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BEFORE THE SUBCOMMITTEE ON INTERNATIONAL
DEVELOPMENT INSTITUTIONS AND FINANCE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

Authorization Requests for the Multilateral Development Banks for 1980

Introduction

It is a pleasure, Mr. Chairman, to appear before you today to present the Administration's proposals for U.S. participation in the replenishment of resources of the International Development Association (IDA), for membership of the United States in the African Development Bank (AFDB) and subscriptions to that institution, and for changes in the budgetary and appropriations treatment of U.S. subscriptions to the callable capital of the World Bank (IBRD) and Asian Development Bank (ADB).

The 1979 Legislation

Before discussing this bill, I want to express the grave concern of the Administration over the substantial reductions in the last year's authorization bill for the regional banks, voted earlier this month by the House, despite recommendations by this Committee for authorization of the full amounts. Those cuts, consisting of $1.2 billion out of $3.4 billion requested for the Inter-American Development Bank (IDB) and $265 million out of $445 million for the Asian Development Fund (ADF), would have substantial adverse repercussions for the United States. We are pleased that the House-Senate Conference restored these amounts. The Conferees rightly concluded that authorization of the full amounts is critical to the foreign policy and economic interests of the United States. It is important that the House act to assure prompt passage of the Conference Report.

If sustained, the cuts proposed by the House would severely damage U.S participation in the regional development banks. They would result in an unraveling of the IDB Fifth Replenishment and abrogation of the ADF Second Replenishment, requiring the renegotiation of both agreements.

Under the terms of the ADF replenishment, the United States cannot contribute less than the full amount negotiated; without U.S. participation, the agreement cannot be implemented. The process of renegotiating the agreement would take six months to a year, or longer. Currently, the ADF is out of funds and can only make loan commitments on a contingent basis. As a result, the action taken by the House would effectively eliminate the 1980 lending program and could preclude most loans for 1981, as well. This would have a devastating impact on the poorest countries of Asia, which, like Pakistan and Thailand, are also critical to U.S. security interests, because they depend heavily on capital inflows from the ADF to sustain their development efforts.

If the recent House action on the IDB were sustained, other donors would in all likelihood call for a renegotiation of the entire replenishment package. At the outset, this would force out over $2 billion in other donor contributions to the replenishment, because the IDB Charter does not permit the U.S. share to drop below the current threshold of 34.5 percent. Moreover, given the extremely favorable results of the IDB Fifth Replenishment, from U.S. policy and budgetary perspectives, a renegotiation would not be in the U.S. interest.

As part of the Fifth Replenishment package the United States achieved:

-- agreement that 50 percent of total Bank lending from this replenishment would directly benefit low income groups

-- a lowering of the share of paid-in capital from 10 percent to 7-1/2 percent (saving U.S. $69 million)

-- a reduction in U.S. annual contributions to the Fund for Special Operations (FSO) from $200 million to $175 million

-- a substantial increase in the convertable currency contributions of the larger Latin American countries to the FSO

-- a tripling of the shares of the nonregional members over their initial shares of capital

It is probable that some, maybe all, of these hard fought achievements would be lost in any renegotiation, particularly if the U.S. were to reduce substantially its total contribution. Any renegotiation would take from six months to a year, or longer, given the necessity for parlimentary approval in some member governments. In the meantime, the lending program would come to a halt.

A cessation of lending by the IDB and ADF would have serious adverse repercussions on our national security and foreign policy. Countries and regions of growing importance to U.S. national security, such as Pakistan, Central America, and the Caribbean, would be especially hard hit as a result. Obviously such action would also raise fundamental questions about the reliability of the United States in fulfilling its international commitments and this country's intentions as regards its leadership role in Latin America and Asia.

Authorization of the full amounts in the bill is entirely consistent with current efforts to achieve savings in budgetary outlays during FY1980 and FY1981. Of the $4.0 billion to be authorized, $2.5 billion -- more than 60 percent of the total request -- is for callable capital subscriptions to the IDB, which are virtually certain never to result in budgetary outlays.

For the $1.5 billion in the request which eventually will result in budgetary outlays, appropriations are being sought over the period FY1980 - FY1983. However, the budgetary impact of the drawdown of these funds will be minimal because that drawdown is tied to disbursements required to implement bank projects which take a minimum of five years to complete. We estimate that this bill will result in zero budgetary outlays in FY1980. Budgetary outlays for the total request of $4.0 billion will be less than $7.0 million in FY 1981 and less than $33 million in FY 1982. Furthermore, as directed in the authorization and in the Conference Report, procedures for drawdowns will be changed to delay outlays as long as possible.

It is important that the House act promptly to restore full funding to last year's authorization request. Such action is essential to U.S. national interests.

