

CRS Report for Congress

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Multilateral Development Banks: Current Authorization Requests

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Summary

The Administration has asked Congress to authorize U.S. participation in three new funding plans for multilateral development bank (MDB) concessional aid programs. In total, the three plans would authorize the appropriation of \$1.2 billion annually for these programs, a small increase in the amount currently authorized for these programs. The Administration states that it has been very successful in its efforts to promote policy reform or procedural change in the MDBs. This report will be updated as the status of the legislation changes in Congress.

Pending Authorization Requests

Three Authorization Proposals

In April 2005, the Administration asked Congress to authorize U.S. participation in replenishment agreements for three concessional MDB aid programs: the International Development Association (IDA), the Asian Development Fund (AsDF), and the African Development Fund (AfDF). IDA is the largest of these programs. The Administration proposes that Congress should authorize and appropriate \$2.85 billion over three years (fiscal 2006-7-8) for this purpose. Concessional MDB programs make grants and low-cost loans to the banks' poorest borrower countries.¹

The World Bank's executive board approved the IDA 14 funding plan and submitted it to member country governments on March 10, 2005. By April 18, enough countries had

¹ Several CRS reports are relevant to this topic. See *Multilateral Development Banks: Basic Background*, CRS Report RS20791; *Multilateral Development Banks: Procedures for U.S. Participation*, CRS Report RS20793, and *The World Bank's International Development Association's 14th Replenishment (2006-2008)*, CRS Report RS22092.

given their consent to the plan for it to go into effect.² U.S. participation is not required for an IDA funding plan to go into effect. The final text of the AfDF 10th replenishment is not yet available, though a version which discusses policy measures (but not contribution amounts) is published on the African Development Bank's website.³ A news release providing information about the financial terms of the agreement is available on the AfDB site.⁴ The text of the Asian Development Fund's new funding is available from the AsDB's website.⁵

Policy issues are usually the first subject of discussion in MDB replenishment negotiations. Money issues are addressed at the end of the process. The U.S. representatives generally have a number of policy issues on which they place high priority. According to some leading officials, there will be a relationship between the amount they are willing to pledge for contribution by the United States and their success in achieving their policy goals. For the record, they say that the Treasury Department may consult with the Office of Management and Budget (OMB) beforehand relative to the amount which might be contributed and other budgetary constraints, but the final figure takes into consideration the U.S. delegation's assessment of the needs of the organization and their success forwarding their policy goals during the replenishment negotiations. Other observers suggest, though, that the amount the United States can contribute will be determined in large part by OMB in advance and the U.S. representatives cannot stray far from that number in their final contribution pledge.

International Development Association

Results Measurement. According to the Administration, the U.S. delegation had four main policy objectives during the IDA 14 replenishment negotiations. The first of these involved improvements in the World Bank's system for measuring the effectiveness of IDA's development policies and programs. This is usually summarized in the phrase "results measurement." This has been a U.S. priority since the Clinton Administration. Major steps were taken during IDA 12 (1998), at the urging of the United States, to create mechanisms for country capacity and project outcomes. The World Bank's Country Policy and Institutional Assessment (CPIA) process was created as a consequence of IDA 12. Additional steps were taken in 2002, during the IDA 13 talks, to strengthen and increase the scope of the CPIA mechanism.

² For the World Bank's announcement and explanation of the IDA 14 plan and also for the text of the final agreement, see its website at [<http://www.worldbank.org>]. Click on "About" (upper left), then (on left) "International Development Association" and then "IDA 14 Replenishment).

³ African Development Fund. *ADF-XA Partnership for Poverty Reduction and Economic Growth in Africa*. Report of the ADF Deputies on the Consultative Meetings on the Tenth General Replenishment of the African Development Fund. 16-17 September 2004.

⁴ African Development Bank Group. Donors agree on Tenth Replenishment of the African Development Fund. Copenhagen, 17 December 2004. Available from the AfDB website at [http://www.afdb.org/en/what_s_new/events/fad_x_15_17_d_cenbre_2004_copenhagun].

⁵ Asian Development Bank. Board of Directors. *Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund*. Doc. R111-04, 1 July 2004, at [<http://www.adb.org>]. Type "Eighth Replenishment" in Search box.

The IDA 14 agreement (1) expands the results measurement process, adding 14 new country level indicators, (2) adds new output measures to assess the contribution which IDA programs make in the health, education, water supply and transportation sectors in recipient countries, (3) creates new country-level institutional indicators, and (4) adds more project-level indicators. It also requires that all IDA investment projects and development policy loans include indicators that will measure the performance of IDA projects or programs according to predetermined numerical expectations or goals.

Grants. The IDA 14 replenishment plan increases the share of IDA resources which are allocated as grants. In 2002, President Bush said, in preparation for the IDA 13 replenishment negotiations, that IDA should allocate half of its assistance to the poorer IDA-only countries (i.e., 40% of its total aid) on a grant basis. Many other countries resisted this initiative. As a compromise, the donors agreed that grants would comprise 18-to-21% of all IDA 13 aid during the three-year replenishment period.

