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THE WORLD BANK

Washington, D.C.

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~~Pre-Briefing: Washington Times
Editorial Board
(Event Date: Monday, July 14)~~

~~Friday, July 11, 1997
2:00 - 2:30 p.m.
MC 11-127 Conference Room~~

Luncheon Meeting: Washington
Times Editorial Board

Monday, July 14, 1997
1:00 - 3:00 p.m.
Washington Times
3600 NY Avenue, NE, WDC

JDW - The Bank has 97 field offices

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R2002-036 Other #: 41 Box #: 186491B
President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
Press Clippings - Photos - Luncheon Meeting - Washington Times Editorial Board



World Bank president wrestles with U.S. role

By Lorraine Woellert
THE WASHINGTON TIMES

The world's poor are growing in number even as the United States questions its role in funding international aid to poverty-stricken nations, World Bank President James Wolfensohn said yesterday.

"The problem of poverty is increasing, not diminishing. If you throw in that the environment is degrading, not improving, you have the world in which you live," Mr. Wolfensohn said in an interview yesterday with editors and reporters at The Washington Times.

"I have a profound respect now for the difficulty of the [bank's] objective, which is poverty alleviation. I think it's bloody difficult," he said, noting that 100 million people a year join the ranks of the world's poor. "If the bank can't do it, I don't know who can."

His remarks come as the bank redefines its role in the world. Created more than 50 years ago to rebuild Europe after World War II, it has grown into an international lender of last resort, pouring billions of dollars into roads, power stations and other massive third-world projects.

The bank also has used a big stick — the promise of millions of dollars in aid — to persuade nations to make their economies more market-oriented, to privatize institutions, cut bureaucracies and attract foreign businesses and the jobs they bring.

But critics have assailed these economic-reform programs for years, and yesterday the bank said it is undertaking a sweeping review of the process in partnership with nonprofit humanitarian groups and the recipient governments themselves.

As poverty persists, the bank faces new troubles as benefactors, particularly the United States, question the bank's work.

The United States is behind some \$1.3 billion in promised funding for bank loans to the world's poorest nations. That wavering leadership is threatening the very future of the program, Mr. Wolfensohn said.

"Maybe Congress can put it off for a while, but given that we won the Cold War I think there's a moral responsibility on the United States to give leadership," Mr. Wolfensohn said.

He said that U.S. donations to the bank are proportionately less than that given by other developed nations.

"I became an American because I thought, and still believe, that the system of values and sense of purpose in this country is real," the Australian native said.

And even with more than \$200 bil-

see BANK, page B10

BANK

From page B6

lion in private investments making its way to all corners of the world, many of the poorest nations cannot create enough jobs to meet the demands of its people.

"Private investment can help and should play as strong a role as it possibly can, but it can't do it alone," he said. "I think we're having a tough time coming to terms with what's right in international leadership. I think if we were to withdraw from the bank and not give leadership, it would damage the whole future [of the institution]."

Nevertheless, he was confident that Congress this year would approve at least a good portion — between \$500 million and \$900 million — of what the Clinton administration has promised the bank.

"I think [Congress] has confidence in some of the changes we're making at the bank, so they feel more confident in giving us money," he said.

When Mr. Wolfensohn took the bank's reins two years ago he inherited a monolithic institution that had a worldwide reputation for being bloated, self-absorbed, slow to change and slow to catch on to its own mistakes.

Under Mr. Wolfensohn's leadership, the bank is directing its money and attention to social programs, women and children, and away from perennial failures such as massive infrastructure programs.

The bank's agreement to examine its "structural adjustment program," which loans money to poor countries in return for forced changes to their economies, marks the first time the bank has worked with its critics to study a long-standing point of dispute.

Mr. Wolfensohn, who joined the bank after years as a private investment banker, said two years of traveling to 55 countries has changed his perceptions.

"I had a social conscience before, but I tell you now I really wake up nights thinking about [poverty]," he said. "I actually believe that peace and stability depend on what we can do in the developing world."

WB Archives

July 15/97

Jim -
A. Pitts
Positive connections
or your leadership
vision. Your
connections were
superb. - AS
USON
Pursuing -
Map

The Washington Times

TUESDAY, JULY 15, 1997

Archive Management for the President's Office

Document Log

Reference # : Archive-01561

1285

Edit

Print

A. CLASSIFICATION

☒ Meeting Material
☐ Trips
☐ Speeches

☐ Annual Meetings
☐ Corporate Management
☐ Communications with Staff

☐ Phone Logs
☐ Calendar
☒ Press Clippings/Photos

☐ JDW Transcripts
☐ Social Events
☐ Other

B. SUBJECT: LUNCHEON MEETING: WASHINGTON TIMES EDITORIAL BOARD (B) (N)
VENUE: WASHINGTON TIMES - 3600 NEW YORK AVENUE, N.E., WDC
CONTACT: KLAS BERGMAN @ 33798 // WT- KATHLEEN VANCE @ 636-3299
TO ATTEND: JDW, MMB, KLAS BERGMAN
NOTE: HOST FOR THE BOARD LUNCHEON: MR. TOD LINDBERG, EDITORIAL PAGE EDITOR // OTHERS ATTENDING - SEE BRIEF FOR DETAILS
(B) EXTPV // DUE: WED. JULY 9
(B) SPEAKING POINTS (IF ANY) - CAROLINE ANSTEY
EXC: CA // ALI (5/9)
Brief includes memo to Mr. Wolfensohn from Klas Bergman, dated July 7, 1997, "Washington Times Editorial Board" and tabs:
- Washington Times Commentary
- FY97 Lending
- FY97 Disbursements
- IDA/ODA
- Washington Times article: "World Bank president wrestles with U.S. Role" (7/15/97) by Lorraine Woellert

DATE: 07/14/97

C. VPU

Corporate

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☐ FPR
☐ HRO

Affiliates

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☐ ICSID
☐ IFC
☐ Inspection Panel
☐ Kennedy Center
☐ MIGA

D. EXTERNAL PARTNER

☐ IMF
☐ UN
☐ MDB/Other IO
☐ NGO
☐ Private Sector

☐ Part I
☐ Part II
☐ Other

E. COMMENTS:

File Location ☒ EXC ☐ ISC ☒ Archives	Cleared By Caroline Anstey	Date: 07/15/97
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View Update History

OFFICE MEMORANDUM

DATE: July 7, 1997

TO: Mr. James D. Wolfensohn, EXC

FROM: Klas Bergman, EXTMR

EXTENSION: 33798

SUBJECT: **Washington Times Editorial Board**

On Monday, July 14 at 1 PM, you will be the guest of honor at an Editorial Board Luncheon of the Washington Times. The luncheon meeting is expected to last up to 1 1/2 hours.

The Washington Times' head office is located at 3600 New York Avenue N.E. Washington, DC 20002. Editorial Board Liaison is Ms. Kathy Vance at (202) 636-3299. Travel time to the Times is about 15 minutes. Mark and I will accompany you to the meeting.

Host for the Editorial Board Luncheon is Mr. Tod Lindberg, Editorial Page Editor.

Others attending, as of today, are:

Ms. Mary Lou Forbes, Commentary Editor.

Mr. Francis B. Coombs, Jr., Assistant Managing Editor.

