NADB) and the International Fund for Agricultural Development (IFAD). In 1999, they lent or invested over $50 billion – 82% on market-based terms and the rest on concessional terms (low interest rates, long repayment periods) to the poorest countries. The World Bank provided 58% of the total and 77%of the concessional funds.

Member countries monitor activities of the MDBs on two levels: through boards of governors (which usually meet annually) and executive boards (which are in continuous session). Funds cannot be raised and loans and policies cannot be approved without the consent of MDB executive boards. For additional background information on the MDBs, see CRS Report RS20793, *Multilateral Development Banks: Basic Background*.

The President has the ultimate authority under U.S. law to direct U.S. policy and instruct the U.S. representatives at the MDBs. This authority has been delegated to the Secretary of the Treasury. The Assistant Secretary for International Affairs manages day-to-day U.S. participation with the help of a professional staff of 20 persons. With the advice and consent of the Senate, the President names individuals to represent the United States on the executive boards of the MDBs. Treasury coordinates U.S. participation in the MDBs through two interagency panels. The Working Group on Multilateral Assistance (WGMA) reviews all prospective MDB loans and policy documents on an ongoing basis. The National Advisory Council on International Monetary and Financial Policies (NAC) has some residual responsibilities in this area. It is also responsible (by law) for issuing an annual report discussing U.S. policy and the recent activities of the IFIs.

Congress has a major role in the formulation of U.S. policy towards the IFIs. Congress must give its consent by law before the United States may agree to participate in any new IFI funding agreements. The Senate has advise and consent authority over all persons nominated to major policy-making roles in the executive branch. On many occasions, Congress has enacted legislation specifying what U.S. policy shall be in the IFIs and how the U.S. executive directors at these institutions shall vote and the objectives they shall pursue. Congress has also frequently made specific suggestions to the Administration through Sense of Congress resolutions or language in committee reports accompanying legislation suggesting specific goals and priorities the United States ought to emphasize in the IFIs. This is sometimes called "governing without passing laws."

For more information on the procedures governing U.S. participation in the MDBs, see CRS Report RS20791, *Multilateral Development Banks: Procedures for U.S. Participation.* For information about U.S. contributions, see CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY1990-2001*. For a discussion of development issues, see CRS Report RL31662, *Developing Countries: Definitions, Concepts and Comparisons*. See also CRS Report RS20329, *African Development Bank and Fund* and CRS Report RS21437 *The Asian Development Bank* .

The United States has substantial influence within the MDBs. In most cases, it is the largest single contributor, with the largest vote of any member country. However, no country has a veto and a majority vote of the executive board is required before an MDB can approve a loan or adopt a new policy or operating procedure. The U.S., Japan, Canada, and European Union comprise a near or actual de facto majority of the vote in all but two of the MDBs. The European countries currently hold about 30% of the vote in the World Bank and IMF. If they succeed in their goal of casting their vote as a block, they may likely supplant the United States in influence in the IFIs.

Bush Administration Policy Towards the IFIs

Administration Statements. The Bush Administration has argued, since it took office in January 2001, that international aid to promote economic development and growth in poor countries is an integral element of U.S. national security policy. In the National Security Strategy document released in September 2002, the President said the "United States is committed to a comprehensive reform agenda for making the World Bank and the other multilateral development banks more effective in improving the lives of the world's poor." He noted that "we have reversed the downward trend in U.S. contributions and proposed an 18 percent increase in the U.S. contributions" to IDA and the African Development Fund. "The key to raising living standards and reducing poverty around the world is increasing productivity growth, especially in the poorest countries," he said. The Administration would press the MDBs, he said, to focus on activities that "increase economic productivity, such as improvements in education, health, rule of law, and private sector development." Every project, every loan, every grant would be judged "by how much it will increase productivity growth in developing countries." The Administration would insist, he said, that MDB programs demonstrate measurable results showing that they are "actually making a difference in the lives of the world's poor." To accomplish this goal, measurable goals and concrete benchmarks should be built into future MDB aid programs.

On April 24, 2002, then-Treasury Secretary Paul O'Neill told the House Appropriations Committee that economic development is a "central commitment of American foreign policy," especially efforts to close the gap between wealth and poverty and between opportunity and misery. He said that the MDBs are "important instruments in helping us pursue growth and prosperity in the global economy." They serve "vital interests of the United States" and are "crucial and integral components" of the U.S. overall foreign assistance effort. The Administration, he said, is pressing the MDBs to focus on projects and programs that raise productivity. This included programs to improve health and education, promote private enterprise, enhance the rule of law, improve public expenditure management, accountability, and anti-corruption, and strengthen countries' trade capacities and investment environments.

On July 25 and September 12, 2002, Treasury Under Secretary John Taylor testified before the House Financial Services and Senate Foreign Relations Committees on the Administration's policy towards the multilateral banks. He told the committees that reform of the MDBs has been one of the highest priorities of the Bush Administration's international economic agenda. He identified three specific goals the Administration was pursuing: (1) a significant increase in grant funding for the poorest countries, (2) methods for linking the contribution of additional resources to the achievement of results, and (3) a greater focus by the MDBs on productivity-driving activities, especially particular private sector development.

