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The World Bank's International Development Association (IDA)

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Summary

The World Bank is a Multilateral Development Bank (MDB) that makes loans and grants to low and middle-income countries to reduce poverty and promote economic development. Both the World Bank and the International Monetary Fund (IMF) were founded at the Bretton Woods Conference in 1944. Two of the World Bank facilities, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) lend directly to governments to finance projects and programs.

IDA was established in 1960, 16 years after the creation of the World Bank to address concern that the poorest countries could not afford to borrow at the near-market rate terms offered by the IBRD. Consequently, IDA was established as a revolving fund, providing concessional loans to the poorest countries subsidized by donor contributions and transfers from the IBRD. IDA assistance is highly discounted, it is increasingly provided as grants, and only available to low-income member countries. Since IDA provides loans and grants to the poorest countries at subsidized rates, its resources must be periodically replenished. Donor nations have replenished IDA 14 times since its founding.

On March 5, 2007, donor nations began to discuss a possible fifteenth replenishment of funds for IDA. This is the first replenishment since the G8 summit at the Gleneagles Resort in Scotland in 2005 where world leaders proposed the creation of the Multilateral Debt Relief Initiative (MDRI). The MDRI cancels the remaining debt of the world's poorest countries and pledges to double the amount of aid to Sub-Saharan Africa between 2004 and 2010, primarily in the form of grant-based assistance.

Donor governments selected three themes for IDA-15: (1) IDA's role in the international foreign aid system, (2) the role of the World Bank in post-conflict reconstruction and fragile states, and (3) the need to improve the effectiveness of IDA assistance. This report provides brief background material on the World Bank's IDA, the U.S. role at the institution, and information on the status of the current IDA-14 replenishment. It then examines the negotiations for IDA-15, and analyzes the three core themes identified for IDA-15. The report will be updated as events warrant.

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Introduction

On March 5, 2007, donor nations began to discuss a fifteenth replenishment of funds for the World Bank's (the Bank) concessional lending facility, the International Development Association (IDA). This is the first replenishment since the 2005 G8 summit at the Gleneagles Resort in Scotland, where world leaders proposed the creation of the Multilateral Debt Relief Initiative (MDRI). The MDRI cancels the remaining debt of the world's poorest countries, and pledges to double the amount of aid to sub-Saharan Africa between 2004 and 2010, primarily in the form of grant-based assistance.[1]

It is also the first replenishment since the 2005 Paris Declaration on Aid Harmonization, in which IDA and over 100 other signatories agreed to increase coordination among donors in an effort to raise aid effectiveness. The declaration was prompted by concerns that aid is ineffective under the current structure. The lack of coordination of donors on the one hand, and the increasing restrictions on projects themselves through donor earmarks and time limits on the other, have raised the cost and difficulty for implementing foreign aid. According to one foreign aid expert, "managing aid flows from many different donors is a huge challenge for recipient countries, since different donors usually insist on using their own unique processes for initiating, implementing, and monitoring projects. Recipients can be overwhelmed by requirements for multiple project audits, environmental assessments, procurement reports, financial statements, and project updates."[2] Thus, the role of IDA in the international aid architecture has emerged as the dominant theme of the IDA-15 negotiations.

Higher levels of debt relief will lead to lower levels of IDA assistance unless donors increase their contributions significantly over the next several years, according to Bank economists and outside experts. Some argue that by forgiving the repayment of debt owed to IDA, the Bank has substantially reduced the amount of money it has to fund new operations. The Bank asserts that without additional compensation from donors and an increase in regular contributions, IDA's future commitments would remain flat in nominal terms, and decrease by 2% per year in real terms. A concerted effort toward aid coordination would likely result in higher levels of IDA funding.

Analysts in the United States and in other donor countries actively debate the pros and cons of providing foreign assistance through multilateral organizations rather than solely on a bilateral basis. In addition to the aid fragmentation problem discussed earlier, it is believed by many that multilateral aid is more effective since it is likely to be better insulated from political pressure than bilateral assistance. In the World Bank's case, since the Bank's charter disallows its involvement in the domestic politics of any of its member nations, many analysts believe that the Bank has a greater degree of credibility among borrower nations and is thus better able to secure often difficult and economically painful reforms.[3] Furthermore, some analysts argue that a major benefit of the World Bank's multilateral assistance is that the Bank is not directly subject to the often shifting priorities of individual donor nations and is thus able to focus on long-term multi-sectoral development assistance. For example, some point out that the current international focus

[1] CRS Report RS22534, *The Multilateral Debt Relief Initiative*, by (name redacted).

[2] Steven Radelet, "A Primer on Foreign Aid," Center for Global Development Working Paper No. 92, July 2006. p.15.

[3] Andrew Powell and Matteo Bobba, "Multilateral Intermediation of Foreign Aid: What is the Trade-off for Donors?," Inter-American Development Bank Research Department Working Paper #594, November 2006.

on combating HIV/AIDS and other infectious diseases may have implications for cost of service of other health-care programs, drugs, and availability of resources, in addition to a possible brain-drain as doctors and medical professionals switch focus to work for programs with a higher profile and greater availability of funding. In these cases, the World Bank often plays an important role by focusing on a country's overall development needs, through their Country Assistance Strategies, and continuing to provide assistance to all sectors of a country's economy.