Mr. David Jones, Foreign Editor.

Ms. Helle Bering-Jensen, Deputy Editorial Page Editor.

Mr. Richard Gross, Deputy Foreign Editor.

Mr. Ben Barber, State Department Correspondent.

Mr. Patrice Hill, Business Reporter.

Ms. Lorraine Woellert, Business Reporter.

Mr. Bill Connery, Current Issues, World & I.

Mr. David Wagner, Writer, Insight.

Of these, Ms. Woellert covers the Bank on a regular basis. She recently wrote a nice article about the Bank's new trading room. Mr. Barber often writes on Bank-issues, particularly IDA, from a Capitol Hill perspective.

Ms. Vance tells me that if you wish, you may open the meeting with some brief remarks on any Bank-related topic, or on the Bank in general, with the balance of the time devoted to questions and answers. The whole meeting is on the record.

As you know, the Washington Times is a most conservative newspaper. It is known for its skepticism towards the Bank, in particular, and towards foreign aid, in general. Bank critics

often contribute to its editorial pages and its commentaries often reflect Republican sentiments on Capitol Hill. (attached).

This Editorial Board meeting is an excellent opportunity for you to state the Bank's case to a conservative audience, its important role in the post cold-war era and how you are now deeply involved in changing the Bank to meet the new needs. You can also talk about the Bank's importance for the US when it comes to helping build markets which not only benefit exporters but also create new consumers, wealth and choice in developing countries; about how the Bank is helping in building values to lift living standards in ways consistent with basic human values of people all over the world; and, finally, how the Bank is contributing to world security by building sustained prosperity and reducing poverty.

Most likely, IDA will come up. Its present status on the Hill is reflected in the recent EXT memos (attached). Also attached is the Paris Office's recent report on ODA hitting record lows.

To avoid the possible risk of the Editorial Board luncheon focusing too much on the Bank's operations results, particularly Africa and IDA, we have decided to postpone the release of FY97 numbers from Friday, July 11, to Tuesday, July 15. Attached, you will find FY97 loan commitments and disbursement numbers.

Attachments:

Selected Washington Times commentaries.

FY97 Bank lending and disbursements.

IDA/ODA figures.

cc:s Mark Malloch Brown (EXTVP); Caroline Anstey (EXC); Jane Holden (EXC); Allison Tsatsakis (EXC).

James D. Wolfensohn
Washington Times
Editorial Board Meeting
July 14, 1997
1:00 PM

This item appeared on page A17 of the July 3, 1997 issue of the
Washington Times

In defense of foreign aid

By Anders Wijkman

There is no shortage of critics of international development assistance these days. Many point to a long line of less than effective aid projects and question whether development assistance can do much good in the future. The answer to this question is an unqualified yes. Not only are the needs greater than ever, but, with increased globalization, we are also more closely interlinked, making the well-being, and ultimately political stability, of nations around the world a concern to us all.

But, in order to ensure that future development assistance is effective, we must also take account of the past. All too often in recent years, progress in development has been obliterated by civil or international conflicts, by human-induced disasters, or simply undercut by poor governance practices and pervasive corruption. In the annals of breakdown of governance institutions and social cohesion, Somalia, Bosnia, Rwanda and Albania are some of the more dramatic examples. Others are less dramatic, but troublesome nonetheless, since poor governance practices can effectively undermine progress for generations.

At the same time, other development efforts have produced great results. Countries like Slovenia, Costa Rica, Thailand and Ghana have quietly moved forward while their neighbors have stagnated or dissolved into civil war. When comparing these and other countries where development has steadily progressed with their less successful neighbors, it becomes apparent that the existence of an overall system of effective governance institutions largely determines whether development initiatives will lead to sustainable results.

It is also evident that good governance practices are key to determining whether nations can effectively meet the political and economic challenges posed by increased globalization. In the next

century, successful participation in the global economy will be a key factor affecting the wealth of nations and regions around the world. This recognition has led to a significant shift in focus among international development organizations. An increasing amount of development assistance is now directed towards improving good governance practices that will promote, or at the very least not undermine, citizens' efforts to build better lives for themselves.

The specifics of what constitutes an effective governance structure naturally vary from one country to another. There is, however, a growing international consensus on some key characteristics of good governance. These include political legitimacy through an open democratic system, freedom of speech and association, a fair and accessible legal system, effective public sector management and transparent and accountable government institutions.

Today, international development cooperation increasingly involves providing technical assistance in these areas. A significant part of foreign aid to Commonwealth of Independent States (CIS) countries, for example, involves funding to help transform Soviet era parliaments and judiciaries, originally designed as tools for authoritarian control, into representative institutions that will form the cornerstones of future democratic societies and market-based economies.

Similar efforts to improve democratic governance institutions are occurring all across the developing world. Some of the most exciting moves are taking place in Africa and Latin America, where democracy has made great strides in recent years. Last year, 26 leaders of French-speaking African countries met in Ouagadougou, Burkina Faso, and decided to intensify efforts to improve governance practices in their countries. Other African nations are following this move and efforts are also under way to harmonize business legislation to further improve the conditions for foreign investments and trade throughout the African continent.

Good governance is critical to development because it provides some of the necessary prerequisites for equity and political stability. Private sector investment, the driving force of economic development, will only take place in economies where there is political stability and some predictability of returns. And it is only in societies where people's voices are heard that we can expect such development to be both economically and environmentally sustainable.

Anders Wijkman is assistant administrator of the United Nations Development Program.

Bonding at World Bank

\$6 billion a day traded amid serene decor

By Lorraine Woellert
THE WASHINGTON TIMES

Traders at the world's biggest global bond house don't work on Wall Street. They work on H Street.

Every trading day, the small group of men and women laboring behind the glass facade of the World Bank headquarters at 18th and H streets NW handles billions of dollars.

They work on the seventh floor amid potted plants and bubbling fish tanks in a small corner room whose soothing ambience of a 1980s fern bar has been deliberately and painstakingly created to reduce stress and encourage communication.

It's no wonder they need the fish tanks.

About \$33 billion in bank reserves are managed from this room. That's about half as much as Taiwan has on reserve. Upward of \$6 billion passes through the operation on an average day in some 300 transactions. This is where the bank makes most of the money it needs to do its lending.

"When people are given \$2 billion to manage, they don't smile very often," said Thanit Thangpijaigul, who designed the room with the help of his staff. "The fish are like the plants. It's to calm them down."

The calming effect of the two big tanks is augmented by lots of windows, a curved bulkhead and wavy lines in the carpet, all designed to mute the stress level. Mr. Thangpijaigul got the fish-tank idea from Bloomberg Financial Markets, just one of the houses he visited to get a feel for what works.

The World Bank is the globe's biggest development bank, lending \$20 billion a year to the world's poorest countries. With the exception of industrialized donors such as the United States, which finance critical bank loans to the poorest of nations, most of



"If there's a crisis in the financial markets, we want to be able to honor our obligations, so money stays liquid."

— Rachid Ghazali

the bank's routine lending capital is raised in this room.

Last year, the bank returned a \$1.2 billion profit on its loans and trades. But this trading room is different from most.

"The institute's main purpose is not to make money," said Rachid Ghazali, senior manager of investments. "Profitability is limited by risk-tolerability."

