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CHAIRMAN JIM SAXTON

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WORLD BANK SHIFT TOWARD GRANTS WOULD IMPROVE EFFECTIVENESS

-- Reform of World Bank Operations is Needed --

WASHINGTON, D.C. – The World Bank should move toward providing international development aid in the form of performance-based grants instead of loans, according to a new analysis released today by Joint Economic Committee (JEC) Chairman Jim Saxton. The analysis, *Grants: A Better Way To Deliver Aid*, demonstrates that performance-based grants, “would cost the same as traditional loans, but would deliver more benefits to the global poor.”

“This analysis demonstrates how World Bank grants would offer the best approach to improving living standards and reducing poverty in the world’s poorest nations,” Saxton said. “The traditional World Bank/IMF approach of saddling poor countries with loans they often cannot repay has failed. Moreover, the high failure rate of World Bank projects reflects a terrible waste of resources that could have been used to alleviate poverty.

“The new report explains how World Bank grants would work, and also refutes some of the criticism and misinformation about their cost. In short, the same amount of aid can be provided through grants as through loans at the same economic cost. The difference is that the grants will be much more effective in attaining results without leaving heavy debt burdens.

“This grant proposal would be tied to performance standards designed to ensure that aid objectives were actually met. Under this approach, funds would be disbursed only when results are achieved, be they vaccinations, literacy standards, water treatment, electricity generation, or other needs. Instead of ineffectually lending money without safeguards to borrowing governments, performance-based grants would actually lead to the alleviation of poverty and advances in productivity.

“The World Bank argument that grants would entail substantial new donor contributions is factually incorrect. The World Bank may be concerned that a movement toward grants would make it more transparent and accountable for combating poverty in the poorest countries. Nonetheless, the highest priority of public aid policy should be the implementation of effective strategies to combat poverty, not the interests of the managers of a failing bureaucracy,” Saxton concluded.

The proposal to move toward grants was first made by the Meltzer Commission, and later expanded in testimony before the Joint Economic Committee. The new report was prepared by Adam Lerrick and Allan H. Meltzer under the auspices of the Carnegie Mellon Gailliot Center for Public Policy.

For more information on reform of the international financial institutions, please visit our website at www.house.gov/jec.

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