

**STATEMENT OF**

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**ON THE WORLD BANK'S INTERNATIONAL DEVELOPMENT  
ASSOCIATION**

**BEFORE**

**THE INTERNATIONAL MONETARY POLICY AND TRADE  
SUBCOMMITTEE OF THE HOUSE COMMITTEE ON FINANCIAL  
SERVICES**

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## Introduction

Mr. Chairman, Ranking Member Sanders, and members of the Subcommittee, it is an honor and pleasure to be back again with the Committee today. My name is Jim Orr.<sup>1</sup> I am Executive Director of The Bretton Woods Committee, a public education foundation, dedicated to promoting sensible reforms and building understanding for the work of the Bretton Woods institutions – the World Bank, the International Monetary Fund, the World Trade Organization and the regional development banks.

The Bretton Woods Committee is comprised of about 700 members from across the country. Typically, they are opinion leaders: heads of businesses, universities, labor groups and NGOs and former government officials. We are proud of the fact that all the former secretaries of Treasury and State are members, as are a good number of former members of Congress. Our co-chairmen are former Congressman Bill Frenzel and Gerald Corrigan, the one-time president of the New York Federal Reserve.<sup>2</sup>

I am here today to express our strong support for continued U.S. funding of IDA – the International Development Association of the World Bank. In my testimony, I will stress the historical and future significance of IDA and discuss some of the ways it advances U.S. interests.

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<sup>1</sup> In compliance with Congressional rules, a brief biographical statement appears at the end of this statement.

<sup>2</sup> Truth in Testimony rules require a statement about the receipt of any federal grants or contracts. As a matter of policy, The Bretton Woods Committee accepts no government support of any kind. Nor does it

## **WHAT IS IDA?**

The International Development Association is the World Bank's concessional lending window. Designed to be a channel for the "haves" of the world to help the "have-nots," IDA provides long-term loans at zero interest to the poorest among the developing countries. These loans carry maturities of 35 or 40 years with a 10-year grace period on the repayment of principle. IDA lends to countries that have a per capita income of about \$900 or less and lack the financial ability to borrow from the World Bank's primary lending institution, the International Bank for Reconstruction and Development, or IBRD. At present, 79 countries, comprising over 2.5 billion people and more than half the total population of the developing world, are eligible to borrow from IDA.

## **HISTORY OF IDA**

IDA was created in 1960 at the initiative and insistence of the United States, and today it remains the single largest source of donor funds for basic social services – health, education, clean water, sanitation, infrastructure, etc. – to the world's poorest countries. During the 1950s it became increasingly evident to World Bank shareholders that the Bank must turn its attention beyond its primary mandate – postwar reconstruction of Europe – toward assisting poorer nations, many of whom were newly independent from colonial rule, plagued by economic and political instability, and unable to afford the

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accept funding from the international financial institutions. It is supported solely by voluntary contributions of its members.

development loans on commercial terms traditionally offered by the World Bank. To fill this void in development financing, U.S. President Dwight D. Eisenhower urged World Bank shareholders to create the International Development Association (IDA), giving the Bank the resources and mandate it needed to reach the problems of the poorest nations and their citizens. Since 1960, IDA has lent \$107 billion to 106 countries to address the basic needs of billions of people surviving on less than a dollar or two per day. It uses the same criteria to evaluate loans as that of the World Bank's IBRD facility, and aims to fund projects that build needed infrastructure, protect the environment, improve conditions for private industry to develop, and support reforms aimed at liberalizing countries' economies.

As the members of this Committee know, whereas the IBRD raises most of its funds on the world's financial markets, IDA is funded largely by contributions from the governments of richer member countries. Donors get together every three years to replenish IDA funds. IDA lending is a cost-effective way for the U.S. government to promote its development goals, since each dollar contributed by the United States is matched by over seven dollars from other donors and repayments from borrowing countries.

As the Committee is also well aware, there has been a consistent record of bipartisan congressional support for IDA, dating back to the 1950s. It was a Republican Senator who initially proposed creation of the program. It has been supported by every

president since Dwight Eisenhower. It also enjoys support from a broad array of interest groups, ranging from poverty and church groups to the business community.

America's business community has a strong interest in seeing the IDA program succeed. By advancing living standards from one generation to the next, peace and stability are more likely, and thus, IDA helps promote a more stable world economic environment. IDA borrowers are precisely the countries that have the greatest need for the exports the United States specializes in, such as animal feed to upgrade diets, technologically-enhanced crops, renewable fuel sources, and modern capital equipment to improve countries' manufacturing base. Many of today's IDA countries will be tomorrow's emerging markets.