On the other hand, some analysts raise concerns that the United States loses too much control over the provision of its aid with a multilateral approach. First, they argue, it is very difficult for donors to earmark funds when they are contributed multilaterally. If other donors are not in broad support of the U.S. aid agenda, the United States might be able to achieve its foreign policy objectives more directly by providing bilateral aid through the U.S. Agency for International Development (USAID) or another U.S. agency. Second, since the United States does not have veto power on World Bank lending, the Bank sometimes provides assistance to countries despite strong U.S. opposition. For example, the World Bank has several loan projects in Iran, a country that the United States has designated as a state-sponsor of international terrorism. Although Congress requires the United States to oppose any World Bank loan to Iran (or any other country so-designated by the State Department), since the United States does not have a veto, several projects to Iran have gone through over the past few years. Most recently, the World Bank approved a $224 million water supply and sanitation project in May 2005. Currently, the World Bank has ten active projects in Iran worth $1.36 billion.[4]

According to some Members of Congress, a purely bilateral approach might ensure that no U.S. funds are used to support aid programs to countries that run counter to U.S. foreign policy. Others argue that for some countries, it may in the interest of the United States for certain types of programs to be funded by the World Bank (humanitarian, environmental, for example), since certain countries might not be willing to accept aid if it were offered by the United States for domestic political reasons.

Background

The World Bank is a Multilateral Development Bank (MDB) that makes loans and grants to low and middle-income countries to promote poverty alleviation and economic development.[5] Both the World Bank and the IMF were founded at the Bretton Woods Conference in 1944. Two of the World Bank facilities, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) lend directly to governments to finance projects and programs.

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[4] More information on the World Bank's projects in Iran is available at the World Bank's Iran Country webpage: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/IRANEXTN/0,,menuPK:312962~pagePK:141159~piPK:141110~theSitePK:312943,00.html.

[5] The United States 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 institutions: the North American Development Bank (NADB) and the International Fund for Agricultural Development (IFAD). The U.S. Department of the Treasury provides additional information on its participation in these organizations in its annual *Justifications for Appropriations Report*. The most recent, for the FY2008 request, is available at http://www.treasury.gov/offices/international-affairs/intl/fy2008/fy2008-budget.pdf.

The IBRD provides middle-income developing countries with loans at near-market rates using funds raised by the World Bank on the international capital markets. While many of these countries can borrow on the international capital markets, and are increasingly doing so, some seek loans from the World Bank to gain access to World Bank technical assistance and advisory services, as well as the prestige and perceived legitimacy that come with World Bank-backed projects.

IDA was established in 1960, 16 years after the creation of the World Bank due to concerns that low-income countries could not afford to borrow at the near-market rate terms offered by the World Bank.[6] Consequently, IDA was established as a revolving fund, providing concessional loans to the poorest countries and subsidized by both donor contributions and transfers from the IBRD. IDA assistance is highly discounted and is increasingly provided as grants. Both IDA and IBRD also make non-project loans to promote economic policy and institutional reform, and share the same staff. Both are headquartered in Washington, DC.[7]

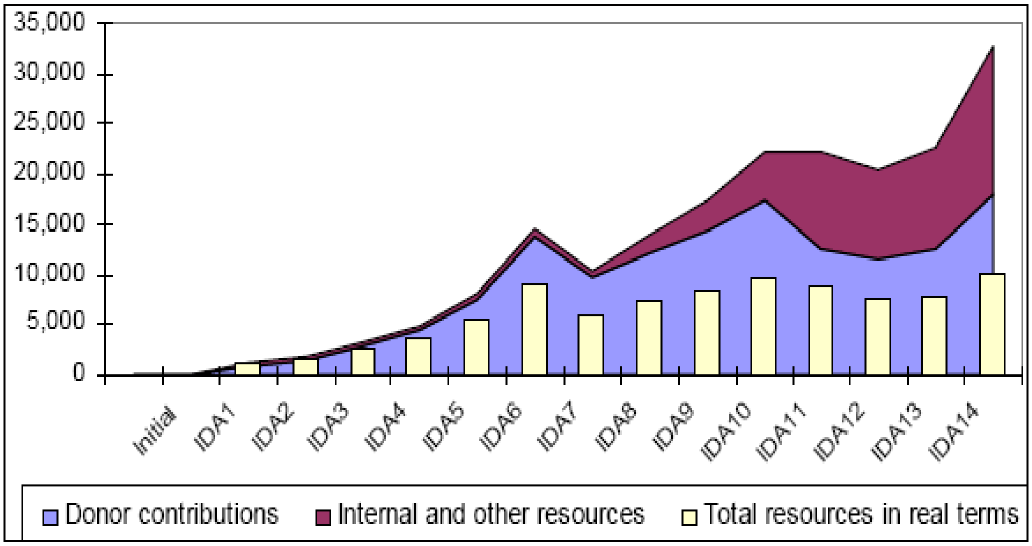
Initial IDA funding in 1960 was $1.1 billion: $900 million from donor contributions and $210 million from IBRD net income.[8] According to the Bank, between IDA-1 (1960-1962) and IDA-14 (2006-2008) total resources for IDA have increased on average 9.5% per year (in nominal terms). Over the three-year IDA-14 period, IDA will provide $33 billion in concessional assistance. In real terms, however, since IDA-6 (1981-1984) available resources for IDA have been flat (**Figure 1**).