That means the bank's conservative style and strict guidelines won't let it take big or long-term risks. There's no

chance of a Barings Bank fiasco here. But there's also little opportunity for a huge score.

"It's not, by and large, capital you can invest in the long haul and take the long risk, because it's needed for disbursement," Mr. Ghazali said. "If there's a crisis in the financial markets, we want to be able to honor our obligations, so money stays liquid."

Traders here don't make commissions or bonuses, so turnover is high. The average stay is four or five years.

When the bank needs to raise quick capital, it floats bonds, \$10 billion to \$15 billion worth a year in dozens of currencies.

"This is how the bank funds itself. We issue at very attractive levels. We're one of the best credits in the world," said Fernando Saldanha, a senior finance officer in asset-liability management. "Those savings are ultimately passed on to our clients."

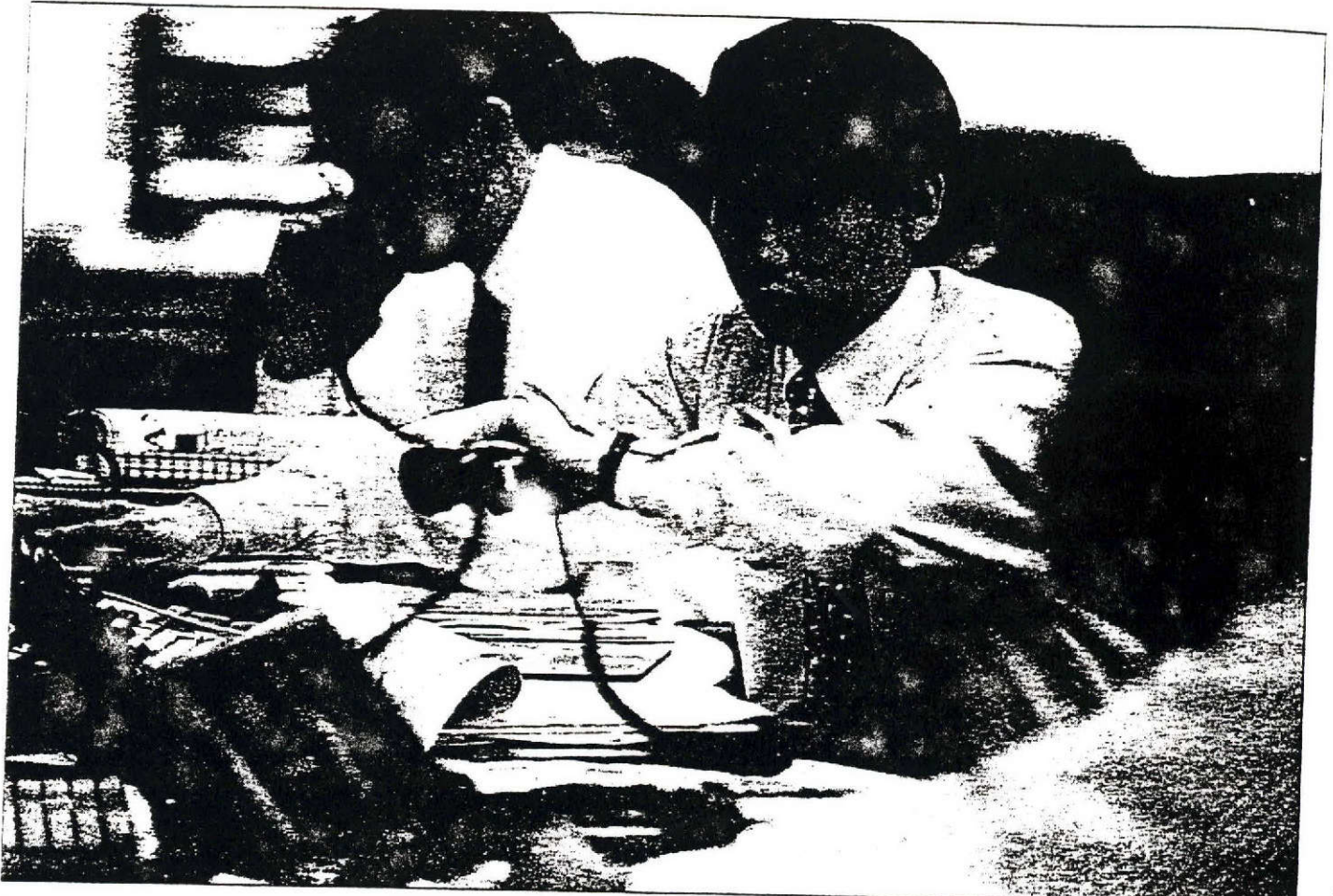
In other words, a good credit rating translates into cheap borrowing for the bank. The savings are passed onto countries that get low-interest loans.

The process itself offers people in many countries a place to invest their money. In Italy, people line up to buy World Bank bonds. Retail sales also are brisk in Japan.

Six months ago, the bank turned its attention to smaller currencies, issuing bonds in Slovakian koruna, Philippine pesos and South African rand.

When the bank in March issued its first 20-year bonds in South Africa, it was providing the first long-term investment in a country where government bonds mature after three years. A bond bought for 4 South African rand — about \$13 — will mature in 20 years at 100 rand, or about \$450.

"If inflation stays low, that person is going to do well," Mr. Saldanha said. "The objective is to get cheaper funding, and we're very successful."



Bond traders at the World Bank work the phones, making contacts in time zones around the globe.

Photos by Kevin T. Gilbert/The Washington Times

**BRUCE
BARTLETT**

Foreign aid's feeble rate of return

On May 7, the House International Relations Committee voted to spend \$16.4 billion on foreign aid in 1998. At the behest of the Clinton administration, the Republican panel raised foreign aid next year by \$800 million. Ironically, this comes at a time when economists have reached a virtual consensus on the failure of foreign aid.

Indeed, even the liberal Brookings Institution now concedes that foreign aid simply does not work. In "A Half Penny on the Federal Dollar," Brookings scholars Michael O'Hanlon and Carol Graham take a careful look at the effectiveness of U.S. foreign aid. While they favor

*Even the liberal
Brookings Institution
now concedes that
foreign aid simply does
not work.*

continuation of foreign aid for political and humanitarian reasons, they are forced to conclude that it does nothing whatsoever for economic growth.

"One of the most paradoxical findings of recent studies of aid effectiveness," Mr. O'Hanlon and Miss Graham write, "is that, at least in the case of conditioned policy-based lending, financial flows are negatively correlated with growth performance. That is, countries getting more aid do worse macroeconomically, on average, than those getting less."

Among the studies cited is one by Peter Boone of the London School of Economics. Based on data from 96 countries, he found that the reason foreign aid does not stimulate growth is because virtually none of the aid goes into investment. All it does is increase consumption and expand the size of government, without conferring any benefits on the poor in the process.

A major factor in why foreign aid is consumed rather than invested is because much of it is stolen by elites in developing countries. Nowhere is this more apparent than in Zaire, where rebels have just ended the 32-year dictatorial regime of its leader, Mobutu Sese Seko.