On April 30, 2003, Treasury Secretary John Snow told the House Foreign Operations Appropriations Subcommittee that productivity growth is the key to raising living standards. The United States has urged to MDBs to focus on projects that raise productivity, he said, particularly health, education, private sector development, and other changes that will remove obstacles to productivity growth by aggressively promoting good policies. He noted that the world community had adopted a set of ambitious policy goals, such as halving by 2015 the share of the world's population living on the equivalent of less than $1 a day. He did not say how those goals might relate to the MDB program. He noted, however, that President Bush had added another goal to the world agenda in 2002 when he said that "we ought to double the size of the world's poorest economies within a decade." To reach that goal, Snow said, developing countries would need to take major policy steps to increase economic growth rates and would need serious commitments from the donor community. Fundamentally, he said, the development aid agencies – both bilateral and multilateral – should "start working themselves of business" so that "countries can rely in the future on investment, private capital and entrepreneurship instead of pledges, concessions, and debt relief. It was not clear from Snow's remarks whether this latter goal was an addition to the objective of raising world aid levels in order to reduce poverty, improve infant and maternal health, and other millennium development goals, or whether it was a substitute for them.

IDA Grants. On July 2001, President Bush proposed that the World Bank should allocate half the funds it provides to low-income countries on grants rather than loans. This would total about $2 billion annually. Mr. Bush said that World Bank should use the new grant program to fund increased levels of assistance for health, education, clean water, and similar activities. None of the other major donor countries supported his proposal. Several (Britain, in particular) oppose it outright. Many seem to support the idea that perhaps 10% of IDA's future aid might be grants. The Administration said that a high level of IDA grants will enhance productivity, ease the debt burden on poor countries, and allow closer monitoring of program implementation and tighter measurement of results. Critics said that the plan would "defund" the World Bank's concessional loan program, raise confusion with other international grant-aid programs, and diminish the value of the IDA program.

In early July 2002, the IDA donor countries agreed that between 18% and 21% of IDA assistance during the next three years would be allocated as grants to the poorest countries. This cleared the way for final agreement on the IDA 13 replenishment plan, which is now before Congress. In addition to the three activities the President had mentioned, the IDA donors agreed that grants would also be available for programs combating HIV/AIDS and for reconstruction in post-disaster and post-conflict countries. Overall, about 20% of IDA aid has gone for purposes identified by the President and those added by the IDA negotiators. However, the poorest countries receiving that aid may get 100% of their new IDA receipts in the form of grants. The Administration presented the agreement as a long-term change in World Bank operations. Other donor countries maintain, by contrast, that it is merely a 3-year experiment for IDA 13 and there is no commitment to continue it thereafter.

A major sticking point prompting resistance to the 50% grant proposal was the absence of any stated mechanism for paying the future cost of grants. The cost to recipients for IDA loans and grants is the same for the first 10 years (during the grace period for IDA loans). Thereafter, the cost of repaying loans is spread out in small increments over a 30 year period. The benefits from an IDA grant also accrue slowly. Countries benefit from a grant, not on the day it is made, but on the future dates when the payments for the erstwhile loan would have been due. Loan repayments currently provide about 40% of IDA's usable resources (the rest coming from donor contributions.) In 20 years, however, contributions are expected to decline and repayments are scheduled to provide upwards of 70% of IDA's funds. The other IDA donors claimed that the Administration's proposed grant program would eliminate most of those future loan receipts, requiring either a major increase in donor contributions or major cuts in future IDA id. They doubted that the United States and other donors would be willing to double or triple their annual contributions in order to offset the cost (lost loan repayments) of an IDA grant program. The IDA 13 agreement set aside money to help fund the cost of an expanded IDA grant program. However, a sizable gap remains. The donor countries agreed they should meet next year to consider ways of covering that gap.

Measurable Results. The Bush Administration told other IDA donor countries, during the IDA 13 negotiations, that the United States would be willing to increase its contribution to IDA by up to 18% ($300 million over 3 years) if the World Bank agreed to adopt specific steps to improve accountability and better measure the results of Bank-funded operations. The additional funds were not intended to help offset the cost of IDA grants.

In recent years, many observers–both critics and supporters of the MDBs–have urged the need for better procedures for measuring results. Critics have argued that many MDB projects are failures. They note, for example, that the World Bank's own statistics show that a substantial share of its projects in some regions have been "unsatisfactory" and have uncertain long-term prospects. Supporters of the MDBs reply that these charges are overstated, that projects which fall short of the World Bank's standard for a "satisfactory" rating (a 10% annual return on capital) are not failures in the common sense of the term. They also note that the long-term prospects for projects are often uncertain because of policy problems in the borrower country or broader international economic conditions, not because of the projects themselves. In the past decade, the MDBs have sought to improve the success rate of their projects, though critics maintain that their efforts have not been sufficient. Some critics believe the MDBs should put *more* emphasis in their programs on market forces, liberalization, and privatization, while others insist that the MDBs should put *less* emphasis on these matters if they wish to have a greater impact on the alleviation of poverty.

The $100 million increase in fiscal 2004 U.S. contributions to IDA, announced April 13, denotes the Administration's approval of the progress made to date. The announcement came following a meeting of IDA donors on April 10 at which it was agreed that IDA had met the targets specified earlier for enhancing its performance standards. These included completion of 30 Country Financial Accountability Assessments, 24 Country Procurement Assessment Reviews, 29 Public Expenditure Reviews, and 7 Investment Climate Assessments. Anther criterion, that poverty assessments underpin every Country Assistance Strategy, has been in effect since July 2002. The various reviews are diagnostic products, to help measure future improvement in the various areas of concern. In terms of outcomes, the Administration found that measurable improvements were recorded in 36 countries in primary completion rates since 2002, that measles immunization coverage had improved in 28 countries, and that (on a population-weighted basis) the cost and time required to start a business had declined in the IDA countries.

