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### Assistant Secretary for International Affairs Clay Lowery Testimony Before the House Committee on Financial Services

Clay Lowery

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## U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Assistant Secretary for International Affairs Clay Lowery Testimony Before the House Committee on Financial Services

6/18/2008

HP-1034

**Washington** – Chairman Frank, Ranking Member Bachus, members of the Committee, thank you for the opportunity to discuss the Administration's request for authorization to participate in the 15<sup>th</sup> replenishment (IDA15) of the International Development Association (IDA). IDA is the main vehicle of the World Bank to support 82 of the poorest countries around the world, by providing the largest source of interest-free loans, grants, and debt relief of any multilateral development institution. Our request for authorization of \$3.705 billion over three years represents a 30 percent increase over IDA14. We know this is a significant increase but we believe there are compelling arguments for this request and for the longstanding U.S. support for IDA.

There are a myriad of reasons to support the authorization and appropriations of IDA. Today, I want to highlight three: effectiveness, leverage and coordination, and U.S. foreign policy objectives. I will then briefly touch on our specific achievements in the recently concluded IDA15 replenishment negotiations.

### ***The IDA Model and Development Effectiveness***

The IDA model is *country focused*. Countries receive assistance from IDA that reflects their own priorities. IDA not only works across sectors such as agriculture, education, infrastructure, and health, but it builds systems and capacity within governments to be able to tackle the barriers to growth and poverty reduction. For instance, bilateral assistance in a given country could be targeted towards specific needs such as HIV/AIDS retroviral drugs. IDA then could focus on the health system to ensure services are delivered and the proper standards of care are in place. By focusing on systemic issues in each country, coordinating across sectors and donors, IDA helps other development assistance be more effective as well.

IDA is *performance driven* and allocates resources to good performers. Findings of the past 10 years of research on aid effectiveness confirm that reform-minded governments are much more accountable to their citizens and manage aid and their own resources more efficiently. In IDA, the top performing 10 percent of countries receive seven times as much assistance on a per capita basis as the poorest performing 10 percent of countries.

As one of the top donors to many of these countries, IDA has played a large role in helping countries achieve their development goals. In IDA countries for instance,

- People are living, on average fifteen years longer than they did forty years ago.
- Illiteracy has been cut in half over the past thirty years, from 50 percent to 25 percent of the population, and 80 percent of children now complete primary education.
- Regulatory obstacles to private sector development have been reduced by one-sixth between 2003 and 2005.
- Real GDP per capita has grown by 4.9% annually between 2002-2005; more than double the average rate between 1990 and 2002.

There are many country specific success stories but to highlight one:

In Senegal, IDA supported the country's rural infrastructure projects, which improved roads, strengthened decentralization and financed micro-projects including water, schools, livestock, and other development needs. Beneficiary households in the 110 participating rural communities reported a 25 percent increase in incomes. Fiscal revenues for rural communities in the project area almost tripled. Markets, schools, and health facilities are now more accessible (children now typically spend 10 minutes going to school instead of 30), and the weight and height of children under three years of age have improved.

IDA's focus on quality and country-level effectiveness also led it to become the first international financial institution to introduce a results measurement system to systematically track key country outcomes as well as IDA's contribution to those outcomes. The measurement system provides an accountability function to demonstrate more precise results from resources invested, and a learning function to improve project design and direct resources to solutions that work.

These efforts are being noticed. In a recent article, William Easterly, a notable development expert and frequent critic of development assistance providers, ranked IDA as the number one donor using best practices in aid in his evaluation of 39 multilateral and bilateral

donor agencies. In addition, DFID, the UK development agency ranked IDA as the most effective multilateral development bank and used this rationale as justification for increasing their IDA15 contribution by 50 percent.

### ***Leverage and Coordination***

As a multilateral institution, IDA provides financial leverage for development resources. For every dollar that the United States contributed to IDA14 (FY06 – FY08), IDA was able to provide more than \$13 in loans and grants from other donors and World Bank resources, a number which is expected to increase to \$15 during IDA15 (FY09-FY11). Further, IDA's investment in a country can signal to investors that the country is making progress and open for business, generating private sector flows.

IDA's leverage is not simply financial. IDA, and more broadly the World Bank's role in convening and coordinating donors at the country's request can make the impact of the whole greater than the sum of its parts. By providing a common platform, fragmented aid from multiple sources can align towards meeting a recipient country's development goals. At a time when the average number of donors per country has grown from 12 in the 1960s to more than 30 today, IDA can support the country by providing coherence among donors, sharply reducing the transaction costs for recipient countries, thereby focusing that more aid and government resources are used to support growth.

The increasingly complex "international aid architecture" underscores the importance of IDA's country-based model to improving the quality of aid and creating a more effective environment for U.S. bilateral assistance. This, of course, requires sufficient resources and reflects the tremendous non-financial assistance that IDA puts at the disposal of governments in their struggle to meet the development challenges they face. A compelling example of this convening power has been the World Bank's response to increasing food prices. Through the effective leadership of President Zoellick the World Bank has played a central role in galvanizing the international community in trying to meet not only the short-term needs of many poor countries but also advocating the appropriate policies to address ways to increase agricultural productivity in the long run.

### ***Support for U.S. Foreign Policy Objectives***

The United States has a wide international reach; however, we can't do it alone. The greatest opportunities and the most serious threats to U.S. interests now come from the developing world. While IDA accounts for only a small percent of the Administration's foreign assistance request, its global reach and expertise make it a very effective instrument for advancing U.S. strategic objectives abroad. Some notable recent IDA efforts include: (1) providing debt relief for the poorest countries; (2) helping countries develop and reform their financial systems and develop their local capital markets; (3) assisting post-conflict countries with economic revitalization and reconstruction; (4) preventing and controlling infectious diseases (such as avian flu); (5) providing assistance to help countries with anti-money laundering activities; (6) administering trust funds providing assistance to countries and global issues of importance to the United States; and (7) working to combat corruption and improve governance globally.