In a fascinating expose on May 12, London's Financial Times newspaper estimated that Mr. Mobutu has stolen some \$4 billion from foreign aid, much of it from the International Monetary Fund. This amounts to almost half of all the foreign aid received by Zaire between 1970 and 1994. Amazingly, the Financial Times report reveals that the IMF was well aware of the expropriation of its funds, yet continued to lend Zaire more money anyway.

Mr. Mobutu used most of this money to buy lavish estates in France and establish huge secret bank accounts in Switzerland, Luxembourg and elsewhere. However, much was also used to sustain himself in power by bribing and otherwise buying support in Zaire.

Meanwhile, Zaire slid ever downward economically. Its real per capita income is 40 percent lower today than it was when Mr. Mobutu took power. Thus an internal World Bank report concluded that "it would be hard to argue much was achieved in Zaire, either in economic or social terms, as a result of the aid."

The dismal experience of Zaire may be one reason why the World Bank now seems to be rethinking the whole concept of foreign aid. In a widely circulated paper, World Bank economists Craig Burnside and David Dollar looked at the relationship between foreign aid, economic policies and growth in 56 countries. They found that when combined with good economic policies, such as low taxes and deregulation, aid had a positive impact on growth. But there is no correlation between aid and the adoption of good policies, and no relationship at all between aid and growth in the absence of good policies.

In the 1950s, critics like Peter Bauer and Milton Friedman argued that by itself foreign aid would never stimulate economic growth. All it would do is strengthen government at the expense of the private sector, which is the true source of prosperity. Now, after 40 years of experience, it appears they were right all along.

Bruce Bartlett is a senior fellow with the National Center for Policy Analysis and a contributing writer for The Washington Times.

BRUCE BARTLETT

The World Bank beyond its time

World Bank President James Wolfensohn recently announced yet another "reorganization" of the troubled international lender. And, like past such efforts, this one will cost plenty — some \$150 million will be paid out in benefits to laid-off staffers, with another \$420 million set aside for retraining and other reorganizational expenses. But the effort is not likely to be any more successful than past reorganizations, such as that carried out by former World Bank President Barber Conable in 1987. The reason is because the Bank has lost its reason for being.

Established as part of the United Nations after World War II, the World Bank's original purpose was to aid in postwar reconstruction. Thus most of its early loans were made to Europe and Japan. Hence at the beginning, the Bank tended to lend primarily to nations that were already industrialized, with established institutions and skills, lacking only capital for growth.

The Bank's first president, Eugene Meyer, viewed it as a supplement to private capital flows, not a substitute. Under the leadership of Mr. Meyer's successors, John J. McCloy and Eugene Black, the World Bank had very conservative lending policies. Mr. Black, in particular, emphasized that Bank loans were in fact loans, not gifts, and refused to lend to governments for projects that belonged in the private sector.

But by the 1960s, Europe and Japan were largely recovered from the war and the Bank moved toward lending to underdeveloped

countries in Asia, Africa and Latin America. Under President Robert McNamara, the World Bank became less of a bank and more of a foreign aid distributor. Bank lending ballooned and more and more of its loans were made on concessionary terms for projects of dubious economic value.

Mr. McNamara's vision for the World Bank, as the primary engine for development of the Third World, was clearly not sustainable. However, subsequent Bank presidents have failed to define a new vision. They simply asked for more money to do the same things despite minuscule evidence of success.

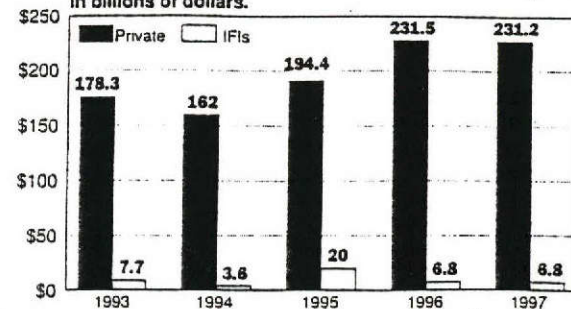
As the figure illustrates, private capital flows to developing countries now vastly exceed those of all the international financial institutions (IFIs), including the World Bank, International Monetary Fund and regional development banks. This led Professor Rudi Dornbusch of MIT recently to ask, "If the capital market is perfectly capable of identifying worth projects and readily finances private investment and public budgets around the world, who needs these remnants of foreign aid and statism?"

Increasingly, the answer to the question is that organizations like the World Bank have outlived their usefulness. They should be privatized or shut down.

Bruce Bartlett is a senior fellow with the National Center for Policy Analysis and a contributing writer for The Washington Times.

NET FINANCIAL FLOWS TO EMERGING MARKET ECONOMIES

In billions of dollars.



Source: Institute of International Finance

Foreign funding follies

By Trent Lott

Last week, President Clinton submitted his budget to Congress, including a proposed \$1.22 billion increase for spending on international affairs — foreign aid, State Department operations and U.S. contributions to the United Nations and other international organizations. The budget submission was preceded by a weeks-long campaign of speeches and editorials pleading for more international spending. In her confirmation hearing, Secretary of State Madeleine Albright echoed what has become a refrain: “We cannot have [superb diplomatic representation] on the cheap. We must invest the resources needed to maintain American leadership.” Few Americans would disagree. In order for a discussion to proceed over how much America can and should spend on our global leadership, Americans need all the facts.

Moving to a balanced budget is difficult. International spending, like other areas of the federal discretionary budget, has felt the effects of belt-tightening. Congress and the executive branch should engage in a dialogue about adequate programs and funds to support America’s leadership role in the world. But that dialogue should be held honestly — with accurate numbers, with accurate discussion of spending cuts, with accurate assessments of Clinton administration funding priorities, and with an accurate understanding of what resources America devotes to our international leadership role.

■ **Accurate Numbers.** It is often claimed that U.S. international funding has declined

by 50 percent since 1985. The allegation of a 50 percent reduction has been repeated so often, and media treatment has been so uncritical, that Americans could be forgiven for believing it. But it is not true. The assertion relies on one-time, one-year multi-billion increases for emergency needs in Africa and the Middle East to artificially inflate the 1985 baseline.

In fact, America spends as much on international affairs today as it did in the late-1970s during the Carter administration — at the height of the Cold War. A major portion of mid-1980s foreign aid was support for states facing communist insurgency (El Salvador) or aid to freedom fighters (Nicaragua) — programs strongly opposed by many of those now arguing for more international spending. Over the past 10 years, two of four budget categories have been significantly reduced — security assistance (by 49 percent) and public diplomacy (by 16 percent). Funding for two other categories has increased in real terms — economic assistance (by 19 percent) and the State Department and United Nations (by 32 percent). While it is true that the Clinton administration has not received every penny it has asked for in the past four years, it is time to put aside the myth of a 50 percent reduction.

■ **Impact of spending reductions.** Horror stories of ambassadors washing their own dishes in Moldova or embassies without air conditioning in Vietnam have become standard fare from those arguing for more international spending. So too is the figure of 30 diplomatic posts forced to close because of budget constraints. But this is only part of the story. Over the past six years the Department of State has opened 29 posts — despite budget constraints. In the wake of the Soviet Empire’s collapse and the breakup of

Yugoslavia, the United States has opened 25 new embassies while closing only five — in places like Somalia, Antigua and Equatorial Guinea. Small consulates from Lubumbashi to Oporto to Udorn have been closed, but a net increase of 19 embassies hardly signifies a dramatic decline in America’s diplomatic presence.