The Administration's concept as regards improvements in performance standards appears to be different from the approach the MDBs have pursued to date. The Administration appears to be focusing on the establishment of benchmarks for measuring the progress that countries are making towards improving their government financial operations and their national investment climate. It is also emphasizing specific quantitative targets for measuring improvements in health, education and regulatory conditions. By contrast, the multilateral banks have stressed the need for better standards for improving the implementation and for assessing the likely success of the projects they fund.

Improved Productivity. Secretaries O'Neill and Snow, Under Secretary Taylor and others have expressed concern that productivity levels in poor countries must be raised if progress is to be made stimulating growth and reducing poverty. Most analysts agree that improvements in health and education levels, good governance, reduced corruption, increased opportunities for private enterprise, and improvements in the trade capacity and investment climate are necessary in order to raise living standard in developing countries. However, some note that the obstacles which block progress in these areas are substantial and much effort and time may be needed to realize gains. Furthermore, they say, the Administration's emphasis on growth begs the question of income distribution..

It is unclear how the Administration's emphasis on growth fits with the assertions by the MDBs and their executive boards that poverty alleviation should be the MDBs' principal goal. During their first three decades, the MDBs took the view that rapid economic growth was the most effective antidote to poverty. Later studies found, however, that poor people often did not benefit much from economic growth. In many countries – particularly in those with strong initial differences – income disparities grew apace with economic growth. Many rural people and people lacking modern skills participated only marginally in the growth process. Studies found that their involvement could be enhanced by programs targeting their needs. In recent decades, the MDBs have put increased emphasis on health and education programs, safety-net programs, poverty-alleviation programs and other activities which directly address the specific needs of rural and low-income people. Some analysts worry that, if the MDBs put more emphasis in the future on projects and programs which promote growth and productivity, they will have to reduce the portion of their aid which focuses directly on the alleviation of poverty.

The Meltzer Commission recommended in 2000 that the World Bank stop lending to countries that have access to private capital markets. Many if not most middle-income countries have been able to borrow some money internationally from private sources. It is unclear, from the Secretary's comments about greater reliance on private markets, whether he believes that these countries should see their access to MDB loans reduced or eliminated. In April 2001, O'Neill and other G-7 finance ministers approved a statement by the World Bank/IMF Development Committee calling for more MDB lending to middle income countries. The Committee noted that most of the world's poor people live in these countries.

In 2001, Secretary O'Neill told the House Financial Services Committee that the IMF had been "involved in a much too wide set of policies in borrowing countries." In a speech early in the year, he said much the same thing about the MDBs. The IFIs had gone beyond their core responsibilities, he said. The IMF should put more emphasis on macroeconomic issues and the MDBs should reduce their efforts not directly relevant to their development agenda. Both should sharpen and shorten the list of conditions they attach to their loans. Many analysts agree with O'Neill's basic point. Still, many worry that this would require the IMF to pay less attention to governance, corruption, military spending, and institutional reform. Likewise, they worry, it might require the MDBs to put less emphasis on research and activities such as the World Bank's program to promote safe motherhood.

In recent years, the MDBs and the IMF have sought to refine and limit the numbers and types of conditions they place on their policy reform loans. They have also put increased emphasis on "ownership." The IFIs have found that programs for policy reform and institutional change will be most successful if the government and people in the recipient country understand and support their goals. Broad domestic support must be built favoring basic changes in government operations, national pension systems, privatization, or reform of a country's financial infrastructure. Without such ownership, the IFIs have found, most reforms do not last much beyond the last payment from the IFI loan.

Most of the programs for structural and institutional reform specified by IMF loan agreements are actually funded and supervised by the MDBs and other donor agencies. The IMF's annual reviews provide an opportunity for donors to examine country progress and an incentive for countries to move forward with their plans. Even when a country's macroeconomic performance has been adequate, the IMF has sometimes delayed disbursements when it finds that countries are lagging in the implementation of MDB-funded structural reforms. This tends to increase the impact of IMF and MDB conditionality.

Some critics question whether it is fair for the IFIs to coordinate their policies in this manner. Other critics believe that the IMF should get out of the business of promoting long-term structural change and focus instead on its original core macroeconomic responsibilities. In response, supporters argue that the current practice enhances the effectiveness of both the IMF and the MDBs. Furthermore, they say, the IMF's capacity for promoting economic stability in developing countries is hindered when it focuses only on short-term macroeconomic issues. To achieve long-term macroeconomic improvements, they say, countries also need to strengthen the institutions which manage economic policy and to implement basic economic policy reform.

Congressional Action

Authorization Legislation

Current Status. On June 23, 2003, the Senate Foreign Relations Committee reported the Consolidated Foreign Assistance Authorizations Act (S. 1161) which authorized (among other things) full U.S. participation and authorizations for full U.S. contributions to the pending MDB replenishment plans. In mid-June, the relevant subcommittee of the House Financial Services Committee marked up MDB authorization legislation. The Senate and House bills included specific measures aimed at increasing the transparency of the decision making procedures of the MDBs and making more information about the activities of their Executive Boards available to the public.

