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

Martin A. Weiss
Analyst in International Trade and Finance
Foreign Affairs, Defense, and Trade

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. This report discusses key aspects of the IDA-14 agreement and provides current appropriations information. It will be updated as events warrant.

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 2006, countries with 2005 annual per capita gross national income of up to $1,025 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.

In the World Bank's FY2006 (which ended June 30, 2006), IDA made commitments to its members totaling $9.5 billion. Half of these commitments are in Sub Saharan Africa. South and East Asia received 38% of new commitments with the remainder

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

scattered throughout South America and Eastern Europe. Pakistan was the largest IDA borrower in 2006, receiving $1.18 billion in new assistance. Other large borrowers (receiving $500 million in assistance or more) were Vietnam, Tanzania, Ethiopia, and India.

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 almost 40% increase in donor contributions from $12.7 billion in IDA-13 to $20.7 billion in IDA-14.

The Bush Administration pledged $2.85 billion to IDA-14 to be split into three payments of $950 million for fiscal years 2006, 2007, and 2008. For the United States, this represents no real increase from the amount budgeted and requested for IDA-13. For that replenishment, the Administration requested $2.55 billion annually over three years ($850 million per year, FY2003-FY2005) and $300 million in incentive agreements if the World Bank met certain Treasury-specified performance targets ($100 million in FY2004 and $200 million in FY2005).

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. 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]

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]

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[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].

[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].

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 Rating[5], Gross National Income (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

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

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 (P.L. 108-199) directed the Treasury Department to pursue policy goals related to transparency and accountability across the MDBs.

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]

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[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?*, by Jonathan E. Sanford.

[7] Paul Blustein, "World Bank Plans to Shift to Grant Aid," *The Washington Post*, January 14, 2005.

[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].

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]

IDA 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 passed out of the Senate Foreign Relations Committee on July 26, 2005 with unanimous consent and was included as an amendment in the FY2006 Foreign Operations appropriations bill (P.L. 109-102). The FY2006 appropriations bill included full authorization for the United States to participate in IDA-14, a total of $2.85 billion over three years.

FY2006 Appropriations

IDA appropriations are included in the annual Foreign Operations appropriations bill in the House, and the State, Foreign Operations measure in the Senate. For FY2006, the President requested $950 million, the first of three equal payments to fulfill the U.S. contribution to IDA-14. On June 28, 2005, the House passed H.R. 3057 recommending the full administration request. The Senate passed its version of H.R. 3057 on July 20, 2005 and 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. Due to an across the board recision of 0.1%, the enacted appropriations were $940,500,000.

Section 599D of the FY2006 appropriations measure added a provision that 20% of the funds appropriated to IDA be withheld from disbursement until the Secretary of the Treasury certifies to Congress that several anti-corruption measures (primarily relating to World Bank procurement guidelines) are met.

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[9] See CRS Report 98-180, *Mulilateral Development Banks' Environmental Assessment and Information Policies: Impact of the Pelosi Amendment*, by Jonathan Sanford and Susan R. Fletcher.

[10] See also CRS Report RS22133, *Multilateral Development Banks: Current Authorization Requests*, by Jonathan E. Sanford.

Treasury was unable to certify that the World Bank has met all of the required anti-corruption provisions by the completion of the FY2007 spending measures. Consequently, the Continuing Resolution for FY2007 appropriations (P.L. 110-5, as amended) rescinded $31.35 million from the FY2006 appropriations. The CR also mitigated the provision by changing the language from requiring Treasury certification of World Bank compliance to Treasury now being required to report to Congress the status of World Bank compliance.

FY2007 Appropriations

President Bush released his FY2007 budget request on February 6, 2006. The president requested $950 million to fulfill the second U.S. contribution to the IDA-14 replenishment. This represents around 59% of the President's FY2007 budget request for U.S. contributions to the multilateral development banks.

On June 9, 2006, the House passed H.R. 5522, the FY2007 Foreign Operations appropriations bill, which appropriated the full $950 million request. The Senate Committee on Appropriations, in its report accompanying the Senate version of the Bill, also recommended appropriating the full amount of the Presidential request (S.Rept. 109-277). However, the full Senate did not take up the Foreign Operations appropriations bill prior to the adjournment of the 109th Congress on December 9, 2006.

FY2007 IDA appropriations (and other Foreign Operations programs) are operating under the terms of a Continuing Resolution (P.L. 110-5, as amended) which provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less. Thus, IDA appropriations have been set at $940.5 million, equal to the FY2006 appropriations.

FY2008 Appropriations

For FY2008, the President has requested $1.06 billion: $950 million toward the third annual U.S. contribution to IDA-14 and $110 million towards U.S. IDA arrears. Total U.S. arrears to IDA are $377.9 million.