■ **Establishing priorities.** Much of the pressure in the international budget results from how and where the Clinton Administration chooses to spend money — not the total amount of money available. For example:

The Agency for International Development has chosen to reduce funds to support democratic transitions from Mongolia to Macedonia. At the same time AID is spending nearly \$100 million on a state-of-the-art computer system that still does not work and plans to spend millions more on moving into the most expensive office space in Washington.

The State Department apparently could not find funds to monitor a Kurdish ceasefire last year, yet it spends millions supporting international conferences on social issues that have little relevance for American interests.

State and AID have funded Haitian government lobbyists to set up offices in Port-au-Prince, financed home repairs for the communist Sandinistas in Nicaragua and paid for radio soap operas in Tanzania. These resources could have been used to refurbish embassies, pay personnel, modernize information systems, expand support for democracy or increase security aid to our allies. They were not. An honest debate about the total level of funding must involve an honest discussion about where the dollars are spent — and misspent.

■ **Savings Refused.** In its push for more money for international affairs, the Clinton administration neglects to point out significant savings it has opposed. Five former

Trent Lott is Senate majority leader.

secretaries of state endorsed a plan to streamline our foreign affairs bureaucracy and reduce duplication by merging three agencies into the State Department. The State Department itself is bloated and top-heavy. State has 63 percent more assistant secretaries than the Department of Defense despite being responsible for hundreds of thousands fewer employees and billions of dollars less in programs. Last year, President Clinton vetoed a plan that would have saved at least \$1.7 billion over the next four years through reorganization — despite the one-time support from former Secretary Christopher for the concept. One way to make scarce dollars stretch farther is to eliminate waste and duplication through long-overdue reorganization.

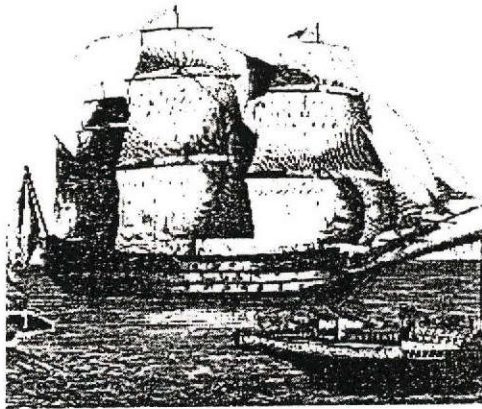
■ *Defense Spending Cuts.* While international affairs spending has remained relatively constant, America's defense and intelligence budgets have been slashed. Two hundred ships have been decommissioned. Eight of 18 active Army divisions have been disbanded. Air wings have been reduced by 44 percent. While a handful of overseas consulates have been closed, more than 700 overseas military sites have been shut down in the past six years. In the United States, some 250 military installations have been closed — causing significant economic hardship in each American community affected. The American ability to deter conflict, influence events and project power overseas has been affected dramatically by these reductions.

■ *What America Really Spends.* To mea-

sure American leadership in the world simply by the size of the check we send to the United Nations or the World Bank, or by how many development aid contracts are awarded, is to miss the point. The United States spends almost \$2 billion every year just to operate and maintain our forward naval presence in Europe, Asia and the Middle East. The American military presence in Korea costs \$2.5 billion every year. Under the Clinton administration, an ever-increasing share of the defense budget is

dedicated to supporting the U.N. — almost \$2 billion in 1995 alone. We have consistently asked our men and women in uniform and serving with our intelligence agencies to do more with less. Our diplomats must not be exempt from the budget constraints facing the rest of federal employees supporting American interests overseas.

America can and must afford to lead in the world. Our future prosperity, security and freedom demand it. But the debate over the appropriate level of American spending on international affairs should be driven by American interests — not the self-interest of bureaucrats and federal grant recipients. Too often, the Clinton administration has labeled anyone who disagrees with it as an "isolationist." And too often, inaccurate numbers and misleading claims have been put forward to argue the case for more international spending. It's time to talk honestly about the dollars involved, how they are spent and the real impact of budget cuts. Our taxpayers deserve nothing less.



FY97 LENDING

IBRD/IDA LENDING BY REGION
FY96 - FY97
(US\$ BILLIONS)

IBRD FY96	IDA FY96	IBRD FY97	IDA FY97
Africa: —	Africa: \$2.7	Africa: \$.056	Africa: \$1.68
E. Asia: \$4.25	E. Asia: \$1.16	E. Asia: \$4.1	E. Asia: \$0.79
S. Asia: \$1.2	S. Asia: \$1.8	S. Asia: \$0.63	S. Asia: \$1.4
Eur.&C.A.: \$3.75	Eur.&C.A.: \$0.48	Eur.&C.A.: \$4.6	Eur.&C.A.: \$3.75
Lat. Am.: \$4.00	Lat. Am.: \$0.40	Lat. Am.: \$4.4	Lat. Am.: \$0.13
MENA: \$1.28	MENA: \$0.32	MENA: \$0.77	MENA: \$0.15
TOTAL: \$14.5	TOTAL: \$6.9	TOTAL: \$14.5	TOTAL: \$4.6



The World Bank

News Release No. 98/

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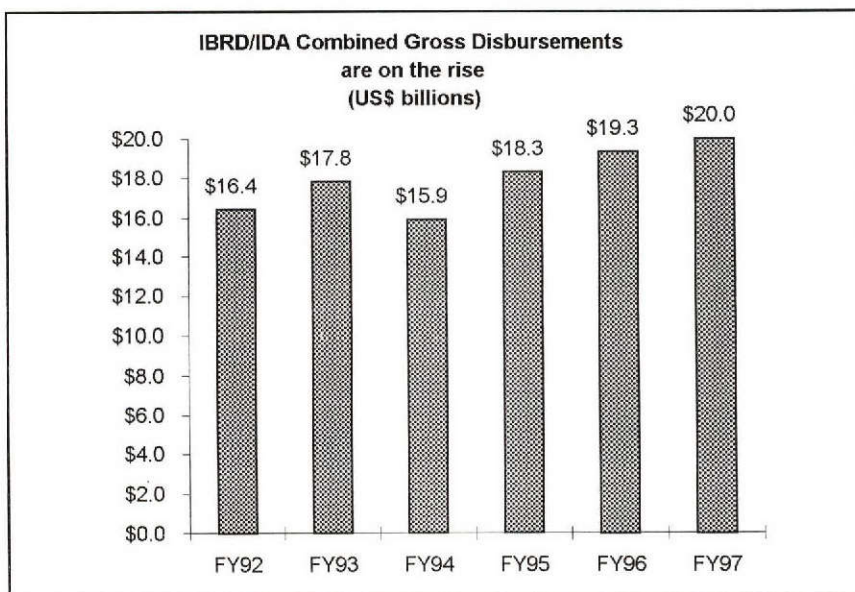
WORLD BANK ANNOUNCES OPERATIONAL RESULTS FOR FISCAL 1997

WASHINGTON, July 15, 1997—New lending commitments from the World Bank to developing countries totaled \$19.1 billion in fiscal year 1997, which ended June 30. This figure includes both the market-rate loans made by the International Bank for Reconstruction and Development (IBRD) and the concessional loans made to the world's poorest countries through the International Development Association (IDA). The total compares with \$21.4 billion in FY96 and \$22.5 billion in FY95.