The House of Representatives approved a floor amendment on July 23 adding the MDB authorizations and the policy language on transparency to H.R. 2800, the fiscal 2004 foreign operations appropriations bill. This was the first time since 1977 that an authorization for the IDA had been approved by a separate vote on the House floor. It was only the second time since 1981 that any MDB authorizations had been approved as a separate bill or motion. In previous years, MDB legislation was sufficiently controversial that the leadership on the majority and minority sides agreed that it should be included as riders in large bills, such as the budget reconciliation bill, omnibus appropriations bills, and the like. The action on the House floor in July 2003 engendered no debate or controversy. It remains to be seen whether this reflects the tighter discipline the House leadership has exercised over legislation in recent years or whether it in an indication that MDB issues have become less contentious in recent years.

In February 2002, Congress appropriated funds in the Consolidated Appropriations Resolution, 2003 (P.L. 108-7) to fund new U.S. contributions to IDA 13. Because the authorization legislation has not been enacted, however, the Administration cannot pledge U.S. participation in the full three-year IDA funding plan. Because the U.S. is not a formal participant in the plan, the United States cannot make and IDA cannot accept the contributions appropriated in early 2003. A one-year authorization to allow a new IDA appropriation for fiscal 2004 would have a similar effect of blocking the actual contribution.

Asian Development Fund/IFAD. On May 1, 2002, the House approved H.R. 2604, authorizing new $412 million U.S. contribution (over 4 years) to the Asian Development Fund (ADF) and $30 million (over 2 years) to the International Fund for Agricultural Development (IFAD). The bill was referred to the Senate Foreign Relations Committee. It held hearings on this proposal, well as on replenishment proposals for the African Development Fund (AFDF) and IDA, on September 12 but has not reported legislation. No new legislation has yet been introduced for the 108th Congress.

This was the second time since 1980 that either chamber has approved by regular order (in a regular authorization bill) legislation authorizing new U.S. contributions to the IMF or multilateral banks. Since 1980, all other IMF and MDB authorization measures have been included in omnibus measures, reconciliation bills, or foreign operations appropriations bills. In many instances, the authorization measures were placed in these bills in ways which made amendment or deletion difficult (because of the rules governing their consideration). Some people believe that the House action on the ADF/IFAD authorization bill signals that the base of congressional support for IFI measures has broadened. Others believe that the IDA 13 authorization proposal will be a truer measure for the level of congressional support.

The Administration says that the ADF funding plan includes several provisions which respond to prior congressional concerns. The ADF will allocate resources in the future on the basis of country performance, stressing fiscal performance, good governance, and anti-corruption measures. A plan to strengthen support for core labor standards has been approved. An agreement has been signed with the World Bank to improve coordination and minimize overlap and duplication. U.S. relations with the other ADF donors are somewhat strained, however. The United States was successful during the ADF negotiations in its efforts to achieve several important changes in ADF policies and procedures. Meanwhile, however, the U.S. is seriously in arrears in its contributions to the last ADF replenishment. While the other donors have largely completed their payments, the United States has yet to pay $128 million of the $300 pledged towards the last replenishment.

As approved by the House, H.R. 2604 included several policy initiatives requiring the Administration to seek a broad range of policy or procedural changes in IFAD and the regional development banks. These include initiatives concerning transparency, user fees, HIV/AIDS, dams, international terrorism, privatization of government-held industries, arsenic in drinking water in South Asia, and opposition to any proposals that would help reduce minimum wages below internationally recognized poverty levels. Broad support by a substantial majority of the MDB membership will be needed if these policy initiatives are to be put into effect. In some cases, it appears that support for these proposals by other countries is not strong. In other cases, by contrast, it seems that some regional MDBs have already adopted certain of these initiatives.

International Development Association. As noted earlier, representatives of the donor countries agreed July 1 on terms for a new replenishment of the IDA. The new replenishment would authorize $22.6 billion in new lending over the 3 years. Of this, $12.5 billion would come from donor contributions and most of the rest would be money received as repayments for earlier IDA loans. According to World Bank documents, IDA is scheduled to receive about $5.1 billion in loan repayments during the three years (2003-2005) of the new replenishment plan. The rest of the IDA 13 loan funds would be borrowed ahead from suture years. About 20% of the new money would come from the United States.

The IDA donors agreed that 18% to 21% of IDA aid during the next 3 years will in the form of grants. They also broadened the range of activities that would be funded with grants. (See above.) Several major policy initiatives were included in the IDA 13 plan, including proposals to increase IDA's impact on poverty, steps to improve project performance, measures to better measure the results of IDA programs, and more emphasis on private sector development. Many of these respond to concerns voiced by the Bush Administration and by Congress. The House Financial Services Committee held hearings on July 25 on the IDA proposal as well as the upcoming replenishment proposal for the AFDF.

African Development Fund. In late 2002, donor countries agreed on plans for a new ninth replenishment of the African Development Fund (AFDF 9). Administration has requested an authorization of $354 million to fund U.S. contributions, which would be appropriated over a three year period. No information is yet available on new policy initiatives included in the replenishment plan. Treasury Under Secretary John Taylor told the Senate Foreign Relations Committee in September that the African Development Bank (of which the AFDF is a part) has made major improvements in management and information access in the past decade. He also said the AFDB would likely play a major role in the elaboration of the New Partnership for African Development (NEPAD). In particular, he said, the AFDB will take the lead in promoting regional economic integration and improved banking and financial standards.

Authorization in the Appropriation Bill. In mid-September, the House Appropriations Committee reported H.R. 5410, its version of the fiscal 2003 foreign operations appropriations bill. Section 580 of that bill authorizes the appropriation of funds for full U.S. participation in the upcoming replenishments of the African Development Fund, Asian Development Fund, International Development Association, and International Fund for Agricultural Development. Reportedly, the authorizations were included at the initiative of the Appropriations committee. In the past, MDB authorizations had been included in the appropriations bill only after a subcommittee of the House Financial Services Committee had first reported legislation. H.R. 5410 includes only the authorization language; it includes none of the policy initiatives the Financial Services panel had included in H.R. 2604 or other proposals currently under review.