The United States proposed, during the new IDA talks, that the grant share should be increased substantially. The new agreement provides that 30% of all IDA assistance during IDA 14 will be allocated as grants. Treasury notes that this means that 45% of IDA aid to the IDA-only countries would be grant aid, nearly the President's original goal. The plan provides that 42 of the 62 IDA-only countries will receive 100% of their IDA aid in the form of grants and another 5 will receive part of their IDA aid as grants.

Private Sector Development. The IDA 14 agreement calls upon IDA to work more closely with the International Finance Corporation (IFC), the arm of the World Bank which helps promote private sector growth in developing countries, and to take other steps designed to encourage private sector development. This builds on initiatives begun in earlier replenishments. The new replenishment plan also directs IDA to expand its support for micro-, small-, and medium-sized enterprises through market-based approaches and it directs IDA to commit up to \$225 million over three or four years for initiatives of this sort in Africa. More will be allocated for this purpose in other regions. The agreement also requires IDA to strengthen its analytic/diagnostic work in this area, to expand the coverage of its investment climate assessments, and to incorporate the diagnostic elements of these activities into its country assistance strategies for individual countries.

Transparency. Congress passed legislation in 2003⁶ directing the Treasury Department to seek changes in the multilateral development banks increasing the transparency of their operations and procedures. This legislation is discussed in more detail below. Pursuant to that legislation and to policy objectives whose origins in the executive branch date back into the Clinton Administration, the Administration has pressed the MDBs for action along these lines.⁷

⁶ Section 581 of Division D of the Consolidated Appropriations Act, fiscal 2004 (P.L. 108-199).

⁷ In March 2005, the Treasury Department submitted a report to Congress discussing the efforts made and achievements realized in pursuit of the transparency goals embodied in Section 581. See U.S. Department of the Treasury. Report to Congress: Achievement of Certain Policy Goals With Respect to Transparency and Accountability in the Multilateral Development Institutions, March 14, 2005. The document is also posted on the Treasury Department web page at [http://www.treas.gov/offices/international-affairs/multilateral_banks/congress/index.shtml].

The IDA 14 agreement commits the World Bank to full disclosure of the numerical ratings which countries receive under the CPIA process. This reaffirms a decision reached previously in the IDA 13 replenishment plan. The IDA 14 plan also calls on the World Bank executive board to (1) publish board minutes, (2) strengthen procedures for documenting the public consultation process, (3) make the interim results of projects publicly available while those activities are still in the execution stage, and (4) require an independent audit or assessment of internal management controls and procedures.

Contribution Level. The Administration is asking Congress to authorize a contribution of \$2.85 billion over three years to the IDA 14 replenishment. It would be appropriated in annual allotments of \$950 million. The U.S. contribution to IDA 14 comprises 13% of the total; the U.S. share in IDA 13 was about 22.5%.

Depending how one looks at the numbers, the dollar amount pledged for contribution to IDA 14 is either the same or it is \$100 million more than the U.S. contributed to IDA 13. The basic U.S. contribution to IDA 13 was \$850 million annually. However, the Administration pledged that the United States would contribute another \$300 million if the World Bank adopted several specified reforms. The Bank adopted the reforms but Congress appropriated only part of the additional funds. It approved \$60 million of the \$100 million “incentive” contribution the Administration asked for in fiscal 2004 but it provided none of the \$200 million requested for fiscal 2005. The Administration is treating the unappropriated portion of the extra \$300 million as an arrears.

In dollar terms, the amount the Administration asked Congress to appropriate annually during the IDA 13 period (basic plus incentive contributions) is the same as the dollar amount requested for IDA 14. IDA replenishments are calculated in SDRs. In SDR terms, the dollar declined 11% in value between the end of the IDA 13 talks and the announcement of IDA 14. Thus, even though the dollar amounts are the same, the purchasing power of the U.S. contribution to IDA 14 is 11% smaller than before.

The other donor countries, the Europeans in particular, wanted the IDA 14 replenishment to be 30% larger in SDR terms than was IDA 13. In the end, the new plan is 25% larger than its predecessor (though only about 90% of the total has been subscribed.) Previously, when the other donors wanted a larger replenishment, but the United States said it would contribute no more than a certain amount, they generally decided that it was more important to keep the U.S. contribution share at about the same level it had been in the prior replenishment than it was to have the larger funding plan. In this case, however, it seems they decided that increasing the size of the replenishment was more important than maintaining the relative size of the U.S. share. It is not easy to interpret this change on the part of other donors. Some would suggest, however, that it may mean that the European countries (EU members control over 31% of the vote in the World Bank) may wish to exercise a larger leadership role than before in the MDBs.