IBRD loan commitments in FY97 amounted to \$14.5 billion—about three-quarters of the total—for 141 projects; 4.6 billion in IDA credits supported 100 projects. The respective totals for FY96 were \$14.5 billion for 129 IBRD projects and \$6.9 billion for 127 IDA projects.

IBRD/IDA combined gross disbursements at the end of FY97 rose to nearly \$20 billion, up from \$19.3 billion in FY96. IBRD gross disbursements totaled \$14 billion, compared with \$13.4 billion in FY96; IDA gross disbursements were \$6 billion, compared with \$5.9 billion in the previous fiscal year.

Commenting on the FY97 results, **Gautam Kaji, World Bank Managing Director for Operations** said, *"I am cheered by the fact that our level of disbursements—the money that is actually making a difference on the ground—rose 4 percent from last year. This change indicates improvements in both our portfolio quality and our implementation. A second indicator of improved client focus is that the Bank authorized significantly more projects."*



"In retooling our processes, we have taken a sharp look at—and a sharp knife to—the lending pipeline, so lending approvals have fallen as a consequence. This was to be expected. But we have every confidence that, with a clearer sense of client demand and strengthened quality assurance programs in place, IDA lending, and therefore overall lending, should rise distinctly in the next year—especially with improvement in Africa's capacity and performance," Kaji said.

New lending commitments to **Africa** in FY97 totaled \$1.74 billion. Of this amount, \$1.68 billion were IDA credits, and \$56 million were IBRD loans. In FY96, combined lending to the region totaled \$2.7 billion. The four single sectors receiving the most support in FY97 were agriculture, electric power, urban development, and public sector management.

The **East Asia and Pacific** region received \$4.9 billion in new IBRD/IDA commitments—\$4.1 billion for IBRD and \$792 million for IDA. The region received \$5.4 billion from IBRD/IDA in FY96. Lending to the region for agriculture totaled \$1.3 billion in FY97, with most of this support, \$1.1 billion, in IBRD lending. Electric power and other energy totaled \$1.13 billion; the transportation sector (\$1.1 billion) and education sector (\$645 million) also received a large share of lending in FY97.

In **South Asia**, \$2 billion in new IBRD/IDA commitments were approved in FY97. Of this, \$627 million was from IBRD and \$1.4 billion was from IDA. FY96 combined lending to the region came to \$3 billion. India was again the largest borrower in the region, receiving support totaling over \$1.5 billion. As in FY96, India was also the largest recipient of IDA credits this year, with \$903 million in concessional lending. IBRD and IDA transportation projects totaled \$685 million; and projects in population, health, and nutrition came to \$594 million—all in IDA credits.

The countries of **Europe and Central Asia** saw \$5.1 billion in projects approved for FY97—\$4.6 billion from IBRD and \$494 million from IDA. This is a nearly \$1 billion increase over FY96, when \$4.2 billion went to the region (\$3.75 billion from IBRD; \$476 million from IDA). The social sector was the largest single sector during the year, receiving loans totaling \$935 million. The Russian Federation was the largest borrower in the region, receiving loans of \$1.7 billion, including an \$800 million loan—the largest ever in the region—to create an effective and sustainable system of social protection.

Commitments by IBRD and IDA to **Latin America and the Caribbean** in FY97 totaled \$4.6 billion, with \$4.4 billion in IBRD loans and \$125 million in IDA credits. The transportation sector received \$1.5 billion, and agriculture sector loans and credits totaled \$731 million. Loans to the region in FY96 were \$4.4 billion—\$4 billion from IBRD and \$400 million from IDA.

New commitments to the countries of the **Middle East and North Africa** in FY97 amounted to \$915 million, down from \$1.6 billion in FY96. The highest sector was agriculture, at \$177 million; projects in water supply and sanitation, which are critically important to the region, came to \$123 million in FY97.

Top Ten Borrowers in FY97

<u>COUNTRY</u>	<u>IBRD/IDA (\$m)</u>
China	2,815.0
Russia	1,715.6
India	1,529.5
Argentina	1,479.5
Brazil	992.6
Ukraine	989.6
Mexico	960.0
Indonesia	914.6
Romania	625.0
Peru	569.0
TOTAL	12,590.4

IBRD and IDA

The **International Development Association** (IDA) is a discrete part of the World Bank Group providing low-cost loans to the poorest countries. About half of all IDA lending is to Africa. The money for IDA is subscribed by wealthier governments, to finance vital reforms in countries which cannot afford to borrow on commercial terms. IDA accounts for about 30 percent of the loans made by the Bank; the remaining 70 percent are market-rate loans through the **International Bank for Reconstruction and Development** (IBRD), with the money coming from bond offerings on world capital markets. Typical terms for an IDA loan are a 40-year repayment period, no interest, and no payment required for the first 10 years. IDA not only finances specific projects, but also assists in providing balance of payments support and other assistance as countries restructure their economies and build competitive markets.

-###-

FY97 DISBURSEMENTS



snarasimhan@worldbank.org on 07/07/97 12:48:13 PM

Subject: IBRD, IDA, IBRD & IDA gross disbursements for FY97.

Date: Mon, 7 Jul 1997 16:50:24 GMT
From: SIMHA <SIMHA%1323%MRGATE%EARTH@mrgw.worldbank.org>
Subject: IBRD disbursements for FY97
To: "SHRI SIMHA%A1%WBWASH"@mrgw.worldbank.org
Message-id: <G20E020FF07JUL199712502365*@MHS>
MIME-version: 1.0
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Delivery-date: Mon, 7 Jul 1997 16:46:00 GMT
Posting-date: Mon, 7 Jul 1997 16:50:24 GMT
Importance: normal
Al-type: MAIL

IBRD Gross Disbursements by Region for FY97
All Amounts in US\$

Region Name	Disbursement
AFRICA	241,962,175.08
EAST ASIA AND PACIFIC	3,046,249,626.14
EUROPE AND CENTRAL ASIA	4,005,315,573.85
LATIN AMERICA AND CARIBBEAN	4,692,083,823.60
MIDDLE EAST AND NORTH AFRICA	995,192,137.42
OTHER	11,566,939.32
SOUTH ASIA	1,017,072,984.23
sum	14,009,443,259.64

7 rows selected.

July 7, 1997

1

page

IBRD Gross Disbursements by Sector for FY97

Sector Name	Disbursement
Agriculture	1,209,371,024.67
Education	959,069,125.15
Electric Power & Other Energy	2,032,134,471.53
Environment	393,294,631.60
Finance	1,549,007,010.96
Industry	145,961,005.34

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IDA Gross Disbursements by Sector for FY97

Sector Name	Disbursement
Agriculture	1,144,073,199.60
Education	754,717,563.68
Electric Power & Other Energy	410,130,680.51
Environment	181,950,294.34
Finance	330,265,296.72
Industry	63,488,298.71
Mining	29,836,169.16
Multisector	673,387,038.10
Oil & Gas	45,514,909.91
Population, Health & Nutrition	461,332,834.75
Public Sector Management	319,157,474.42
Social Sector	278,785,192.76
Telecommunications	37,154,916.78
Transportation	575,112,117.85
Urban Development	367,178,302.81
Water Supply & Sanitation	305,883,708.44
sum	5,977,967,998.54

16 rows selected.