For instance:

- Since April 2002, the World Bank has committed \$1.56 billion for 36 reconstruction projects and 3 budget support operations in Afghanistan. IDA's emergency assistance has rehabilitated schools and decentralized management to increase enrollment across grades, especially among girls. IDA's investments in roads since 2003 have helped to reconnect Kabul with the Tajikistan border, cutting travel time from 48 hours to about 6 hours, increasing opportunities for commerce.
- Even before Liberia was able to clear its arrears to the international financial institutions (IFIs), IDA was in that country providing technical advice and limited amounts of grant funding in order to pave the way for broader financial support from the donor community once arrears were cleared. U.S. financial support and leadership, particularly along with the G-8 and heads of the IFIs, encouraged 90 countries to reach consensus on clearing \$1.4 billion arrears this past year. This was instrumental for Liberia's re-engagement with the world.

We have also been able to leverage substantial reforms through the replenishment process due to strong U.S. leadership and influence. Over the years, our reform agenda has taken IDA to new frontiers on measuring and achieving development results, securing grant finance for the poorest countries, and enhancing accountability and transparency. IDA, of course, was also critical to delivering the President's Multilateral Debt Relief Initiative (MDRI) in 2006 that is providing 100% debt relief to 21 Heavily Indebted Poor Countries (HIPC). Our goals for IDA15 built on these successes.

### ***IDA15 Achievements***

In the IDA15 negotiations, the United States achieved all of its policy objectives, most of which built on core elements of reforms achieved in IDA14 and IDA13. The IDA15 and the African Development Fund (AfDF11) replenishments focused on key areas such as improving engagement in fragile and post-conflict countries, enhancing economic integration through a scale-up in regional infrastructure projects, strengthening the results measurement systems, and improving transparency. Let me expand on a few of these.

***Fragile States:*** The challenges facing fragile states are important for the world – and especially IDA – to tackle more effectively. A large part of the focus in the replenishment agreement was to have IDA lead in better-coordinated advice on the ground where the interplay between political, security, and development objectives requires coherent policies that deal with multidimensional challenges, as well as find mechanisms to restore essential services and jump start infrastructure investments.

***Regional Integration:*** Some of the most pressing development needs identified, particularly by land-locked African countries, cannot be addressed only within that country and requires regional cooperation for needs such as water management, road networks, trade facilitation, and energy access. For most of their history, the MDBs have been designed to support programs in individual countries.

Since IDA13 support for regional projects has become an increasingly important part of IDA's work program. In order to catalyze collaboration on specific projects among countries with differing development needs and resource profiles, in IDA15 funding is set aside to finance up to two-thirds of regional project cost. To ensure country commitment to project success, however, one-third of the cost must be funded by the participating country's IDA allocation.

**Results Measurement:** IDA was the first MDB to introduce a results measurement system to monitor development progress. It tracks individual country outcomes through indicators such as primary school completion rates and HIV prevalence rates, measures IDA's contribution to country outcomes through output indicators such as the number of teachers trained or facilities built, and tracks the number of projects that achieve their development objectives. Over the duration of IDA15, IDA will work to improve the quality of these data by building country statistical capacity. The agreement also commits IDA to continue efforts to link staff performance assessments to actual project results, thus placing the supreme value on the quality – not quantity – of assistance.

#### ***Why IDA and the Multilateral Approach?***

A multilateral organization, such as IDA, has the scale and capacity to deliver development results better than any one donor does. By pooling donor contributions, IDA is able to multiply the impact of donor contributions, helping to make funding possible for long-term, large-scale projects such as road building or rural electrification. Sometimes an MDB such as IDA, by virtue of its structure as a member organization, can more easily work directly with governments to reform policies and improve capacity to achieve a country's own development agendas. MDBs are able to provide longer-term, predictable financing across sectors, generating efficiencies. The World Bank is able to design its interventions in IDA countries based on best practices and the lessons learned over time and in more developed countries. If we didn't have IDA, then I believe we would be working hard to create something very close to it.

The fight against global poverty is one of the biggest challenges of our time. As both a courageous and generous nation, the U.S. is a natural leader in this fight to support those in the greatest need. IDA is the most effective institution through which we can invest to achieve that goal. In supporting a country's own development plan, IDA can leverage other sources of funding, coordinate multiple donors around a shared goal, and is able to champion policies that are in line with U.S. policy priorities. This is not to say that IDA and the World Bank are perfect; rather it underscores the need constantly to re-evaluate IDA's approaches to find out what works and what doesn't work. Often with U.S. leadership, IDA has compiled an impressive record of adaptation and improved effectiveness.

But bold leadership also means fulfilling our commitments. We believe that the critical policy gains made in IDA15 on engagement in fragile states, regional integration, and results measurement justify the proposed 30% increase in resources to IDA. A three-year authorization is necessary for IDA to be able to make the long-term financing commitments needed to support country development plans.

Since U.S. contributions to MDRI are funded through our contributions to IDA, full funding of our request to the MDBs is also necessary for the United States to meet its financial obligations to the costs of debt relief under MDRI. Continued arrears jeopardize the U.S. ability not only to deliver debt relief, but also to influence and lead IDA.

We respectfully urge your support for our request and I look forward to trying to answer your questions.