The 1980 Legislation

This year's bill focuses on the poorest countries of the world. IDA recipients include virtually all countries with annual per capita incomes below $320, in addition to scattered countries with slightly higher income levels. Their total population is more than one and one-quarter billion. The AFDB lends to African countries with incomes averaging $460 per year, and with a total population of 200 million.

There should be no doubt about the overwhelming need among the prospective IDA and AFDB recipients for these programs to be undertaken during the 1980s. Not only do these countries have the lowest per-capita incomes in the world, they have also experienced the slowest economic growth in the post-OPEC era, barely outpacing population growth. On average, over one half of their populations is mired in absolute poverty where hunger, malnutrition, illiteracy, disease, high infant-mortality, and low life-expectancy are an inevitable way of life.

The sum effect of these proposals will be to provide additional lending of over $15 billion during the first half of the decade to the world's very poorest. This means new programs to increase food production and alleviate hunger, to improve health, sanitation, housing, nutrition, and education, to build critical development infrastructure, and to limit burgeoning population growth.

Channelling assistance through the multilateral development banks (MDBs) has the advantage of complying fully with our domestic requirements for budget stringency. U.S. participation in the MDBs is the most cost-effective approach available to providing substantial amounts of development assistance to the Third World. Enormous fiscal advantages derive from our MDB participation because the burden for providing development assistance is shared with other countries, because the MDBs leverage our paid-in contributions through borrowings in world private capital markets, and because the MDBS, through increased purchases of U.S. goods and services, return substantial economic benefits to the U.S. economy -- including additional tax receipts which nearly offset U.S. budgetary outlays.

Furthermore, international burden-sharing through the banks is becoming more equitably and widely spread. The U.S. share in nearly every MDB in which the United States is currently participating has declined in recent years, while the lending levels of these institutions have increased. Other donor countries now contribute 75 percent of total MDB resources. Moreover, increasing amounts of our contributions are provided via callable capital, not a penny of which has ever left or is likely to ever leave the U.S. Treasury.

Burden-sharing, use of callable capital and the return of economic benefits to the U.S. economy provide a cost-effective combination to reconcile the need for a substantial, viable foreign assistance program with our current requirement for fiscal austerity. Through that combination, for example, the World Bank can now lend approximately fifty dollars for each dollar paid-in by the United States at no net cost to the U.S. taxpayer. Although the concessional MDB institutions such as IDA, where there is no callable capital, do not provide this leverage, major cost-effective advantages -- through burden-sharing and greater tax receipts via expanding U.S. exports -- accrue to the United States.

The authorization request for the United States' share of the Sixth Replenishment of IDA (IDA VI) totals $3.24 billion. The Sixth Replenishment will provide IDA with $12 billion in new resources for lending on concessional terms, over the period FY1981-FY1983, to the world's poorest countries. IDA VI cannot become effective without the participation of the United States.

This bill also would authorize United States membership in the African Development Bank, which for the first time will open its doors to nonregional members, thereby broadening the Bank's financial base, enhancing its access to private capital markets, and thus contributing more effectively to Africa's development. In conjunction with nonregional membership, the capital of the AFDB will be increased from $1.5 billion to $6.3 billion to support a lending program for a minimum of five years.

The proposed U.S. subscription to the AFDB would total $359.7 million, or 5.7 percent of the Bank's total capital. This share is sufficient to allow the United States to elect an Executive Director to the Bank Board. Twenty-five percent of the U.S. subscription, or $89.9 million, would be paid-in. The remainder would take the form of callable capital.

The Multilateral Development Banks in the 1980s

It is the view of the Administration that active, undiminished U.S. support for the multilateral development banks throughout the 1980s will be critical to fundamental U.S. economic, political, and security interests. Those interests include:

-- national security.

The banks comprise an important part of the international institutional framework which the United States must rely upon to enhance world security. The United States was the principal architect of that framework and recent events in Southwest Asia have demonstrated its importance to a secure, stable world environment. U.S. security interests are so far-reaching that defense of those interests would be unthinkable without relying upon the multilateral process through the existing institutional framework. The responses of the United States to the crises in Iran and Afghanistan and the results of those collective, collaborative efforts with much of the developing world, have demonstrated the importance of the multilateral process in promoting our foreign policy and national security interests. The United States must therefore give its fullest support to the process in order to keep it working to support U.S. interests.

In support of collective security action, the banks are critical to the maintenance of political stability in each of the major regions of the world and in key countries. One need only scan the list of the largest MDB borrowers -- Mexico, Brazil, India, Korea, Pakistan, Egypt, Indonesia, Colombia, Yugoslavia, Kenya and Turkey -- to grasp the importance of the MDBs to U.S. security by way of their contributions to growth and material well-being, and thus to political stability in key regions of the world.