[6] For the World Bank FY2007, low-income countries are those with a per capita income of less than $1,025.

[7] Three other World Bank affiliated organizations are dedicated to the private sector. The International Finance Corporation (IFC) promotes private sector development in poor and developing countries by making loans and investments in small and medium-sized companies. In many poor countries, the banking sector is weak and there is little or no access to equity financing. Complementing IFC investments, the Multilateral Investment Guarantee Agency (MIGA) provides private investors coverage against non-commercial risk in developing countries. Coverage is provided against a broad range of risks including expropriation, war and civil disturbance, and/or breach of contract. Lastly, the International Center for the Settlement of Investment Disputes (ICSID) provides dispute resolution for investment disputes between governments and foreign investors. More information is available from the World Bank's Website: http://www.worldbank.org.

[8] This section draws from Aid Architecture: An Overview of the Main Trends in Official Development Assistance, International Development Association, February 2007. p. 30. Hereafter *Aid Architecture*.

Figure 1. Growth of IDA Since Inception, in Nominal and Real Terms ($ in millions)



Source: World Bank.

The Donor Replenishment Process

Donor contributions account for over 70% of all resources available for IDA (providing about $138 billion). The remainder is funded by internal IDA resources (primarily principal repayments from IDA borrowers) and transfers from IBRD net income. Internal resources have accounted for about $46 billion of IDA's funding, while transfers from the IBRD's net income and budget surplus have provided $11.7 billion to IDA. As of the end of the World Bank's FY2006, IDA's total assets were $102.9 billion. This is a $32.1 billion decrease from FY2005's available resources of $130.4 billion due to debt write-off provided by the MDRI.

Every three years, IDA donors meet to negotiate the terms of a new round of IDA. Since 1960, there have been 14 such replenishments. Negotiations for the 15th round began March 5, 2007. At the replenishment, donors revisit the overall amount of IDA financing for the round. In addition, the replenishment is the primary opportunity for donor nations to influence World Bank policy making.[9] For the United States, IDA contributions are typically the largest component of the annual U.S. contributions to the International Financial Institutions (IFIs).

IDA replenishments comprise two distinct phases: negotiating the replenishment round and annual contributions. First, the donor nations negotiate the overall amount of a three-year replenishment, individual donor contributions, and general policy considerations for the round. Following this, each member country seeks annual contributions, typically through its legislative process, to meet their IDA commitments. For the United States, participation in any given IDA

[9] "The establishment of IDA meant the recognition that there was a legitimate need for concessional assistance and that the Bank could provide this assistance without compromising its strict standards for lending. However, IDA, with its periodic replenishments by member governments, meant that the Bank had to pay increasing attention to the views and priorities of the parliamentary bodies that provided the replenishment funds. Whereas the Bank had previously to consider only the productive and economic aspects of lending, now the internal politics of the shareholding governments began to play a larger role in the Bank's activities." World Bank, profile of its third President, Eugene R. Black , cited in *Aid Architecture*.

replenishment requires congressional authorization of the total IDA package. Following this authorization, the President seeks annual appropriations to the U.S. share of each round.

This bifurcated process, where the Executive Branch commits to a overall replenishment amount prior to annual contributions are appropriated has led to an arrearage problem since the United States is obligated to contribute the amount agreed to at the replenishment. Congress authorizes U.S. participation in the replenishment agreement—including the terms of that agreement—when it authorizes funding for U.S. contributions to the plan. The Constitution does not require, however, that Congress appropriate the sums necessary to meet the terms of international agreement negotiated by the Executive Branch and authorized by Congress.

U.S. arrears to IDA are $377.9 million. These arrears have had a bandwagon effect—unpaid U.S. contributions have triggered a pro-rata withholding of contributions during IDA-12 and IDA-13 by three other IDA donors, totaling about $72 million. Notwithstanding U.S. arrears, the U.S. remains the largest contributor to IDA (and the IBRD) and has a commensurate share of influence in World Bank operations. An appendix provides more information about U.S. influence at the World Bank.