It is not clear what will happen to the pending MDB authorization legislation if it were to go to the House and Senate floor for enactment by "regular order." The last time an IDA bill went to the floor was in 1977. In the past two decades, many non-governmental organizations, religious organizations, and labor groups which previously supported MDB programs have become outspoken critics of the IFIs. There has been little need for organizations or individuals to take a public stance in support of the IFIs, since Congress has enacted their authorizations as riders in large, complex, "must-pass" legislation. In most cases, no separate vote on the MDB language was required. Meanwhile, many political leaders who were outspoken critics or strong supporters of the IFIs two decades ago seem to have modified somewhat their positions. In the meantime, public discussion of the IFIs seems to have been driven by the concerns of their most outspoken critics. The supporters have not organized as vigorously to place their views before the public. It is difficult to ascertain, at this time, what positions the various players inside and outside Congress will take if the MDB authorizations go forward by "regular order" in 2003.

Appropriations

Fiscal 2003. In January 2002, the Bush Administration requested (as part of its budget submission) that Congress appropriate $1,437.2 billion for MDB programs for FY2003. This is the largest appropriations request for MDBs since at least FY2000. It includes an increase in U.S. contributions to the IDA. It includes substantial funding for the ADF and GEF, to help reduce the large arrears in payments the U.S. has accrued for those programs. It also includes enough funding for the MIF – the small program attached to the IDB which provides grants for microenterprise, small business, job training, and other similar programs – to cover the U.S. arrears and prevent other countries from withdrawing their contribution pledges. Without a U.S. payment to retire arrears, the program would possibly be forced to close. Most countries would blame the United States for that situation. This might have negative effects for U.S. leadership in other IFIs.

Senate Appropriations. On July 24, reversing the order in which these appropriations bills usually appear, the Senate Appropriations Committee reported out its version of the FY2003 foreign operations appropriations bill (S. 2779). The Senate panel recommended that $1.357 billion should be appropriated for MDB programs, about $80 million less than the amount requested by the Administration. (See **Table 1**.) The Senate committee expressed concern in its report about perceived weaknesses in the World Bank's internal grievance procedures. It questioned the professionalism of the Bank's legal department and its reported practice of delaying action on cases in ways detrimental to claimants. It also expressed concern about the Bank's failure to adopt guidelines on dams recommended earlier by the World Commission on Dams.

House Appropriations.On September 19, 2002 the House Appropriations Committee reported its fiscal 2003 foreign operations appropriations bill (H.R. 5410.). The committee recommended the appropriation of $1.350 billion for MDB programs, about the same amount as included in the Senate bill. It recommended full funding for IDA but it made deep cuts in the funding intended to reduce arrears owed to the GEF and ADF.

The committee commended the Treasury Department for its effort to increase the share of IDA aid that is allocated in grant form. It agreed that the World Bank should be more rigorous in measuring the results of its programs and it said the Bank's programs should focus on economic growth, health, education, and the alleviation of poverty. The committee expressed concern that most proposals for reform of the World Bank over the years had resulted in few major changes in its basic structure or function. It said the MDBs should give top priority to the goal of raising living standards of people throughout the world. It agreed with the Treasury Department that the World Bank should focus on raising per capital income and economic growth levels and it said basic education should be included in the scope of activities pursuant to this goal. H.R. 5410 died at the end of the 2002 session.

Table 1. Appropriations for Multilateral Development Banks
(Budget authority; millions of paid-in U.S. dollars)

	FY2002 Final	FY2003 Final	FY2004 Request	FY2004 House	FY2004 Senate	FY2004 Final
World Bank Group						
Intl Bank for Reconstruction and Development (IBRD)	–	–	–	–	–	–
Global Environment Facility	100.5	147.8	185.0	107.5	–	–
Intl Development Assoc (IDA)	792.4	850.0	977.0	850.0	–	–
Intl Finance Corp (IFC)	–	–	–	–	–	
Multilateral Investment Guarantee Agency (MIGA)	5.0	1.6	4.0	4.0	–	–
Intl Fund for Agric Development	20.0	15.0	15.0	15.0	–	–
Regional Development Banks						
African Development Bank	5.1	5.1	5.1	5.1	–	–
African Development Fund	100.0	108.1	118.1	107.4	–	–
Asian Development Bank	–	–	–	–	–	–
Asian Development Fund	98.0	97.9	151.9	151.9	–	–
European Bank (EBRD)	35.8	35.8	35.4	35.4	–	–
Inter-American Development Bank Ordinary Capital	–	–	–	–	–	–
IDB Fund for Special Ops (FSO)	–	–	–	–	–	–
Inter-American Investment Corp	18.0	18.4	30.9	–	–	–
Multilateral Investment Fund	–	24.6	32.6	25.0	–	–
N. American Development Bank	–	–	–	–	–	–
TOTAL, all MDBs	**1,174.8**	**1304.3**	**1555.0**	**1,296.3**	**–**	**–**
Total arrears if bill passed thus	533.2	518.0	–	–	–	–

On January 8, 2003, the House passed H.J.Res. 2, a continuing resolution to temporarily fund the government until a final bill could be passed. The Senate replace the House's original language with provisions funding the government for through the end of the fiscal year. The House and Senate conferenced, in effect, the recently passed Senate version of H.J.Res. 2 with H.R. 5410 from the prior year. For the multilateral banks, it approved the appropriations figures shown in **Table 1**.