Finally, there is the growing importance of U.S. dependence on critical raw materials from the developing world. The United States is nearly totally dependent upon the developing countries for supplies of bauxite, tin, manganese, and natural rubber, as well as certain food-stuffs. The United States and the rest of the Western World have a vital stake in promoting the stability and growth of the economies of developing countries which produce critical new materials and in retaining access to these supplies.

-- the health of the international economic system.

In 1979, MDB loan commitments totalled nearly $14 billion. This represents by far the largest official source of external capital for the developing world. As such, the MDBs contribute in a major way to economic growth and stability in recipient developing countries and in rapidly expanding trade between the Third World and the developed countries. In providing dispassionate policy advice, in preparing development projects based upon objective economic criteria, and in insisting upon rational economic policies within recipient countries, the MDBs are an important, respected force for the maintenance of an efficient, responsive international market economy. The impact of the banks in this regard, and their resulting contribution to the health and resilience of the world economy, is often overlooked but cannot be overstated.

Another intangible is the inducement of the banks to cooperative efforts among developed and developing countries, where relations in the recent past had too often been characterized by confrontation and hostility, to resolve pressing international economic problems. Cooperation here means developed and developing countries working together to focus bank policies and resources to respond to critical world needs. Most recently, this has meant both shifting MDB lending away from traditional infrastructure to agriculture and rural development to more directly benefit the poor and to increase food production, and greatly expanding lending to increase developing country energy production.

The banks also contribute to the effort to recycle funds from the oil producing countries to the developing world. Recent oil price increases will add about $14 billion to the current account deficits, totaling approximately $50 billion, for the oil-importing developing countries this year. Though the basic objective of bank loans is to promote long-run development in recipient countries, their role in this regard will become more prominent and vital to the world economy in the 1980s.

-- direct U.S. economic benefits

The most rapidly growing developing countries which, not coincidentally, are among the largest MDB borrowers, are also the most rapidly growing export markets for the United States. Generally, non-oil developing countries account for about 25 percent of U.S. exports, including one-quarter of U.S. manufactured exports.

These markets have become more important to U.S. trade than the entire European Community.

Through the contributions of other MDB donors, which on average comprise 75 percent of the total, and through the use of callable capital, MDB loans result in expenditures on U.S. goods and services well in excess of U.S. contributions to the banks. From the inception of the banks through 1978, the cumulative current account surplus for the United States directly attributable to MDB activities (the purchase of U.S. goods and services, net interest payments to U.S. MDB bondholders, and MDB administrative expenses in the United States), has been $11 billion. Cumulative U.S. paid-in contributions to the banks, by comparison, totaled $7 billion. This means that every dollar contributed to the MDBs results in $1.57 being injected directly into the U.S. economy.

The total economic effects, however, are much larger and more broadly based than the effects directly observable from our balance of payments. That $1.57 becomes the income of a U.S. exporter, bondholder or Bank employee residing in the United States. It is in turn respent, resulting in multiple increases in U.S. national income, employment, and Federal Government and local tax receipts.

Treasury analysis shows that over the period 1977-1978 every dollar contributed to the MDBs has resulted in an increase of U.S. GNP of $3.00. This three for one multiplier effect is sizable and stems, in part, from the unique characteristics of the MDBs, i.e., their multilateral character which provides for other donor country contributions and the availability of callable capital which permits substantial borrowing on private capital markets. Total U.S. GNP growth directly attributable to MDB activities averaged $2.7 billion over 1977-1978, raising net Federal tax receipts by $720 million annually and reducing the net cost to the Federal budget for our participation in the banks to $170 million each year. If increased local tax receipts were included the net cost to the American taxpayer probably would be minimal.

Developing Country Prospects for the 1980s

The record for the developing countries over the past two decades, which spans the work of the MDBs including IDA, shows clear progress. During the decade of the 1960s and up to the 1974 surge in OPEC oil prices, gross domestic product for the developing countries grew at six percent or more annually, exceeding growth in the industrialized countries. Developing countries' exports of manufactured goods grew at nearly 13 percent annually and their share of total world manufactured exports grew from six percent to ten percent during that period.

Moreover, each of the quality-of-life standards -- life expectancy, infant mortality, literacy, access to potable water and calories as a percent of daily requirements -- showed significant improvements during the 1960s and 1970s and a narrowing of the gap with the industrialized countries. Average per-capita income for the developing countries also has approximately doubled in real terms since 1960.