IDA Assistance

IDA assistance is categorized as Official Development Assistance (ODA)[10] by the Organization for Economic Development (OECD) and is tracked in the OECD's Development Assistance Committee (DAC) database. Donor nations provide a wide variety of foreign aid, some provided bilaterally, other channeled through multilateral organizations. According to the OECD, bilateral assistance accounts for 75% of all international foreign aid. However, they consider ODA bilateral if a donor channels assistance to a multilateral agency but specifies the recipient country. If all aid that is channeled through international organizations is categorized as multilateral aid, the division between bilateral and multilateral assistance would be 50%-50%.[11]

From 1960 through the 1980s, IDA was the largest individual provider of multilateral assistance. With the flattening of IDA assistance over the past twenty years, other multilateral organizations have surpassed IDA as a provider of multilateral aid. IDA's share of multilateral ODA declined from 42% in the 1970s to an average of 20% in the 2001-2005 period.[12] The primary cause of this decline is the increasing fragmentation of donor flows among a multitude of agencies, such as the United Nations, European Commission, World Health Organization (part of the United Nations), and the IMF and World Bank, among many others.

[10] ODA is defined by the OECD "those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and ii) it is concessional in character and conveys a grant element of at least 25 per cent." For more information, see CRS Report RS22032, *Foreign Aid: Understanding Data Used to Compare Donors*, by (name redacted).

[11] For more information on U.S. bilateral and multilateral foreign aid, see CRS Report RL33491, *Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance in Transformational Development*, by (name redacted), and CRS Report 98-916, *Foreign Aid: An Introductory Overview of U.S. Programs and Policy*, by (name redacted) and Larry Q. Nowels.

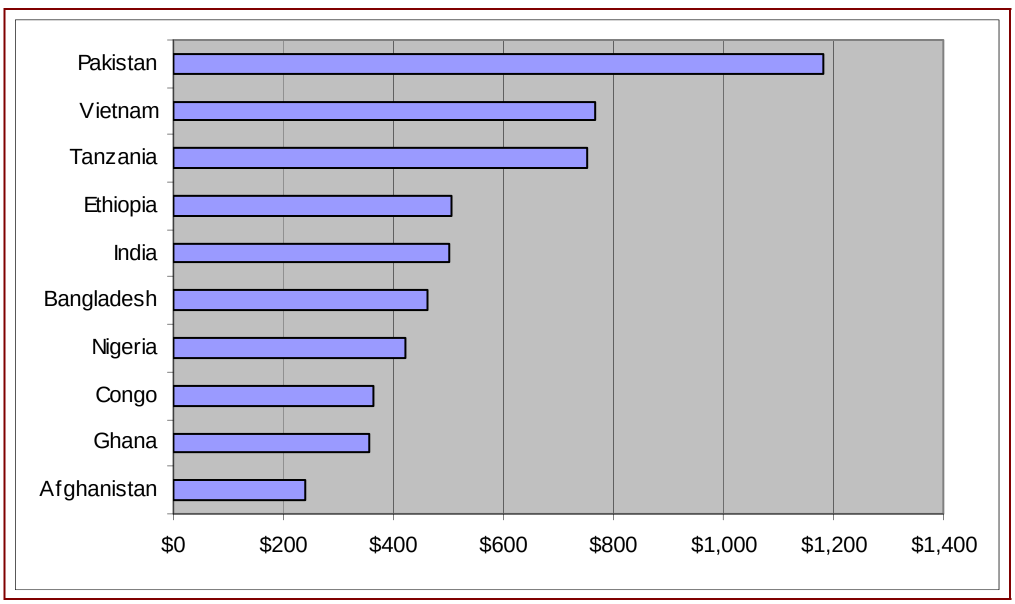
[12] Aid Architecture, pg. 4.

While IDA assistance has decreased as a percentage of overall multilateral aid, for the poorest countries (those eligible to receive IDA assistance), IDA remains the largest provider of multilateral ODA. For core development programs (excluding debt relief, administrative costs of donors, emergency assistance, and other special purpose grants), IDA's cumulative net ODA for 2001 to 2005 exceeded $33 billion (about 20% of total core-development ODA for IDA-eligible countries). In the same time period, IDA contributed more than 20% of ODA in 17 countries; between 10% and 20% in 34 countries; between 5% and 10% in 12 countries; and less than 5% in 18 countries.

There are 82 low-income countries currently eligible for IDA assistance, including 39 in Sub-Saharan Africa. IDA loans are typically interest-free, and have a 10-year grace period with repayments stretched over 35-40 years. (There is a small service charge, however, currently 0.75% of funds paid out.) Increasingly, IDA is providing a growing amount of its assistance in the form of grants. IDA also supports some countries, including several small island economies, which are above the per-capita income cutoff but lack the creditworthiness needed to borrow from IBRD. Some countries, such as India, Indonesia and Pakistan, are IDA-eligible based on per capita income levels, but are also creditworthy for some IBRD borrowing. These are referred to as "blend" countries and receive loans from both agencies.

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 were in Sub Saharan Africa. South and East Asia received 38% of new commitments with the remainder scattered throughout South America and Eastern Europe. In 2006, Pakistan was the largest IDA borrower, receiving $1.18 billion in new assistance. Vietnam, Tanzania, and Ethiopia were other large borrowers (**Figure 2**).