Fiscal 2004. As noted earlier, the Administration has asked for appropriations totaling $1.555 for the MDBs. The amount for each institution is shown in Table 1. The House and Senate Appropriations Committees have not yet acted on the Administration request.

Reforming the IFIs

Since the Asian Financial Crisis began in 1997, major discussions have been underway in the IFIs and among their major member countries about possible changes in the basic architecture of the international financial system. This includes possible shifts in the policies and priorities of the IFIs, the relationships among them, and the relationships between the IFIs and the private sector. The IFIs have adopted a number of policy changes aimed at improving their operations. The IMF in particular has adopted a series of voluntary guidelines which seek to help countries improve the stability of their financial and monetary systems and the effectiveness of their policies. The IFIs have adopted procedures which provide more information to the public on their policies and on conditions in their member countries. However, few major alterations have occurred in the basic structure or function of the IFIs. A broad consensus of the membership is necessary to effect basic change. The leading member countries disagree about the kinds of change which might be needed.

Since at least 1998, leading Members of Congress have tried through legislation to effect fundamental changes in the structure and the policies of the IFIs. Several strong recommendations were included in the 1998 legislation approving U.S. participation in the most recent increase in IMF quota resources and in the fiscal 2001 foreign operations appropriations act. It is important to note, in this regard, that the United States cannot make the IFIs adopt changes in their policies and procedures. The United States does not have the votes to make the IFIs take action and (except for the IMF) it does not have enough votes to block IFI funding plans from going into effect over its objection. Change in the IFIs must be accomplished by persuading other countries that the U.S. proposals are good ideas that they also should support. If the G-7 countries agree on a proposal they have (or can influence) enough votes to put it into effect. However, most other G-7 countries do not agree with many of the initiatives in recent U.S. legislation or U.S. policy initiatives.

The 1998 IMF legislation created a congressionally-appointed commission to review and make recommendations regarding change in the basic structure of the IFIs. The commission (headed by Professor Alan Meltzer) released its recommendation in March 2000. The Clinton Administration agreed with some of the Meltzer Commission's proposals and it opposed others. The Commission said countries should qualify in advance by adopting major reforms in their financial reporting, financial institutions, and government budgetary practices. The Administration said countries should be able to borrow, even if they do not meet these standards beforehand, and the IMF should use its conditionality to bring about needed reforms. The Commission said the IMF should charge penalty rates of interest, above existing market rates. The Administration said this would be counterproductive. In 2001, Treasury Secretary O'Neill filed a report with Congress that was also strongly critical of the Meltzer Commission's policy recommendations for the IFIs.

The Meltzer Commission said the World Bank should lend only to the poorest countries and it should stop lending to countries which have access to private capital. It should also devolve most of its loan functions to the regional MDBs, becoming a grant-making institution focused on global public goods. The Clinton Administration said the World Bank should still make loans to countries which have some access to private capital but it should take care that its loans not supplant the private sector. It said the Bank should focus primarily on poverty alleviation, social programs, and institutional or policy reform. Both the Administration and commission agreed that the IFIs should forgive substantial amounts of debt owed them by the poorest countries. They also agreed that the United States and other donors should substantially increase their contributions for MDB concessional aid. The Bush Administration's views were discussed at the beginning of this issue brief.

The FY2001 appropriations act included several provisions which required the IFIs to consider possible reforms (see below). However, they did not require that the IFIs must implement these reforms before the U.S. could contribute any money (as was proposed –but ultimately not enacted– in 1998). Rather, they say the Secretary of the Treasury must advocate certain reforms in the IFIs and report to Congress any steps they have taken towards achieving those goals. Congress did not adopt any language in the FY2002 appropriations act seeking major reforms in the IFIs.

Section 588 of the FY2002 law said that 10% of the money appropriated for each IFI shall be withheld and not contributed until the Secretary of the Treasury certifies that it has adopted certain procurement and management reforms. These include procedures for requiring annual independent audits of all new investment loans, for requiring independent audits of the central banks of all countries which borrow from the IMF, for assessing the risks of corruption in borrower countries before they get new loans, for establishing new transparency and anti-corruption procedures in borrower countries, and for creating a new fraud and corruption investigative unit in each IFI. The Secretary must report on steps the IMF has taken to achieve these goals.

The Act directed the Secretary to seek stronger procedures in the MDBs improving their loan monitoring procedures in order to limit corruption in borrower countries, to strengthen governance and reduce bribery and corruption in those countries, and to punish any corrupt practices by MDB staff. It required GAO to report annually regarding the adequacy of IFI audit procedures. It directed the U.S. representatives at the IFIs to oppose any loans for primary education or primary healthcare if the projects imposed user fees on people receiving assistance from them. It also said that the Secretary of the Treasury should seek agreement with other countries that any new aid which IDA provides to countries receiving HIPC debt relief (see below) should be provided through grants rather than new concessional loans.

Section 801 said the MDBs should adopt a series of new rules or guidelines. In particular, the banks should require that all new lending to a country would cease if it used loan funds for purposes other than those originally intended. The MDBs should adopt new procedures to prevent their loans from supplanting private financing. The banks should not disburse money if a borrower country has not adopted the specific policy reforms mandated by a loan agreement. The MDBs should also adopt new standards for measuring the progress countries are making towards graduation from eligibility for concessional loans. The new law said that the World Bank should adopt policies aimed at minimizing the number of projects that would displace a population involuntarily or would be detrimental to the people or culture of the people to which the displaced population would be moved. It also said that the IMF should adopt policies which would vigorously promote open markets and trade liberalization in its borrower countries.