Despite recent progress in many areas, the prospects for the developing countries in the 1980s are not optimistic. In part this is because the world economy has moved haltingly, at best, to recover from the oil price increases and subsequent recession of the mid-1970s, and because the recovery remains far from complete. Thus, for the 1970s, while the per capita GDP of the major oil exporting countries grew at 6.6% per annum, per capita income grew at 3.6% for the middle income developing countries and fell off to only 1.7% per year for the poorest developing countries. For the poorest countries in Africa per capita growth was an imperceptible 0.2%.

In large part these meager results reflect a general slow-down in growth throughout the developing world in the 1974-1979 period. The causes of that slow-down -- surging oil prices, worldwide inflation, slower growth in the industrialized countries, and declining real supplies of external capital -- cast long shadows over prospects for the 1980s.

Under the most optimistic assumptions of vigorous economic growth in developing countries in the 1980s, the World Bank has projected that their per capita income will increase 4.2 percent per annum. However, per capita income would increase by only 3.5 percent in the poorest developing countries and under 2 percent in Sub-Saharan Africa. Under more realistic assumptions, the per capita income of the developing countries can be expected to increase at an average rate of between 2.4 percent and 3.3 percent, but at only one percent or less in the poorest countries of Africa and under three percent in the low-income Asian countries.

Hence, per capita income in the poorest developing countries, with a billion and a quarter people, will probably increase only

$1-$10 per year over the next decade. The World Bank also estimates that, realistically, we can only expect to reduce the numbers of people living in absolute poverty -- that bare survival state conditioned by malnutrition, illiteracy, disease, high infant-mortality and low life-expectancy -- from 800 million to 600 million by the end of the century.

Equally disturbing is the fact that, while developing country food production is barely keeping abreast of overall population growth, in the poorest developing countries population growth at 2.4 percent a year has been outpacing food production which has grown at less than one percent annually since 1961. The combined effects of poverty and food insecurity, neither of which is being ameliorated in the poorest countries, are interacting to cause a worsening problem of hunger. Millions of people --more than three-quarters of whom live on the Indian subcontinent, in Southeast Asia and in Sub-Saharan Africa -- are afflicted by hunger. Short of a massive effort at increasing food production in the poorest developing countries themselves, this condition will remain widespread throughout the 1980s.

The Role of the Multilateral Development Banks and U.S. Objectives in the 1980s

These somber prospects have led us to conclude that the multilateral development banks must play a major world-wide development role in the 1980's. The MDBs have the technical expertise and the experience to use the capital resources which we propose to provide them for the coming years. Moreover, they do so in an extremely cost-effective manner through the sharing of the burden of foreign assistance with other donor countries and long term borrowing on capital markets with the backing of callable capital, at minimum cost to the U.S. taxpayer.

The MDBs are the most efficient, effective instruments to pursue broad-based development strategies in the developing world. At the micro-economic level, they follow detailed and rigorous loan appraisal processes to ensure that every dollar of development lending yields maximum benefits. Loan analysis is performed solely on the basis of relevant economic and technical considerations. Their apolitical nature also carries with it a special trust which enables the staffs of MDBs to influence strongly borrowing countries in the adoption of sound policies.

The United States also has significant policy leverage in the banks relative to both the proportion and dollar amounts of its contributions. Over the recent past, the United States has pursued a number of policy objectives in the MDBs to promote further their objective of helping the developing countries attain higher standards of material well-being and to help alleviate the conditions of absolute poverty. Among these objectives have been to reach the poor more effectively and efficiently, to increase food production substantially, and to increase both the the amounts and proportion of lending for projects designed to increase world energy supplies.

In response to U.S. urging, all of the MDBs have redirected the sectoral composition of their lending better to meet basic human needs and to ensure that proportionally more project benefits flow to lower income groups in borrowing countries. This redirection is reflected in the rapid growth of lending for agricultural projects.

World Bank Group lending for agriculture, one third of which is coming from IDA, has increased 145 percent in the past five years. For IDA alone, loans for the agricultural sector have grown by 427 percent. During that period, IBRD/IDA activities have provided the base for producing one third of all increased fertilizer production in the developing countries for the first half of the 1980s, one fifth of the total investment in rural road networks in developing countries, and one quarter of total public investment in developing country irrigation systems. Furthermore, 358 IBRD/IDA agricultural projects over these past five years have had the rural poor as their principal beneficiaries, and an estimated 60 million of the 100 million direct beneficiaries of these projects had incomes below the absolute poverty levels in their respective countries.

Currently, approximately 46 percent and 30 percent of IDA and IBRD lending, respectively, flows to the agricultural sector, up from 37 percent and 11 percent respectively in the early 1970s. Over 75 percent of combined IBRD/IDA agricultural assistance is now directed towards expanding food production. As noted in the forthcoming report of the President's Commission on World Hunger, the World Bank Group is the world's largest single source of external funding for developing world agriculture. The World Bank expects to finance projects which will contribute up to 20 percent of the increase in annual food production in its developing member countries in the 1980s. It is due to this effort that the President's Commission on World Hunger has concluded that the United States should strongly support the activities of the MDBs including an increase in U.S. contributions to the concessional windows of the banks.