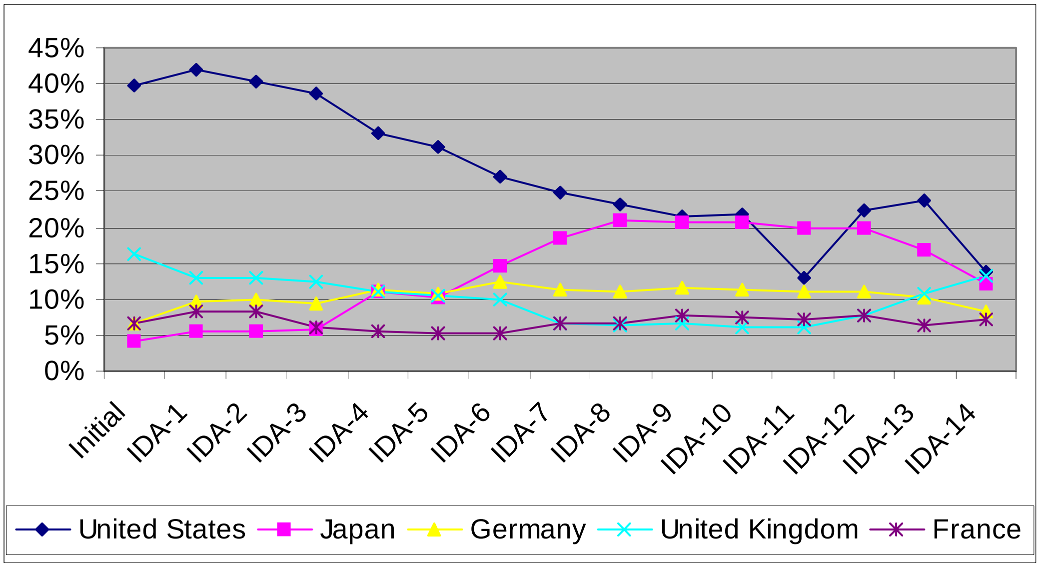
Figure 2. FY2006 Top Ten IDA Borrowers ($ in millions)



Source: World Bank.

At IDA's founding, the United States contributed the largest percentage of resources to IDA: 39.65%. After peaking in IDA-1 at 41.89%, the U.S. percentage of contributions to each round of IDA has steadily declined. While the U.S. remains the largest individual contributor to IDA, its share in IDA-14 dropped to 13.78% after maintaining above a 20% share for much of the past three decades (**Figure 3**). The decrease in U.S. percentage is largely attributed to higher levels of foreign donor contributions and an increase in the number of IDA donor nations.

Figure 3. Donor Contributions to IDA



Source: World Bank.

The five largest contributors to IDA-14, the United States, Japan, Germany, the United Kingdom, and France, are contributing between 7.11% and 13.78% of the total. The decline in U.S. percentage contributions does not affect the U.S. voting share, since the voting weights used for IDA loans are the same as for overall contributions to the World Bank. Since European member countries combined hold a much larger percentage of World Bank shares than the United States, some analysts argue that Europe could exert more force in IDA lending decisions and/or future replenishment negotiations if they negotiate together.[13]

IDA-14

On April 18, 2005, the Board of Governors of IDA approved the fourteenth replenishment of IDA's resources.[14] At the conclusion of the IDA-14 negotiations, IDA donors announced that at least $34 billion in resources would be made available to the 81 IDA-eligible countries during the three years of IDA-14 (2005-2008). Of the $34 billion, $18 billion would be in new donations from the 40 contributor countries. The remaining $16 billion would come from reflows (repayments on former IDA loans) and transfers from the IBRD and the IFC. The $34 billion in resources made available by IDA-14 is a $11.6 billion increase from the total IDA-13 level of

[13] By tradition, the president of the World Bank is appointed by the United States while the managing director of the International Monetary Fund is a European national. For more information on the selection processes for these organizations see CRS Report RS22029, *The World Bank: Changing Leadership and Issues for the United States and Congress*, by (name redacted), and CRS Report RS21810, *International Monetary Fund: Selecting a New Managing Director (2004)*, by (name redacted) and (name redacted).

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

$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. The FY2006 appropriations bill included full authorization for the United States to participate in IDA-14. 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. **Table 1** includes U.S. budget requests and appropriations for IDA-14 and total arrears.

Table 1. IDA-14 Appropriations

(in $ Millions)

FY2006		FY2007		FY2008		Total Arrears (Includes arrears from IDA-13)
Request	Approp.	Request	Approp.	Request	Approp.	
950.0	909.15[a]	950.0	940.5	1,060.0	$950.0	377.9

a. In FY2006, $940.5 million was appropriated, however, the enacted Continuing Resolution (P.L. 110-5) rescinded $31.35 million of this amount since Treasury was unable to certify that the World Bank complied with certain congressionally mandated transparency initiatives.

U.S. Policy

The United States Government pursued many priorities at the IDA-14 negotiations. According to the Administration, the major U.S. objectives at IDA-14 were: implementing a results measurement framework for performance-based allocation, increasing the percentage of IDA assistance provided as grants, and increasing World Bank transparency.[15]

Measuring Results and Performance-Based Allocation

In recent years, many observers—both critics and supporters of the MDBs—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.