Section 804 said that it would be the policy of the United States to work for the adoption of reforms requiring the IMF to lend mainly for short-term BOP finance. Medium-term loans should be available only in certain circumstances and the IMF should charge a premium on most of its loans in order to discourage use and encourage countries to rely more on private sector finance.

Most countries seem willing to consider proposals for reform on their merits, but few appear willing to acquiesce to unilateral demands. If the United States had tried to made the implementation of reforms a prior condition to any U.S. payment, other major IFI member countries would have likely objected. In 2001, for example, Senators Gramm and Helms sought to make U.S. contributions to HIPC conditional on the IFIs adopting major changes in their policies and procedures. Congress ultimately chose not to adopt that language. Many analysts doubt that the goals of their initiative would have been realized even if it had been adopted into U.S. law. Few countries seem willing to accept broad permanent changes in the IFIs simply in order to get a modest one-year HIPC contribution from the United States. Major reform in the IFIs will come only when there is a broad consensus on the part of most countries that particular changes are more desirable than the status quo. Many of the proposals currently being considered in the United States and other countries are not mutually compatible. A major challenge facing the United States in future years will be the development of such a consensus in support of policy changes which the Administration and Congress will support and other countries will find acceptable.

MDBs and Developing Country Debt

Many of the poorest MDB borrowers have had serious difficulty servicing their international debts in recent years. Estimates suggest that the 41 most heavily indebted poor countries (HIPCs) pay only about 40% of their annual debt service obligations. As a whole, the total foreign debt of the HIPC countries was nearly 122% the size of their combined Gross National Product (GNP). For many countries, the share is even higher. Over half this debt was owed to bilateral lenders and 35% was owed to MDBs. The MDBs are the only lenders who are being paid (and the only ones making new loans). In 1998, for instance, $1.8 billion, or half of HIPC country repayment of principal went to multilateral creditors. Only $0.8 billion was paid to bilateral lenders. The HIPC countries are more than $15 billion in arrears to their creditors for unpaid interest due on their long-term debt.

During the height of the international debt crisis in the 1980s, the United States and other major countries used the MDBs as principal vehicles for helping debtor countries. The major concern at the time focused on heavily-indebted middle-income countries, who owed most of their debt to private lenders. Many analysts feared that the stability of the world financial system was at risk. In 1985, then-Treasury Secretary Baker said the IMF, World Bank, and IDB should lend $20 billion over several years (along with $20 billion more from commercial lenders) to help the 17 largest middle-income debtors cope with their problems. In 1989, then-Treasury Secretary Brady said the MDBs and IMF should help middle-income countries finance voluntary debt-reduction plans involving commercial creditors. Between 1989 and 1994, the World Bank and other multilateral agencies lent $7.9 billion to 12 middle-income countries, helping them negotiate a $63 billion forgiveness of the $193 billion owed to these lenders. Similarly, the IDA Debt Reduction Facility helped 7 low-income countries extinguish through debt buy-back schemes (at about 14 cents to the dollar) $815 million owed to commercial creditors. IDA has also made loans (via its “Fifth Dimension” program) to help poor countries finance payments for old IBRD-rate loans.

In October 1996, the World Bank and IMF approved a plan offering debt relief to heavily-indebted poor countries (HIPC). It aims to reduce the debt burden of these countries to "sustainable" levels — i.e., a debt load equal to 200-250% the value of a country's annual exports — in two stages. First, the MDBs would be ready to forgive up to 90% of the debt owed them by HIPC countries and they asked bilateral and commercial creditors to provide the same. (Bilateral creditors said that 80% was the most they would do; private creditors have not volunteered to participate.) Meanwhile, the debtor country would pursue a 3-year program of economic policy reform. Second, at the end of that period, the Bank and Fund determine if the country's debt burden was "sustainable." If not, it would be declared eligible for HIPC terms, and after a period of up to 3 more years, the Bank would retire enough debt owed it to bring the country's debt burden to a manageable level. The Bank would reimburse itself for the retired debt with money set aside from its annual net income or contributed by individual donor countries.

Critics argued that the plan's criteria for eligibility are too restrictive and the period of time it took to qualify for possible debt relief was too long. In June 2000, at the Cologne Economic Summit, G-7 leaders agreed that HIPC should be expanded and the time period shortened. At the World Bank annual meeting in October, Bank member countries agreed that the HIPC program should seek to qualify 20 countries for debt relief by the end of the year. The United States insisted that standards should not be weakened and countries should still be required to undertake major market-oriented economic reforms in order to qualify. World Bank officials estimate that the G-7 initiative would double — to $4 billion — Bank expenses and represent a commitment they could not meet out of existing resources. Some critics assert, however, that the Bank could provide more debt relief if it were willing to use IDA loan resources for this purpose. (For more information on the HIPC program, see CRS Report RL30214, *Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries.* For a discussion of African debt issues, see CRS Report RS21329, *African Debt to the United States and Multilateral Agencies*.)

