Opening Statement
Subcommittee Hearing on International Development Association Reauthorization
July 19, 2002
Congressman Doug Bereuter

The Subcommittee on International Monetary Policy and Trade meets today in open session to examine the International Development Association (IDA). The Administration is expected to submit an authorization request for the 13th three-year reauthorization of IDA in the immediate future.

This hearing is the second in a series of three hearings on the subject of World Bank-IDA. Previously, on May 2, 2002, the Subcommittee heard testimony from the General Accounting Office (GAO) on the subject of converting World Bank IDA loans to grants. Today, we will hear from a distinguished panel of private sector and non-governmental-organization witnesses. Subsequently, on July 25th, the Subcommittee is expected to hear testimony from Undersecretary John Taylor of the Department of Treasury on the pending Administration requests for the multilateral development institutions.

Before I introduce our distinguished witness panel, I would like to make a brief opening statement on IDA which addresses the following three subjects:

1. background on the U.S. contributions to IDA;
2. loans-to-grants debate; and
3. performance measures.

Background on the U.S. contributions to IDA

First, this year Congress must consider the 13th reauthorization request of IDA, the concessionary lending arm of the World Bank. The IDA extends highly concessional loans to the world's poorest nations to finance investments in health, education, sanitation and infrastructure required for lasting poverty reduction. In addition, IDA promotes basic economic policy and institutional reforms needed for sustainable economic growth and development. For example, IDA loans are provided interest free to qualifying countries although a 0.75% service charge is assessed to borrowers. Recipient countries are granted a 10-year grace period, followed by a 30-year repayment schedule. Despite the highly favorable terms, many of these poor countries remain trapped in unsustainable debt.

For FY2003, the Administration is expected to formally request $850 million for the first U.S. scheduled contribution under IDA-13, plus $24.3 million to pay one-third of outstanding U.S. arrears. The total three-year U.S. commitment to IDA-13 is $2.55 billion, with a possible increase of up to $2.85 billion based on IDA's satisfactory achievement against key performance measures. With these increases, the annual average U.S. commitment to the IDA-13 replenishment would represent an 18.2% increase over the U.S. annual commitment under the previous IDA replenishment (IDA-12).

Loans-to-Grants Debate

Second, with respect to the issue of loans-to-grants, in July 2001, President Bush proposed that the World Bank and other multilateral development banks replace up to 50% of future lending to the world's poorest countries with grants. According to the GAO report which was co-requested by the Honorable Jesse Helms (R-NC), Ranking Member of the Senate Foreign Relations Committee and myself, conversion of half of all IDA loans to grants would cost donor countries approximately $15.6 billion in present value terms. This amount could be financed if donor countries increase their IDA contributions by 1.6% for each of the next 40 years. The GAO also found that 50% grants would promote debt sustainability better than 100% debt forgiveness of old multilateral debt. According to GAO, this is largely because, despite any one-time full debt forgiveness, poor countries would continue to accrue new debt that would quickly become unsustainable.

The Administration loans-to-grants proposal has been controversial with some IDA donor and borrowing countries: the British and Germans, for example, were concerned that the loss of loan reflows would hurt the long-term viability of the IDA program without significant new commitments from donors; similarly, Europeans feared that the distribution of grants would create an unhealthy dependency on foreign aid and hinder the development of international creditworthiness; and poor countries feared grants could give the World Bank increased clout which they could use to extract additional concessions from borrowers.

In early July 2002, IDA donors finally agreed to a complex plan which would ultimately result in converting 18% to 21% of future IDA loans to grants. Under this plan, IDA-only countries will receive 100% of their assistance for HIV/AIDS projects in the form of grants and all IDA assistance for natural disaster reconstruction will be on grant terms. Further, post-conflict countries and "debt-vulnerable" countries with a per capita income of less than one dollar per day will receive 40% of their assistance on grant terms – separate from and in addition to HIV/AIDS or natural disaster funds. All other countries with a per capita income of less than one dollar per day will receive 23% of their assistance in the form of grants (again, separate from and in addition to, HIV/AIDS and/or natural disaster funds). There is general agreement among IDA donors that the grant money will be focused heavily in health, education, water supply and sanitation projects.