The focus on performance requirements and measurable results follows from analysis undertaken by World Bank economists that suggested that foreign aid, such as that provided by the World Bank, is most effective for countries that have good policies. According to the report, "aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies.

[15] 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.

In the presence of poor policies, on the other hand, *aid has no positive effect on growth* (emphasis added)."[16]

The notion that effective aid is conditional on underlying economic policy performance has become central to the Bush Administration's foreign aid strategy and policy toward the World Bank. The Bush Administration has made measuring results and performance-based allocation central to U.S. foreign assistance and has made the practice of these ideas central to the operations of a new foreign aid initiative, the Millennium Challenge Account (MCA).[17] Reportedly, this plan was based heavily on World Bank research.[18]

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 quality of life and the standard of living in developing countries. Some argue, however, that the obstacles that block progress in these areas are substantial and much effort and time may be needed to realize gains. Furthermore the Administration's emphasis on growth may beg the question of income distribution. It is unclear how the Administration's emphasis on growth fits with the assertion by the MDBs and their executive boards that poverty alleviation should be the MDBs' principal goals.

Introducing stronger performance requirements thus became one of the Administration's most sought after goals at IDA. Building on the new results measurement system, the U.S. Administration would like to channel more IDA resources to the strongest performing countries. This would mirror new domestic U.S. foreign assistance programs such as the Millennium Challenge Corporation (MCC), that were designed with performance-based allocation strictly in mind.

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 monitors a set of 14 country indicators for all IDA countries. To analyze IDA performance, the World Bank created output indicators measuring IDA's contribution in the health, education, water supply and transportation sectors. Regarding performance-based allocation, IDA-14 allocations are determined using a formula that includes the IDA Country Performance Rating,[19] Gross National Income (GNI) per capita, and population. The IDA Performance Rating is the dominant factor, and higher performance can increase IDA allocations exponentially.

[16] Craig Burnside and David Dollar, "Aid, Policies and Growth," *American Economic Review*, September 2000.

[17] See CRS Report RL32427, *Millennium Challenge Account*, by (name redacted).

[18] Daphne Eviatar, "Do Aid Studies Govern Policies or Reflect Them?," *The New York Times*, July 27, 2003.

[19] 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.

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.[20] 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 debt. Thus President Bush introduced a proposal in 2001 that the World Bank shift its assistance to the poorest countries away from loans to grants.[21] For IDA-14, deputies agreed on 30% of total IDA assistance in the form of grants, an 8% increase from IDA-13.

According to Bobby Pittman, U.S. Treasury Deputy Assistant Secretary for Multilateral Development Banks, "grants can be useful for ending the lend-and-forgive cycle."[22] Other donor countries agree with the concept of grants, yet assert that without commensurate increases in IDA funding, the bank's financial strength may suffer. They also note that most IDA loans are repaid in full and on time and only a minority of borrowers have needed debt cancellation. Some analysts argue 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. Money from loan repayments accounts for about 40% of the resources available for IDA to fund new aid. Without these funds, new IDA aid would have to shrink. Critics of grants also note that the World Bank's IDA loans are already provided on highly concessional terms, with little or no interest.

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.

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), which Bank began releasing 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 (NGOs) 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.[23]

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[20] See CRS Report RS22534, *The Multilateral Debt Relief Initiative*, and CRS Report RL33073, *Debt Relief for Heavily Indebted Poor Countries: Issues for Congress*, both by (name redacted).

[21] "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. Available at http://www.whitehouse.gov/news/releases/2001/07/20010717-1.html. See also CRS Report RL31136, *World Bank: IDA Loans or IDA Grants?*, by (name redacted).

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

[23] 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 called on the World Bank Executive Board to implement other important transparency reforms. Specifically, the Agreement directed 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. While Board minutes are still classified, donor countries have noted progress on the other IDA-14 objectives. On November 20-21, 2006, IDA Deputies and representatives from IDA borrower countries met in Washington, DC to review progress on implementing the IDA-14 recommendations. Participants were satisfied with the level of IDA commitments and progress made on reforms to date.

Lastly, during the FY2006 appropriations process, Congress added a provision (Section 599D) 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. Treasury was unable to certify that the World Bank had met all of the required anti-corruption provisions by the completion of the FY2007 spending measure. Consequently, the Continuing Resolution (CR) for FY2007 appropriations (PL110-5, as amended) rescinded $31.35 million from the FY2006 appropriations. .

IDA-15

At the end of the IDA-14 discussions, donor countries agreed that the scope of policy issues addressed during the replenishment rounds had proliferated beyond reason. They concluded that significant progress on any one area may be constrained unless donor countries limited their priorities for each round. Consequently, IDA 14 participants agreed that for future rounds they would concentrate on fewer areas for reform and seek greater specificity in the main issues for discussion within each area.