In 2000, the Administration asked Congress to authorize a $600 million contribution to the HIPC trust fund and to appropriate funds for FY2000, FY2001, FY2002, and FY2003. The Senate Foreign Relations Committee included this authorization in its bill, S. 2382, which also included authority for the U.S. representative at the IMF to vote for a resolution allowing the IMF to use for HIPC the "profits" realized last year when it sold 5 million ounces of gold. Authority to use income from an earlier sale of 9 million ounces was approved in 1999. Congress included authority for the HIPC trust fund contribution and use of the gold proceeds in the final FY2001 foreign operations appropriations act. It appropriated (in Title II) $225 million for contribution to the HIPC trust fund in FY2001 and (in Title VI) a supplemental $210 million for contribution in FY2000. In the FY2002 foreign operations appropriations act, Congress appropriated another $224 million for HIPC.

The money for HIPC carries several conditions. The Secretary of the Treasury may not disburse funds to HIPC for the benefit of any country that engages in a consistent pattern of human rights violations or in international military or civil conflicts which would undermine its ability to develop and institute effective measures for poverty-alleviation. The Secretary may not disburse any money to HIPC for the benefit of Sudan or Burma unless democratically elected governments has taken office in these countries. U.S. funds for HIPC debt relief can only be used for assistance to countries which agree not to accept market-rate loans from any IFIs that received debt relief funds from the HIPC trust fund. The 2002 act specified that U.S. contributions to the HIPC trust fund could only be used to pay off loans owed to the IDB, AFDB, AFDF, and Central American Bank for Economic Integration (CABEI). Countries could only receive U.S. funds through the HIPC trust fund if they agreed not to accept any market-rate loans from IFIs that accorded them HIPC debt relief for two years and only if they documented their commitment to direct the budgetary resources that would have been otherwise used for international debt payments towards programs to alleviate poverty and promote economic growth.

Unlike most other IFI accounts, the HIPC trust fund does not mix together the money contributed by donor countries. Rather, the funds from each donor are held separately and can only be used with the donor's permission. Therefore, despite contrary precedents in all other IFI accounts, the United States can control the way its contributions to HIPC are used.

In 2002, the World Bank announced, with the support of its executive board, that it would no longer be able to fund the costs of IDA debt forgiveness from its own resources (there being other requirements for those funds.) In the future, new contributions from donor countries (some $400-600 million yearly) will be needed to offset lost IDA repayments. Otherwise, IDA will need to start shrinking the size of its future loan program by that amount yearly. IDA uses loan repayments to fund a major share of its new loans.

MDBs and Poverty

Initially, the MDBs' main strategy for the alleviation of poverty emphasized the efficient use of resources to promote growth and raise income levels in borrower countries. During the 1970s and 1980s, the MDBs put increased emphasis on projects designed to target benefits directly to needy persons. In the past decade, however, more emphasis is again being given activities that promote growth. In 1991, the World Bank adopted a two-part strategy aimed at eliminating the worst forms of poverty in developing countries by the year 2000. Part one stressed the need for increased growth. The Bank would encourage countries to adopt incentives and policies that encourage broad-based economic growth and it would finance the construction of infrastructure and other necessary facilities. Part two said that growth must be supplemented with clearly defined poverty-alleviation programs, to ensure that the poor both gained from and contributed to growth. The Bank said the volume and composition of its lending would be linked to the borrowers' own efforts to reduce poverty. In 1993, the Bank announced plans for cutting in half in the next 20 years the share of the world's population facing hunger. It also said it would put more emphasis (via microenterprise lending) on activities designed to meet the credit needs of poor borrowers who are normally not considered creditworthy. The Bank has acted to expand its support for microenterprise. The World Bank annual report for 1994 (the first issued after the 1993 announcement) did not mention the goal of cutting the level of world hunger in half and the issue has not been raised in subsequent annual reports.

There is considerable debate whether the MDBs are doing enough to fight poverty. Today, the controversy seems to focus less on whether they are funding enough anti- poverty projects and more on whether the gains from these loans are offset by the possible injury done to the poor by MDB adjustment programs. Many critics say U.S. contributions should be cut as long as the MDBs continue to promote adjustment and as long as they continue to support top-down decision-making procedures that give average citizens in borrower countries little say in the policy process.

The growth and poverty effects of economic reform are complex issues. Among the strongest critics are non-governmental organizations (NGOs), which argue that adjustment programs encourage borrower countries to change policies and reduce spending on programs that benefit needy people. A coalition of NGOs announced plans in 1994 (the Fifty Years is Enough campaign) to seek cuts in U.S. contributions to the World Bank until it altered its approach to policy reform and put more emphasis on poverty alleviation. Proponents of economic reform argue that countries in economic trouble may have few real alternatives but to reform their policies and to change the structure of their economies. They say that, over the long run, poor people can be hurt more by inflation and other effects of bad economic policy than they are by the effects of policy reform. They say the burden of adjustment actually falls most heavily on the middle class and government employees, not the poor. The MDBs have increased their funding for "safety-net" programs to help mitigate any negative effects their economic reform programs may have on the poor during the transition process.

Congress has passed several laws directing the USEDs to urge the banks to put more emphasis on poverty alleviation. In 1989, for example, it directed the U.S. representatives at the MDBs to propose that poverty alleviation be made a key goal of MDB operations. It also said the banks should help their borrowers develop national strategies aimed at eliminating the causes of poverty and they should give preference in their lending to countries undertaking effective action in that regard. In 1990, Congress directed the USEDs to encourage more lending for population, health, and nutrition programs in borrower countries. MDB and U.S. officials say the banks have been responsive to these congressional concerns. The House Banking subcommittee included a number of initiatives to promote poverty alleviation in its 1997 authorization legislation (H.R. 1488).