Date: Mon, 7 Jul 1997 16:50:12 GMT
From: SIMHA <SIMHA%1323%MRGATE%EARTH@mrgw.worldbank.org>
Subject: IBRD and IDA disbursements for FY97
To: "SHRI SIMHA%A1%WBWASH"@mrgw.worldbank.org
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Importance: normal
A1-type: MAIL

IBRD and IDA Gross Disbursements by Region for FY97
All Amounts in US\$

Region Name	Disbursement
AFRICA	2,479,304,398.35
EAST ASIA AND PACIFIC	4,138,415,332.69
EUROPE AND CENTRAL ASIA	4,452,941,567.23
LATIN AMERICA AND CARIBBEAN	5,017,828,872.69
MIDDLE EAST AND NORTH AFRICA	1,214,244,513.61

OTHER	11,566,939.32
SOUTH ASIA	2,673,109,634.29

sum	19,987,411,258.18

7 rows selected.

July 7, 1997

page

1

IBRD and IDA Gross Disbursements by Sector for FY97

Sector Name	Disbursement
-----	-----
Agriculture	2,353,444,224.27
Education	1,713,786,688.83
Electric Power & Other Energy	2,442,265,152.04
Environment	575,244,925.94
Finance	1,879,272,307.68
Industry	209,449,304.05
Mining	704,613,235.55
Multisector	1,786,325,801.13
Oil & Gas	564,390,696.25
Population, Health & Nutrition	1,097,218,442.49
Public Sector Management	1,142,077,367.26
Social Sector	755,694,860.45
Telecommunications	253,186,110.35
Transportation	2,452,462,535.45
Urban Development	1,051,202,173.43
Water Supply & Sanitation	995,210,493.69
	11,566,939.32

July 7, 1997

page

2

IBRD and IDA Gross Disbursements by Sector for FY97

Sector Name	Disbursement
-----	-----
sum	19,987,411,258.18

17 rows selected.

To: David M. Theis
cc: Luisita I. Guanlao

**JOHN
DONALDSON**
07/09/97 09:51 PM



To: Mark Malloch Brown/Person/World Bank@WorldBank, Matthew F. Mchugh/Person/World Bank@WorldBank, Sven Sandstrom/Person/World Bank@WorldBank, Paula Donovan/Person/World Bank@WorldBank, Judith A. Maguire/Person/World Bank@WorldBank, Michael R. Lav/Person/World Bank@WorldBank, Peter L. Stephens/Person/World Bank@WorldBank, Klas S. Bergman/Person/World Bank@WorldBank, Craig Mauro/Person/World Bank@WorldBank
cc: Jan Piercy/Person/World Bank@WorldBank, Michael Marek/Person/World Bank@WorldBank
Subject: House Appropriations Markup

The House Appropriations Committee met this afternoon and ordered reported to the full House their version of the FY98 Foreign Operations Appropriations bill. With the exception of four pieces of report language and a technical amendment, offered by Chairman Callahan with Democratic clearance, no amendments to the Subcommittee bill were approved. The only substantive amendment offered and debated was by Rep. Torres, and sought to prohibit funding for the School of the Americas (a perennial issue). The amendment was defeated, 21-23, after heated debate.

Despite the fact that the Subcommittee bill was approved with only very minor and -- for us -- irrelevant changes, there are a number of very significant points to mention from the day's events.

First, the troubling language on the release of the ITF funds as a condition on release of the appropriations has been resolved, using the language which we prepared and which was cleared with Treasury. The appropriation is still contingent on the release of all of the setaside ITF funds, but no figure, in either dollars or SDRs, is mentioned.

Second, Chairman Callahan and Ranking Democrat Pelosi both made specific reference to IDA in their statements -- both suggesting very strongly that upward adjustments on the funding level could be realized later in the process. Chairman Callahan, as we have believed to be the case for some time, is intent on bringing a bill to the House floor which is less, in real terms, than the bill approved last year. However, he has made it perfectly clear that he expects that the bill will increase in conference with the Senate.

Here are excerpts from Callahan's opening statement (a full copy of the statement will be faxed to you on Thursday):

"Mr. Chairman, the Foreign Operations Subcommittee brings you a bill that does four things: It is less than last year's bill; it gives the President and the Secretary of State maximum flexibility; it reflects the vast majority of the concerns that Committee members shared with me and Mrs. Pelosi; and it preserves the Child Survival and Disease Programs Fund and increases it by \$50 million.

"The Administration's request is \$16.8 billion. The subcommittee's discretionary allocation is \$12.5 billion. Our recommendation is \$12.267 billion, or \$87 thousand less than the fiscal 1997 enacted total.... The Senate allocation for this subcommittee is \$13.2 billion -- \$700 million more than the House. So we have reserved \$233 million from our allocation for the inevitable compromises we will have to make in conference, especially for OPIC and IDA.

"Our recommendation does not include the Administration's \$3.5 billion New Arrangement to Borrow (or NAB), the US share of a stand-by international loan for the International Monetary Fund. That \$3.5 billion accounts for most of the difference between the Subcommittee recommendation and the Administration request. Under the Congressional Budget Resolution, inclusion of the NAB in a bill or conference report filed by this Committee will automatically cause the Committee's 602

allocation to be increased by \$3.5 billion. This is similar to other provisions in the VA-HUD and Commerce-Justice-State bills, and for the multilateral banks in this bill.

"The request for IDA is \$1.034 billion. The Subcommittee recommends \$606 million for IDA, which is \$94 million less than the current level. I am willing to look at this again when all IDA procurement is open to American companies.... As with the NAB, the Budget Resolution automatically adjusts our discretionary allocation for any IDA appropriation above \$800 million. As the Senate has \$950 million for IDA, that is \$150 million (the amount above \$800 million) that will be added to their allocation. The Budget Resolution also provides for an automatic increase in our allocation if the conference agreement includes \$50 million in past due payments for the Asian Development Fund and \$30 million for the Inter-American Bank's Multilateral Investment Facility."

Mrs. Pelosi made the following points during her opening statement:

The bill contains compromises on a number of controversial accounts. She commends the Chairman, but has some remaining concerns which she will seek to address "as the process continues."

Primarily, she is concerned that the total level of funding for the bill is less than the President's request. The Budget agreement with the White House called for full funding for the President's international affairs request, and this falls short of that -- at least at this point.

She has specific concerns about a number of accounts: IDA, the GEF, funding for the NIS, and the African Development Fund. She has praise for the funding for the remaining MDB accounts, which she noted is a "high priority for the Secretary of the Treasury," and for funding for Latin America and Africa in the bill.

It is clear from the dynamics of the markup that we have several reasons to be optimistic that the ultimate level of funding for IDA by the conference committee will be much better than the current level in the House bill. Indeed, the provisions of the Budget Resolution will maintain the option for full funding into conference. There remains the danger that some restrictive amendments could be offered in either the House or Senate when the bills are considered on the floor. In both the case of the House and Senate, it is possible that the legislation will be on the Floor by the end of next week. We will be working closely with the Treasury Department to prepare for any possible amendments on the Floor, although none are known at this time.