An important means to implement the objective of more effectively and directly reaching the poor has been to encourage greater utilization of capital saving technologies. Such technologies have the advantage of increasing the productivity and incomes of poor people at low per capita costs by insuring that the maximum numbers of people benefit from MDB projects and by promoting the most efficient use of factor availabilities. The United States has sought greater utilization and development of capital saving technologies in the MDBs by encouraging policy decisions in the banks, urging increased MDB staff focus on the appropriateness of technologies, and constantly reviewing project loans to assure improved application.

The United States has also been at the forefront in urging the MDBs to adopt a comprehensive energy program. In the World Bank Group in January 1979, the Board of Executive Directors approved an expansion of the IBRD/IDA energy program. That program is now planned to grow to at least 15 percent of total Bank lending within five years.

Over the 1980-84 period, the World Bank Group will lend $7.7 billion for the exploration, production, and development of oil, gas, and coal, and for the construction of new hydroelectric facilities. The loans will be combined with approximately three times as much private and government financing. When the projects are in operation, they will produce additional primary energy fuel in oil importing developing countries estimated to equal between 2 and 2.5 million barrels a day of oil. This should help to increase world supply and thereby reduce pressures on world oil prices, as well as deal directly with one of the most critical bottlenecks to development.

The International Development Association

The International Development Association (IDA) is central to the attack on poverty in the poorest countries in the world. The record of that institution demonstrates clearly that developed and developing countries can work successfully to resolve common problems. Rhetoric and confrontation have no part to play in IDA programs. IDA recipients have come to appreciate and depend upon concrete development projects and programs which are designed to resolve real economic problems and to produce material improvement in the lives of their people.

It is important that the United States strongly support cooperative programs for mutual gain such as IDA. It serves to undermine those in the developing world who favor confrontation with the United States, to preempt proposals in North/South fora which are adverse to U.S. economic and political interests, and to enhance prospects for developing country support on issues of primary importance to the United States. At a time when global economic difficulties are exposing nearly all of the poorer developing countries to serious threats of political, economic, and social instability, IDA is making an invaluable contribution to our national security and other U.S. foreign policy objectives, via the multilateral process.

The rather bleak prospects for the low-income countries of Africa and Asia give IDA a vital development role to play in the 1980s. IDA is the largest source of concessional resources in the world, the largest source of external financing for the countries of Africa, and the centerpiece of multilateral efforts to utilize concessional resources effectively within broad-based development strategies. As such, it will be the major hope for the poorest developing countries and their one and one-quarter billion people over the next decade.

IDA will be crucial in determining whether per capita food production in the poorest LDCs will increase and whether real progress is made in alleviating world hunger. Nearly two-thirds of the external financing requirements of the low income developing countries will need to be met through disbursements of concessional capital, of which IDA will be the largest single source, during the last half of the 1980's. IDA will be key in determining whether the more than 800 million persons mired in absolute poverty can be significantly reduced by the end of this century. It will depend largely upon IDA as to whether the poorest developing countries will be able to undertake programs to improve education, health, sanitation, housing, nutrition, and population control throughout the 1980's.

About 90 percent of IDA lending goes to countries with annual per capita incomes below $320 (1978 dollars). None of IDA's recipients has a per capita income above $625. The 54 current IDA borrowers account for approximately 31 percent of the world's population, but only three percent of global gross national product. Average life expectancy in these countries is about 50 years, the adult literacy rate is 36 percent, and the labor force is expanding at two percent per year. Most of these countries are in South Asia and in Sub-Sahara Africa, two regions which borrowed 80 percent of IDA resources in FY1979. IDA's lending policy also focuses on development projects which reach the lowest 40 percent of the income earners within the recipient borrowing countries.

All IDA credits to date have been for a term of 50 years. After a 10-year period of grace, one percent of the credit is repaid annually for ten years, while in the remaining 30 years, three percent is repaid annually. There is an annual service charge of 0.75 percent on the disbursed portion of each credit to cover administrative costs. All credits are repayable in convertible currency.

During 19 years of operations through June 30, 1979, IDA has made development credits aggregating $16.7 billion to 74 countries. There has never been a default on an IDA loan by any borrower.