## **IMPACT AND SUCCESS OF IDA**

Over more than forty years IDA has, by and large, been successful in achieving its objectives. IDA lending has impacted the global development community on a major scale, and its success rate compares favorably with private and public sector investments around the world.

Over the years, thirty-two IDA borrowing countries have seen their economies develop and grow beyond the point where they are no longer eligible to use IDA funds, thus enabling them to 'graduate' from IDA to reliance on commercially-priced lending. The list includes Chile, China, Costa Rica, Egypt, Morocco, Thailand and Turkey. Other

former IDA borrowers, such as Korea, have made enough progress that they now contribute funds to IDA as donors.

Further, living conditions and basic services have improved dramatically in most IDA borrower countries. On the whole, life expectancy, literacy and nutrition have increased over the past generation. While there have been development failures among IDA borrowers in parts of Africa, for instance, it is important to note successes in regions like South Asia, where IDA funds and policy helped fuel the Green Revolution. Thanks to IDA over 6,700 health care facilities in Asia were constructed or upgraded, and then equipped and staffed to provide basic healthcare to rural populations.

In the Caribbean, IDA policies have helped turn around Haiti's devastated power sector – giving users access to about 20 hours per day of electricity, in contrast with only 6 hours per day a few years ago. IDA lending has succeeded in parts of Africa, too; over 45,000 primary school classrooms in African countries have been constructed or refurbished, and more than 5 million textbooks (most locally developed and produced) were supplied to primary schools, enabling about 1.8 million children to benefit from access to primary education.

A recent empirical study performed by the World Bank's research department measured the effectiveness of development aid throughout the 1990s and found that the effectiveness of IDA resources improved over the course of the decade, and was far more effective than the overseas development assistance (ODA) in general. The study

concluded that IDA funding was better targeted to specific needs of poor countries that maintain reasonably good policies.<sup>3</sup>

A major, independent evaluation of IDA's record between FY1994-FY2000, performed by the World Bank's independent audit agency (the Operations Evaluations Department) recently found IDA's compliance with more than 150 undertakings to be satisfactory, with qualifications. The report cited that over the seven-year review period, IDA significantly enhanced its relevance and the performance of its portfolio; became a more selective lender and more responsive to borrowers; recast its mission to address new concerns of poverty reduction; improved its presence in the field; and diversified its policy instruments. It also concluded that with IDA's help, a number of poor countries are in a better position now than at the beginning of the evaluated period to achieve broad-based growth and poverty reduction."<sup>4</sup>

## CONCERNS

However, a number of legitimate criticisms about IDA resources, policies and effectiveness have been raised by members of the IDA community, including some of IDA's most ardent supporters. For one, IDA's track record needs to be better: progress in poverty reduction has been disappointing in some pockets of the world, particularly Africa, where living standards have barely kept up with population growth. Neither

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<sup>3</sup> Dollar, David. "Has Aid Efficiency Improved in the 1990s?" Revised Draft. *World Bank Development Research Group*. Washington, DC. March 15, 2000.

<sup>4</sup> Gwin, Catherine. "IDA's Partnership for Poverty Reduction: An Independent Evaluation of Fiscal Years 1994-2000." *World Bank Operations Evaluation Department*. Washington, DC. 2002.

donors nor borrowers must become complacent or be left unaccountable for such failure. Although IDA's effectiveness in increasing, the translation of key IDA objectives into successful programs must become more clear and demonstrable.

Key areas where IDA needs to focus new efforts include private sector development, and gender, environmental and social development strategies. Some of the Bretton Woods Committee's members from the business and finance communities have taken a special interest in the need for more private sector development efforts. Most observers take for granted the fact that poor countries that reach the level of self-sustaining growth will increasingly rely on private sector resources, primarily internally generated, but also foreign direct and portfolio investment.

No country has broken out of the ranks of the "poorest" to achieve the status of an "emerging market" without first creating a well functioning, private sector to permit capital formation and the building of local businesses, which employ workers and pay taxes to support other governmental services. At the same time, there is a critical need for an active civil society to keep pressure on the government for sound policies and regulations and help keep local institutions responsive and up to date.

The Bretton Woods Committee recently established a working group called the Group to Assist Private Sector Development, or GAPS, to assist poor country governments and multilateral institutions in strengthening their private sector development strategies. After only five months of operation, GAPS members have



launched numerous efforts to promote local and foreign business and capital formation in poor countries, and to offer advice on bilateral and multilateral assistance programs to help foster growth and competitive enterprises in IDA borrower countries.