Asian Development Fund

Policy Issues. The United States had many of the same basic policy objectives in the negotiations for the new 8th replenishment of the Asian Development Fund (AsDF 8) that it did for the IDA 14. The AsDF had previously agreed that *grants* could comprise about 20% of the Asian Development Bank’s (AsDB) concessional aid during the years

covered by the seventh AsDF replenishment.⁸ The United States sought a major increase in the new replenishment and the other donors agreed to that grants would comprise 30% of the Asian bank's concessional aid in the years covered by the new funding plan. The ADB agreed to create a new *Results Management Unit* to oversee the integration of results measurement standards into all Asian bank and Asian fund loans and policy documents. It also agreed to change the incentive system so that staff would be rewarded more for the quality of the development outcomes achieved by their projects than by the quantity of loans and grants approved. The Asian bank also agreed to adopt new standards for *transparency* and participatory disclosure which are equal to, or in some cases (the Administration says) are better than those of the other MDBs. A final draft of the new standard has been submitted for public comment.

The ADB has taken steps, with U.S. support, to strengthen the *independence* of its Operations Evaluation Department (OED) as well as the inspection panel which reviews complaints by persons who believe they were hurt by AsDB actions which violated bank rules. The new replenishment also gives much more weight, in the AfDF aid allocation decisions, to country *performance and governance*. The methodology for calculating performance and governance have also been approved and made more transparent. Starting in 2005, the Bank will fully disclose each country's performance ratings.

Contribution Levels. The Administration has proposed that the United States should contribute \$461 million to the Asian Development Fund over the four year term (2005-8) of the replenishment. This would comprise 13.7% of the total. Japan has agreed to contribute 35% of the total funding for the replenishment while countries that are members of the European Union have pledged separately to contribute shares which total 30% of the replenishment sum. By comparison, in the prior replenishment, the United States agreed to contribute \$412 million over four years. Of this amount, as of fiscal 2005, about one-quarter (\$102 million) has not yet been appropriated. In the seventh AsDF replenishment, the United States agreed to contribute 14.4% while Japan subscribed 35.1% and 12 countries which are members of the EU pledged separately to contribute an aggregate 27.7% of the total.

African Development Fund

Policy Issues. As with the other two MDBs, the United States pursued several specific policy goals during the negotiations which led to the African Development Fund (AfDF) 10th replenishment. As a result of U.S. efforts, the AfDF donor countries agreed that *grant* share of the institution's aid during the three years of the replenishment period (2005-7) would increase from about 20% to about 45% of the total. According to the Administration, more than two-thirds of the poorest countries in Africa will receive all of their AfDF aid in the form of grants. The new replenishment provides that *results*

⁸ IDA is a legally separate international body, though it shares staff and facilities with the World Bank. The Asian Development Fund, by contrast, is an activity of the Asian Development Bank and has no separate standing. Thus, policy decisions affecting the AsDF's aid program also govern the loan program of the AsDB. The African Development Fund (AfDF) is also a legally separate body. Like the IDA, however, it shares staff and facilities with the African Development Bank. Policy guidelines affecting AfDF aid may or may not affect the AfDB as well, depending on the way their common executive board decides to implement those arrangements.

measurement indicators will be included in all AfDF operations, specifying the goals of the operation, expected outcomes and the critical assumptions or risk factors to be monitored. Moreover, all projects and strategy documents coming to the executive board after mid-2006 must contain a results-based management system. As for transparency, the African fund agreed that the CPIA ratings of individual countries would be released to the public when IDA does so (still an unresolved issue) and that the results indicators of projects would be released during execution and completion. The AfDB management also agreed to seek approval by its executive board for the public release of more documents prior to board review. In other matters, the new replenishment provides resources for the *Post-Conflict* Country Facility, a multilateral effort to help post-conflict countries clear their payment arrears to the African Bank Group. Management also agreed to implement a new *Private Sector Development Strategy* to better integrate assistance for the private sector into AfDF operations.

Contribution Levels. The Administration has asked Congress to authorize a U.S. contribution of \$407 million over three years to the AfDF tenth replenishment. According to the African Development Bank, the new replenishment totals \$5.4 billion, a 43% increase over the prior replenishment with the U.S. share being 7.5% of the total. In the previous replenishment, the U.S. contribution comprised 11.8% of the total.

In dollar terms, the Administration proposes that the United States increase its contribution by 15% over the level established for AfDF 9. However, in terms of purchasing power — given the decline in the international value of the dollar since 2002 — the proposed U.S. contribution to AfDF 10 is about 3.6% larger than the value of the U.S. contribution to the prior replenishment.

Current Status of the Legislation

Draft legislation to authorize U.S. participation in the three MDB replenishments was submitted in early April 2005. The House Financial Services Committee and the Senate Foreign Relations Committee are currently studying the proposals in anticipation of future hearings.