At the March 5-6, 2007 kick-off meeting for the IDA-15 round, IDA Deputies selected three themes for IDA-15: (1) IDA's role in the international aid architecture, (2) the role of the World Bank in post-conflict reconstruction and fragile states, and (3) improving the effectiveness of IDA assistance. Negotiations for IDA-15 concluded on December 14, 2007. At the meeting, donors agreed to provide $41.6 billion, an increase of US$ 9.5 billion over the previous replenishment (IDA14) ($32.1 billion). The United Kingdom pledged donations of $4.3 billion over three years, making it the largest single donor to IDA-15. The United States increased its pledge by 30% to $3.7 billion, and will see its share rise from 13.8 to 14.7%. This will be the first time in IDA's history that the United States is not the largest shareholder.[24] Several countries are contributing to IDA for the first time: China, Cyprus, Egypt and Estonia, Latvia, and Lithuania.[25]

[24] The diminished share, however, will not impact the weight of U.S. voting at the World Bank.

[25] The full IDA-15 report is available at: http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/FinalreportMarch2008.pdf.

IDA's Role in the International Aid System

During the run-up to the IDA-15 negotiations, IDA's role in the international aid system emerged as the most pressing issue for IDA deputies. As noted earlier in this report, the proliferation of providers of foreign assistance and its increasing fragmentation among narrowly defined projects has emerged as a concern among foreign aid professionals.

Responding to these concerns, analysts have suggested that the trend of decreasing multilateral assistance be reversed and that a greater percentage of foreign assistance be channeled through IDA or other multilateral providers. According to one Brookings Institution analyst, "bilateral donors should put the politics aside and get serious on aid scale-up and harmonization through IDA."[26] Possible questions identified by the World Bank that IDA-15 deputies may discuss during the IDA-15 negotiations include (1) IDA's role in the global aid architecture; (2) concerns regarding vertical or global aid funds (aid programs that focus on specific policy issues rather than country-based assistance); (3) IDA's role at the regional level and the best division of labor between IDA and the regional development banks; (4) implications for IDA of the 2005 Paris Declaration agenda on aid harmonization; (5) IDA's role be in building country institutional capacity to promote good governance, especially at the local level in countries that have weak or non-participatory central governments; and (6) IDA efforts to improve global aid harmonization.

IDA and Fragile States

With the collapse of the Soviet Union and the rise of civil conflict in many countries throughout (primarily) Africa and South Asia, the World Bank has significantly enhanced its involvement in post-conflict countries and other so-called fragile states. In 2002, the World Bank launched the LICUS (Low Income Countries Under Stress) initiative to provide special assistance for high-risk countries, defined as scoring a 3.0 or less on the World Bank's CPIA rating. In January 2006, the Bank adopted the term "Fragile States" to refer to LICUS countries and the program.

As of 2008, there are around 25 countries classified as fragile states by the Bank. The goal of the LICUS/Fragile States program is to provide additional and coordinated assistance targeted to the needs of fragile states, which are characterized by weak policies, institutions, and governance. Thus, many analysts argue that World Bank assistance in fragile states requires additional focus on state-building and peace-building objectives in addition to the Bank's traditional emphasis on economic growth and poverty alleviation.

During IDA-15, member countries and IDA officials are expected to further refine the IDA strategy for fragile states. This may involve better integrating fragile states issues in IDA's work—for example, staff incentives, increased analytic work of fragile state needs, increased coordination with bilateral donors, and the creation of results measurement systems designed specifically for fragile states. The Bank may also revise the types of financial assistance that it currently provides to fragile states. For many fragile states and other post-conflict countries, the World Bank is unable to lend because the fragile state either does not have a functioning government or is in arrears to the World Bank. In these cases where the World Bank cannot lend directly, trust funds have been established to channel donor funds earmarked for a specific

[26] Amanda Glassman, "Time to be serious on aid harmonization through the IDA," *Financial Times*, March 7, 2007.

country or project. IDA officials have recognized this challenge and are looking to establish a framework for arrears clearance in IDA-15.

IDA and Development Effectiveness

Building on efforts undertaken in IDA-14, increasing the effectiveness of IDA assistance is the third focus of IDA-15. The challenges facing IDA, as well as the rest of the aid system, are formidable. According to one study of World Bank evaluation, "Despite the billions of dollars spent on development assistance each year, there is still very little known about the actual impact of projects on the poor."[27] A 2006 report from the World Bank's Independent Evaluation Group (IEG), found that while the Bank has instituted numerous policies and procedures to "manage better for results," these efforts have not translated into improved Bank processes at the operational project level.[28] According to the report, Bank managers and staff continue to struggle to link operations to clearly defined goals. Moreover, the report found that performance indicators are inadequate; staff are unclear how to use performance information in their day to day work; and that the World Bank culture acts as a disincentive to managing for results by focusing on the amount of projects and money lent rather than the quality of individual projects.

Members of Congress have exhibited significant interest in improving the effectiveness of IDA assistance. A Senate hearing in spring 2006 focused on improving the effectiveness of World Bank lending and several proposals were discussed which may resurface during IDA-15. For example, several development experts discussed at the hearing the need for better results measurement and proposed creating a fully independent evaluation group for the World Bank.