GAPS ideas have already been well received in official development circles. Its members are working now with various cabinet departments on a proposal to establish a U.S. Government-sanctioned *Private Sector Volunteer Office* to help harness volunteer efforts from the U.S. private sector to assist other low-income countries. Ultimately we hope we can organize a major effort to allow U.S. executives to deliver *pro bono* advisory services on local governance, corporate reform and capital market development plans to a few selected IDA countries.

## **IDA13 REPLENISHMENT**

IDA donor countries addressed these and other concerns when they concluded negotiations in June on the thirteenth replenishment of IDA. The new replenishment prioritizes the following four objectives:

- ? To promote sound policies that will lay a secure basis for productivity growth and poverty reduction in IDA borrowing countries;
  
- ? To ensure IDA assistance is effective and delivers measurable results;

- ? To improve IDA's coordination, transparency and consultation to increase operational effectiveness; and
- ? To provide for a substantial replenishment of IDA resources to support countries demonstrating commitment to good policies and sustainable growth.<sup>6</sup>

Donors agreed IDA policies must be more closely tied to countries' overall poverty reduction strategies, and that greater emphasis should be placed on improving policies toward education, gender, infectious disease, private sector development, rural development, and governance.

New to the agreement is an emphasis on lending effectiveness and tying aid to performance by rewarding countries that make the most progress by granting them access to additional resources. Donor representatives called for a results-based system employing specific indicators to measure and enhance effectiveness, and improve borrower accountability performance. They also arranged to include an incentive-based supplemental financing mechanism to allow additional donor contributions to be added based on progress to be tracked during this three-year IDA cycle.

Finally, donors recommended that IDA continue to build on its progress with respect to strengthening elements of transparency and coordination within its programs.

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<sup>6</sup> International Development Association. *Additions to IDA Resources: Thirteenth Replenishment*. The World Bank Group, July 9, 2002. Washington, D.C.

## **GRANTS VERSUS LOANS**

A final issue of contention during the discussion of increasing IDA resources has been whether to replace IDA loans with grants. The United States has pressed IDA donors to convert a greater percentage of IDA loans into grants. The Bush administration has argued that chronically indebted and impoverished countries cannot afford additional debt build-up. Those opposed to the administration's proposal have worried that, without substantial new resources and sustained over many years, a significant increase in grants would eventually deplete IDA resources.

Under the compromise reached in the IDA negotiations, donors agreed to convert between 18-21 percent of IDA instruments into grants, recognizing the special difficulties facing some of the poorest and most vulnerable IDA-eligible countries. The use of grants will be expanded for education, health, nutrition, sanitation, HIV/AIDS, and natural disaster reconstruction programs, as well as for countries recovering from conflict.

Initially, the Bretton Woods Committee expressed concern about the proposal to convert up to 50 percent of IDA loans to grants. While grants make great sense, we were worried about the feasibility of the proposal for two reasons. First, a large-scale move to grants ran somewhat contradictory to the original intention of the IDA -- to create a culture of investment and credit within developing countries. Second, and more important, given the declining trend of official U.S. development assistance over the last

two decades, and given the large increase in IDA contributions that would be required to sustain future resources in the face of lost future income (reflows) from replacing loans with grants, we were not convinced U.S. and other IDA donors would commit the financial resources needed to sustain a healthy IDA program. Our concerns about the viability of this proposal were strengthened by a CRS study by Jonathan Sanford detailing the significant donor contribution increase that would be required to maintain IDA resources should IDA donors adopt the Bush administration's 50 percent grants proposal.

However, the new compromise to convert approximately 20 percent of loans to grants appears feasible, so long as the U.S. and other major IDA contributors continue to replenish IDA funds in the future.

The Bretton Woods Committee also considers the U.S.-initiated recommendations in the new IDA agreement to establish an accountability function for borrowers and a monitoring and evaluation system to be important steps toward improving IDA effectiveness. We urge that framers of this proposal include indicators of private sector development, which can help in alleviating poverty, and the Committee stands willing to offer its advice and support to help make this possible.

The significant strides that IDA has made over the past decade has helped it to become the most efficient international institution in terms of lending based on country performance, and IDA has proven itself as the most cost-effective way to fight extreme

poverty on a large scale. The proposals that IDA donors have made for this replenishment will further strengthen IDA's capacity, sharpen its focus on policy and institutional performance, and equip it to meet the challenges down the road.

Just as important, IDA squares with U.S. strategic and humanitarian interests, directly serving and supplementing America's own aid objectives. Moreover, it helps the United States solve devastating global and regional problems that have taken on an added importance to the Nation in the last year. Thank you.