Performance Measures

Lastly, President George W. Bush first introduced his thinking regarding performance based criteria for the multilateral development institutions last year at the G-8 Summit in Genoa, Italy. Thereafter, world leaders studied performance standards at the U.N. summit on development held in Monterrey, Mexico in March 2002; and major donors discussed them again at the late June 2002 G-8 summit in Kananaskis (Can-an-ASK-is), Canada. Led by the U.S., IDA donors now want results which show that financial contributions actually enhance the lives of poor people and help build sustainable economies.

As recently negotiated by IDA donors, IDA-13 directly links multilateral development aid to meaningful governmental and social reform. Donor countries have agreed to a performance-based program which allows recipient countries to participate in the process, tailor the programs and take ownership of the projects. The U.S. plan to increase donations in the second and third year of IDA-13 in return for certain broad results incentivizes systemic change necessary for sustainable growth.

For example, the U.S. Administration has promised a $100 million increase in Year Two funds if IDA demonstrates that 1) it has a monitoring and evaluation system in place, 2) its country strategies will be informed by education action plans and investment climate assessments, and 3) sufficient diagnostics are conducted in IDA countries to ensure effective use of donor resources. For a further $100 million U.S. increase in Year Three, IDA must demonstrate 1) an increase in education enrollment rates, 2) a to-be-determined percentage increase in the rate of measles immunization (which is viewed as a good proxy for overall health programs), and 3) a reduction in the cost of, and start-up time for, creating new businesses in IDA countries.

Therefore, to assist the Subcommittee in examining these issues, I am pleased that we have the opportunity to hear from our distinguished panel of witnesses. We will first receive the testimony of Mr. James Orr, who is co-founder and Executive Director of the Bretton Woods Committee, a bipartisan, non-profit group organized to promote sensible reforms and increase public understanding of international financial and development issues in the global economy. From 1975 to 1983, Mr. Orr served as a legislative counsel for the U.S. House Subcommittee on International Trade and Development, the predecessor to this Subcommittee. He holds a masters degree in international economics from the School of Advanced International Studies at Johns Hopkins University, and an undergraduate degree in economics from Wesleyan University.

Second, Reverend David Beckmann will provide testimony on behalf of Bread for the World, a nationwide Christian citizens movement dedicated to eliminating world hunger. Rev. Beckmann, a Lutheran minister, served for several years on the board of directors of Bread for the World before becoming president of the organization in 1991. In the interest of full disclosure, I also served on that board under his predecessor. Prior to this, he spent many years as a World Bank economist, where he played a prominent role in the Bank's heightened focus on poverty reduction. He holds a Master of Science in Economics from the London School of Economics, a Master of Divinity from Christ Seminary in St. Louis, and an undergraduate degree from Yale University. I also think important to note that Rev. Beckman is also a native of Lincoln, Nebraska.

Testifying next will be Mr. Raymond C. Offenheiser, President of Oxfam America and a member of the board of Oxfam International, a confederation of 12 non-governmental agencies working together in over 80 countries, where he works to serve Oxfam International's goal for lasting solutions to poverty, suffering and injustice. Oxfam is a strategic funder of development projects, provide emergency relief in times of crisis, and campaign for social and economic justice. Prior to joining Oxfam, Mr. Offenheiser worked for the Ford Foundation in Bangladesh and South America, and the Inter-American Foundation in both Brazil and Columbia.

Finally, the Subcommittee will hear from Ms. Thea Lee, Assistant Director for International Economics in the Public Policy Department of the AFL-CIO, where she oversees research on international trade and investment policy. Previously, Ms. Lee worked as an international trade economist at the Economic Policy Institute in Washington, D.C. and as an editor at Dollars & Sense magazine in Boston.

Before the witnesses testify, I now turn to the distinguished gentleman from Vermont, the Ranking Member of the Subcommittee (Mr. Sanders), for any comments he may have.