IDA VI Replenishment

A major step in assuring that IDA will be adequately financed to carry out its current task in the 1980s is the agreement which has been reached on a $12 billion replenishment of IDA for lending over the years FY1981 through FY1983. The proposed Sixth Replenishment will enable IDA to expand its lending from an average of $3 billion per year during IDA V, to $3.5 billion in FY1981, $4.0 billion in FY 1982, and $4.5 billion in FY1983. The $12 billion IDA VI replenishment represents a real increase of only 4.5 percent over IDA V, the minimum considered necessary to spur additional growth in the poorest developing countries. The increase in IDA VI is far below those of previous IDA replenishments.

It must be noted that IDA VI cannot become effective without full U.S. participation. Unless additional funds become available, the Association will exhaust its commitment authority by June 30, 1980, with drastic consequences for the poorest, most populous countries of the world.

The IDA VI negotiations were protracted and difficult. On the one hand, it was widely recognized that the needs of the poorest developing countries are immense and growing and that growth among a number of the countries had been stagnating in recent years. As a result, the World Bank originally proposed a replenishment of $15 billion. On the other hand, a number of donors, including the United States, faced severe budgetary constraints. These opposing views eventually reached a compromise agreement for a $12 billion replenishment despite the views of a number of donors that the urgency of the poverty problem among the poorest developing countries demanded a larger replenishment package. Nevertheless, the agreement reached will permit a 4-5 percent annual real growth in IDA lending over the period, FY1981-FY1983.

The U.S. share of IDA VI will be 27 percent, sharply lower than the 31.04 percent U.S. share of IDA V. The U.S. decline will enable the level of the U.S. contribution to show no real growth relative to IDA V -- total lending will rise 4-5 percent while the U.S. share declines by 4 percent. The U.S. share will total $3.24 billion, or an annual U.S. contribution of $1,080 million. The full U.S. contribution must be authorized. Otherwise the United States could not participate in the replenishment and IDA VI, which took more than a year to achieve, would have to be renegotiated. In the interim IDA lending would cease.

It was through improved burdensharing in IDA IV that a modest real increase in IDA's development resources will be achieved. The large reduction in the U.S. share was offset by substantial increases in the shares of Germany (from 10.9 percent to 12.5 percent) and especially Japan (from 10.3 percent to 14.7 percent). For the first time in an IDA replenishment the combined shares of these two countries will exceed that of the United States. Six members mostly developing countries, including Mexico, Argentina and Brazil, will provide IDA with resources for the first time. These burdensharing achievements were explicit negotiating objectives of the United States under the mandate of the Congress to reduce significantly the U.S. share in IDA.

Other negotiating accomplishments included agreement that:

-- Energy lending would expand rapidly during IDA VI, thus increasing world supplies and helping to ease upward price pressure.

-- IDA's major thrust would continue to be in reaching the poor. The proportion of IDA lending to agriculture and rural development would expand through FY1983. Lending for the urban poor would also increase.

-- Supervision and evaluation of IDA projects would be stepped-up using standards and procedures set out in detail during the negotiations, thereby enhancing the operating efficiency of what is universally recognized as a superbly run institution.

Replenishment of IDA, as agreed in these negotiations, is essential if the poorest developing countries are to have any prospect of achieving meaningful growth in the 1980s. IDA VI is also necessary if we are to move toward alleviating world hunger, and reducing absolute poverty during the decade. It will make an important contribution toward meeting worldwide energy needs in the coming years. Finally, the continued strong presence of IDA throughout the poorest regions of the Third World will be critical to the maintenance of political and economic stability, and ultimately peace. We could pay a heavy price by its absence.

U.S. national interest dictates that we fully support this replenishment of IDA.

United States Membership in the African Development Bank

Development performance in Africa throughout the 1970s has been particularly disappointing. For the poorest countries - the bulk of the countries in Sub-Saharan Africa - per capita income growth for the decade averaged 0.2% per year. This means that throughout the 1970s much of the population of Sub-Saharan Africa increased their incomes by less than one dollar per year. The "middle income" countries of Sub-Saharan Africa with an average annual per capita income of $460 fared little better. Per capita income for these countries increased at 1.4 percent per year, the lowest growth rate of any region of the world, including the poorest, most populous countries of Asia.

Furthermore, prospects are that per capita income growth will continue to either stagnate or improve imperceptibly throughout the decade of the 1980s. The World Bank projects an annual increase of between 0.7 and 1.9 percent for the poorest African countries and between 0.7 and 2.2 percent for the "middle income" countries, depending upon low or high growth assumptions.

Even such per capita income growth notions fail to reflect the immense development problems facing the developing countries of Africa in the 1980s. These countries have the lowest literacy rates, the lowest life expectancies, the highest population growth rates, and the largest percentage of people living in absolute poverty of any major developing region on the globe. This is somewhat ironic given that Africa is perhaps the richest of the developing country continents in natural resources - with large sources of bauxite, oil, potential hydroelectric power, manganese, copper, precious minerals, and vast potential for agricultural production.