While the Bank renamed its internal evaluation group from the Operations Evaluation Department (OED) to the Independent Evaluation Group in 2005, it is not truly independent since OED staff are World Bank employees and frequently rotate between OED and other Bank offices. However, the IEG reports directly to the Executive Board, not the Bank President. According to one hearing participant:

> The World Bank makes some attempt to achieve independence for its Operations Evaluation Department (OED), which reports directly to the Board of the World Bank, not to the President. However, staff move back and forth between OED and the rest of the Bank—a negative evaluation could hurt staff's career prospects. The OED evaluation is subjective. Unclear methods lead to evaluation disconnects ... It has to be asked how the largely positive findings of the evaluations can be reconciled with the poor development outcomes observed over the same period (1985-1995).[29]

Another testified that,

> "Independence" at the Bank is purely cosmetic, for a temporary change of desk and a new nameplate do not alter the signature on the paycheck nor the rewards of the Bank's personnel system. The Independent Evaluation Group is a department of the Bank like any other, save the ceremony of reporting to an Executive Board that is passive at best. For everyone save

[27] Judy L. Baker, Evaluating the Impact of Development Projects on Poverty: A Handbook for Practitioners, The World Bank, 2000.

[28] 2006 Annual Report on Operations Evaluation, The World Bank, 2006.

[29] William Easterly, "Accountability for Multilateral Development Banks" Statement Presented to the Committee on Foreign Relations of the United States Senate, March 28, 2006.

> the titular Director General, a revolving door leads back to standard line jobs and advancement at the Bank. Because results are published, there is strong pressure to display success. Outside verification is precluded because there is no public access to the underlying data. This hardly fosters disinterested and rigorous judgments, even though the Bank boasts that staff cannot review projects that they themselves designed.[30]

In response to these concerns, experts at the hearings proposed creating an outside independent evaluation group that would be able to perform rigorous and independent impact evaluation of what does and what does not work in World Bank programs.[31] Members of Congress have expressed significant interest in this proposal, directing the Executive Branch to pursue further reforms of the World Bank evaluation system in the FY2006 appropriations measure (PL 109-102). Congress required the Secretary of the Treasury to seek at the World Bank (and the other MDBs) a "functionally independent Investigations Office, Auditor General Office and Evaluation Office that are free from interference in determining the scope of investigations (including forensic audits), internal auditing (including assessments of management controls for meeting operational objectives and complying with bank policies), performing work and communicating results, and that regularly report to such bank's board of directors," as well as other transparency and effectiveness related reforms.

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[30] Adam Lerrick, "Is the World Bank's Word Good Enough?", Statement Presented to the Committee on Foreign Relations of the United States Senate, March 28, 2006.

[31] For example, see "When Will We Ever Learn? Improving Lives Through Impact Evaluation, the Report of the Evaluation Gap Working Group," Center for Global Development, May 2006.

Appendix. The United States and the World Bank

Over the life of the Bank, the United States has contributed the largest amount of resources ($26.49 billion total committed, 16.84% of total committed shares). As the largest contributor, the United States enjoys a single seat on the World Bank's Board of Executive Directors and carries 16.38% of the total votes in World Bank decision making. Congressional authorization is required by law before the United States may agree to participate in any World Bank funding agreements, such as the tri-annual IDA replenishment agreements. While Congress does not have a representative at the negotiations, the Executive Branch is required to consult with Members of Congress, before and during the replenishment process.

The U.S. Executive Director (ED) is the primary U.S. representative to the Bank and sits on the Executive Board, which is comprised of 24 members representing all of the Bank's 185 members. The ED handles the day-to-day operations of the Fund. The majority of Bank decisions require a 50% majority vote. Some special matters (changes in the Articles of Agreement or approval of funding increases, for example) require an 85% affirmative vote. Since the U.S. vote exceeds 15%, no funding increases, amendments or other major actions can go into effect without U.S. consent. By tradition, the president of the World Bank is an American citizen. The position is currently held by Robert Zoellick, who began his term July 1, 2007.

While the Executive Branch manages the day-to-day U.S. relationship at the World Bank, Congress decides the overall terms of U.S. involvement in the Bank by setting the level of U.S. contributions, and through legislation, directing how the U.S. shall vote at the Bank. There are three primary ways that Congress can seek to influence or govern U.S. policies towards MDB policy: through conditions attached to new funding agreements; through periodic Sense of Congress resolutions or legislation suggesting specific goals and priorities the United States ought to emphasize at the MDBs or directing how the U.S. should vote on certain countries or types of projects; and through oversight hearings.

For additional background information on the World Bank and the other multilateral development banks (MDBs), see CRS reports by Jonathan Sanford, including CRS Report RS20793, *Multilateral Development Banks: Basic Background*; CRS Report RS20791, *Multilateral Development Banks: Procedures for U.S. Participation*; and CRS Report RS22134, *International Financial Institutions: Funding U.S. Participation*.

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