It is concern over the development prospects for the countries of Africa, our common cultural heritage with the Sub-Saharan countries and the long-standing policy of this Administration to expand and strengthen U.S. ties with Africa that has resulted in our proposing U.S. membership in the African Development Bank (AFDB).

The AFDB was established in 1964, to lend at near-market terms for the economic and social development of its African members and to promote regional cooperation. To meet the challenge of Africa's poverty, loans are provided primarily to strengthen the agricultural sector and to finance critically needed infrastructure. The AFDB's lending activities are financed through member country paid-in capital subscriptions and borrowings in international capital markets.

While the United States and other nonregional countries are members of the AFDB's concessional loan affiliate, the African Development Fund, membership in the Bank to date has been restricted to African nations. The limited capital resources of its African members have severely restricted the AFDB's lending program and its access to private capital markets.

Consequently, in May 1979, the Governors of the AFDB invited nonregional countries to join their institution. Nonregional membership will expand and diversify the Bank's financial base and greatly enhance its access to private capital markets. As a result, the Bank will be able to increase its lending program substantially over the next five years and contribute more effectively to development, of the continent.

Results of the AFDB Negotiations

Active United States participation in the nonregional membership negotiations and support for U.S. membership in the AFDB were based on numerous U.S. interests which Bank membership would serve. The U.S. has rapidly expanding economic and political interests in Africa which would be furthered by supporting the continent's development through the AFDB.

In addition, United States membership in the African Development Bank was seen as another means to concentrate increasing development assistance on the poor. Most of the countries which are "middle income" for Africa -- and thus receive nonconcessional AFDB loans -- are at a level of development far below that of the "middle income" countries of other regions. The middle income countries of Sub-Saharan Africa have an average per capita income of $460 compared to $990 in other developing regions.

The multilateral character of the AFDB would provide a firm basis for sharing the cost of Africa's development with other countries. In the 1960s, the United States had already entered into similar multilateral partnerships with the nations of Latin America and Asia through the Inter-American Development Bank and the Asian Development Bank. Participation in the AFDB would complete this series of partnerships in an established and recognized pan-African institution.

In addition, by financing the basic infrastructure needs of African countries (roads, power, water supply, and sewerage) and agricultural projects, the Bank would complement increasing U.S. bilateral assistance efforts in Africa which focus more on meeting basic human needs. The AFDB would also complement IDA's activities by directing two-thirds of its lending to African countries with annual per capita incomes between $320 and $700, while IDA concentrates its resources on those African nations with less than $320 per capita.

In conjunction with the entry of nonregional members the capital of the Bank will be increased from about $1.5 billion to $6.3 billion, over a five year period. Of this increase, the regional members would provide 57 percent or $2.8 billion. The 21 nonregional countries seeking membership -- the countries of Western Europe, Canada, Japan, Korea, Yugoslavia and Kuwait as well as the United States -- would subscribe $2.1 billion. Twenty-five percent of the increase, or $1.2 billion, will be paid-in capital with the remaining seventy-five percent ($3.6 billion), in callable capital.

The proposed U.S. subscription would total $360 million -- 5.7 percent of the Bank's total capital and 17 percent of the nonregional share. The U.S. nonregional share is equivalent to the U.S. share of the current replenishment of the African Development Fund. This share represents an effort to balance our interest in increased burden-sharing with other donor countries with our desire to become more actively involved in the economic and social development of Africa.

In order to accommodate adequate representation on the Board of Directors by the nonregional countries, the Board will be expanded from the current nine to eighteen members. Twelve Directors will be elected by the regional members and six by the nonregional members, reflecting the proportional participation of each group in the capital stock of the AFDB. The size of the proposed U.S. share of AFDB capital will enable the United States -- alone among non-regional countries -- to elect its own Director to the Bank's Board.

U.S. membership in the AFDB comes at an opportune time. It is fitting that the United States should join a major pan-African institution, as the largest nonregional member, during a period when our overall relations with the nations of Africa have experienced dramatic improvement. The Sub-Saharan region remains politically volatile and the rapid expansion of the AFDB will help to stabilize the region by strengthening the healthier independent African nations, promoting pan-African cooperation, and assisting the region to evolve peacefully toward full political autonomy.

Finally, recent poor growth performance of the middle-income African countries and cloudy prospects for the 1980's show the necessity for a sizeable expansion of the African Bank's lending program. These countries have a critical need to diversify their economies: low growth projections for the 1980's are due, in large part, to the high share of slow growing primary products in their exports which will limit overall export expansion. Furthermore, many of these countries, including Kenya, Ivory Coast, Morocco, Nigeria and Gabon, among others, have demonstrated rapid development potential and the capability of absorbing capital resources efficiently.

<u>Treatment of U.S. Subscriptions to IBRD and ADB Callable Capital</u>

The Administration is also proposing amendments to those legislative provisions enacted by the Congress in 1977 which require that full appropriations be obtained prior to U.S. subscriptions to the Selective Capital Increase of the IBRD and the Second Capital Increase of the ADB. Under the proposed amendments, subscriptions to IBRD and ADB callable capital stock could be made after program limitations on the subscriptions are enacted in the Foreign Assistance Appropriations Act, rather than actual appropriations.

The proposed amendments would make consistent the statutory terms under which the United States can subscribe to IBRD and ADB callable capital stock with the terms provided in the authorizing legislation for the proposed replenishment of the IDB, as well as with the provisions in this bill for initial subscriptions to the capital stock of the AFDB. The amendments are essential to allow implementation of the President's FY 1981 Budget which proposes enactment of program limitations in the FY 1981 Foreign Assistance Appropriations Act for U.S. subscriptions to callable capital stock in the MDBs, including the IBRD and ADB.

The change in the treatment of callable capital is being proposed because the appropriation for the full amount of callable capital and the resulting scoring of the appropriated amounts as budget authority distort the true size of the request for the MDBs.

The budgetary and appropriations treatment of callable capital is an issue that has been under intense consideration for over a year both within the Administration and between the Administration and Congress. Changing the treatment of callable capital was discussed last year during consideration of H.R. 3829. At that time, the Committee approved language which authorized U.S. subscriptions to callable capital of the Inter-American Development Bank without requiring prior appropriations to fund these subscriptions.

The "callable capital" concept is one of the most attractive features of the multilateral development banks and results in considerable budgetary savings for the U.S. Government. With callable capital as backing, the MDBs are able to borrow most of the non-concessional funds they require in international capital markets. The cost to the U.S. Government of subscriptions to callable capital is solely contingent in nature, since callable capital can only be used to meet obligations of the MDBs for funds borrowed or guaranteed by them in the unlikely event that the banks' other resources are insufficient to meet those liabilities.

The risk of a "call" is extremely slight. The loan portfolios of the MDBs are distributed broadly, and major defaults are unlikely. Even if a number of their largest borrowers were to default, the MDBs have very considerable financial assets upon which they could draw. Moreover, prior subscriptions to individual MDBs totalling $11.5 billion have been funded by the Congress against potential U.S. liabilities, of which $8.4 billion relates to U.S. subscriptions to IBRD and ADB callable capital, the two institutions for which amendments are being proposed. In the IBRD, all prior U.S. subscriptions to callable capital have been fully funded. In the ADB, of the $736 million in U.S. subscriptions to callable capital, all but $126 million has been appropriated.

It is therefore virtually certain that there will never be budget outlays resulting from U.S. subscriptions affected by these amendments. Thus, as in other donor countries, we propose to cease treating callable capital subscriptions as though they would have an outlay impact, when that is not the case.

Conclusion

There is a very real need for continued growth in IDA lending, and for a strengthening and expansion of the African Development Bank's activities in the 1980s, as provided in this bill. Together, these proposals will act to improve materially the lives of one and a half billion of the world's poorest people, residing in the world's poorest countries.

The Sixth Replenishment of IDA is essential if the poorest countries, in the 1980s, are to increase per capita income levels meaningfully, reduce the numbers of people living in absolute poverty, make progress toward alleviating world hunger, continue to narrow the gap with the middle-income and developed countries in life expectancy, literacy and infant mortality, build the basic infrastructure required for development, and meet their energy needs.

U.S. membership in the AFDB and expansion of that institution's capital base are required to promote economic progress in Africa, expand U.S. economic and political interests there, and solidify recent improvements in U.S. relations with a large number of African nations.

Continued emphasis on the MDBs to channel an increasing proportion of U.S. development assistance is fully consistent with our domestic concerns over cost-effectiveness and fiscal austerity. The MDBs allow us to reconcile the overwhelming need for a viable development assistance program throughout the 1980s with the pursuit of a tough domestic anti-inflation program, because they provide enormous fiscal advantages. These include burdensharing of development assistance with other countries, the leveraging of U.S. contributions through borrowings in world capital markets and purchases of U.S. goods and services which return substantial economic benefits including increased tax receipts which nearly offset U.S. budgetary outlays for our participation in the banks.

I strongly urge your support for U.S. participation in the Sixth Replenishment of the International Development Association, for U.S. membership in the African Development Bank, and for changes in the budgetary and appropriations treatment of U.S. subscriptions to the World Bank and Asian Development Bank callable capital.