Statement by Chairman Callahan
Full Committee Markup
July 9, 1997

Mr. Chairman, the Foreign Operations Subcommittee brings you a bill that does four things:

- it is less than last year's bill;
- it gives the President and the Secretary of State maximum flexibility; and
- it reflects the vast majority of the concerns that Committee members shared with me and Mrs. Pelosi.
- It also preserves the Child Survival and Disease Programs Fund and increases it by \$50 million.

The Administration request is \$16.8 billion. The subcommittee's discretionary allocation is \$12.5 billion. Our recommendation is \$12.267 million, or \$87 *thousand* less than the fiscal 1987 enacted total.. Since we have agreed not to report a bill to the House that increases foreign aid, we are \$4.577 billion below the request.

The Senate allocation for this subcommittee is \$13.2 billion, --\$700 million more than the House. So we have reserved \$233 million from our allocation for the inevitable compromises we will have to make in conference, especially for OPIC and IDA. I also want to note how some provisions that Chairman Kasich put in the Congressional Budget Resolution may affect this bill as it moves through the appropriations process.

Our recommendation does not include the Administration's \$3.5 billion **New Arrangement to Borrow** (or NAB), the U.S. share of a stand-by international loan for the International Monetary Fund. That \$3.5 billion accounts for most of the difference between the Subcommittee recommendation and the Administration request. Under the Congressional Budget Resolution, inclusion of the NAB in a bill or conference report filed by this Committee will automatically cause the Committee's 602 allocation to be increased by \$3.5 billion. This is similar to other provisions in the VA-HUD and Commerce-Justice-State bills, and for the multilateral banks in this bill.

The Banking Committee is expected to report an authorization for the NAB later this month. It is in the Senate bill, and if the Administration works at explaining this to the House and the American people, it is something we will consider in conference.

The request for **IDA** (the International Development Association of the World Bank) is \$1.034 billion. The Subcommittee recommends \$606 million for IDA, which is \$94 million less than the current level. I am willing to look at this again when all IDA procurement is open to American companies. At the moment American companies can not compete for at least \$1 billion worth of contracts.

As with the NAB, the Budget Resolution automatically adjusts our discretionary allocation for any IDA appropriation above \$800 million. As the Senate has \$950 million for IDA, that is \$150 million (the amount above

\$800 million) that will be added to their allocation. The Budget Resolution also provides for an automatic increase in our allocation if the conference agreement includes \$50 million in past due payments for the Asian Development Fund and \$30 million for the Inter-American Bank's Multilateral Investment Facility.

In most other respects, our bill does not differ a great deal from last year's bill.

We provide \$752.6 million for export and investment programs, but we defer action on the \$60 million subsidy appropriation for OPIC (the Overseas Private Investment Corporation) until the authorizing committee takes some action to extend the sunset provision that shuts OPIC down on September 30th of this year.

There is \$2.045 billion for bilateral development assistance, of which \$650 million is for the Child Survival and Diseases Programs Fund. The increase of \$50 million is for efforts to fight infectious diseases. Again, this year we include at least \$100 million for UNICEF in the Child Survival account, and have included language to preserve UNICEF's independence.

We have not made any changes in last year's language for Israel and Egypt. As before, there are no earmarks anywhere in the bill. There is no specific language for Jordan in the bill, other than the final \$27 million for debt rescheduling. Mrs. Pelosi and I are working with the Administration on how to help Jordan, but I want to make clear that I am not willing to increase

the overall amount for the Middle East. I believe that the Administration understands and agrees with that.

I know that several of our members would have liked to fund several of the multilateral banks at higher levels. We couldn't do that and stay within last year's level. I know we will look at those levels again in conference.

We have no bill language reserving specific amounts for Africa or for Latin America. Our report directs that an additional \$20 million provided for Development Assistance go to Latin America. It also increases funds for the Africa Development Foundation and the African Development Fund. We think that is fair and equitable.

Finally, we responded to the many requests for more microenterprise funding by directing AID, in report language, to use at least another \$10 million for microenterprise.

Mr. Chairman, at the appropriate time, I will offer an en bloc amendment that has been cleared by the ranking minority Member.

FUNDING LEVELS FOR MDB ACCOUNTS IN HOUSE FOREIGN OPERATIONS BILL, COMPARED TO SENATE AND REQUEST

(As of June 25, amounts in US\$ millions)

Account	FY1997	Clinton Request	Sen.Bill	House Sub.
IDA	\$700	\$1,034.5	\$950	\$660*
GEF	\$ 35	\$ 100	\$ 60	\$ 35
IDB	\$ 25.6	\$ 25.6	\$ 25.6	\$ 25.6
FSO	\$ 10	\$ 20.8	\$ 20.8	\$ 20.8
MIF	\$ 27.5	\$ 30	\$ 30	\$ 0**
ADB	\$ 13.2	\$ 13.2	\$ 13.2	\$ 13.2
ADF	\$100	\$150	\$140	\$ 100***
AfDF	\$ 0	\$ 50	\$ 0	\$ 25
EBRD	\$ 11.9	\$ 35.8	\$ 35.8	\$ 35.8
NADBank	\$ 56	\$56.5	\$ 56.5	\$ 56.5
MEDBank	\$ 0	\$52.5	\$ 0	\$ 0
	(transfer from ESF)			
IMF ESAF	\$ 0	\$ 7	\$ 0	\$ 0
IMF NAB	\$ 0	\$3,521 (BA only)	\$3,521	****
IO&P	\$ 269.9	\$299	\$277	\$194

* Chairman indicated in opening statement that IDA arrears would be addressed "at the appropriate time" under the provision of the Budget Resolution that allows funding of arrears outside allocation ceilings.

** Report Language that states that funding request is for arrears, and that the request will be dealt with under the provision which addresses that issue.

*** Report Language that states that \$50 million of funding request is for arrears, and will be dealt with under the provision which addresses that issue.

**** The NAB is not mentioned in the Chairman's markup notes.

EUROPEAN DEVELOPMENT HIGHLIGHTS

A MONTHLY BRIEFING FROM THE EUROPEAN OFFICE

Volume 2, No.11

July, 1997

OECD: ODA HITS RECORD LOW, PRIVATE FLOWS REACH RECORD HIGH

Official development assistance (ODA) flows from OECD member countries fell to a record low in 1996, according to preliminary OECD statistics published in June. The drop in ODA coincided with a record rise in private capital flows to developing countries.

The OECD's preliminary figures brought bad news to ODA advocates. The figures show that total net ODA fell to \$55.1 billion in 1996 from \$58.9 billion the year before, marking a 4 percent drop in real terms. Meanwhile, the average ODA/GNP ratio sank to 0.25 percent in 1996 from 0.27 percent in 1995, representing the lowest ratio recorded in the nearly 30 years since the UN established the 0.7 percent goal.

But while ODA fell in 1996, the OECD numbers confirm the growing importance of private capital flows to the Third World. The OECD, which based its numbers on both its own figures and data from the Bank of International Settlements, estimates private flows leaped by \$80 billion in 1996, pushing the total annual flows to some \$234 billion. That represents a 40 percent rise from 1995. In real terms, the OECD says, private flows are now higher than their previous peak in 1981, before the Mexican debt crisis.

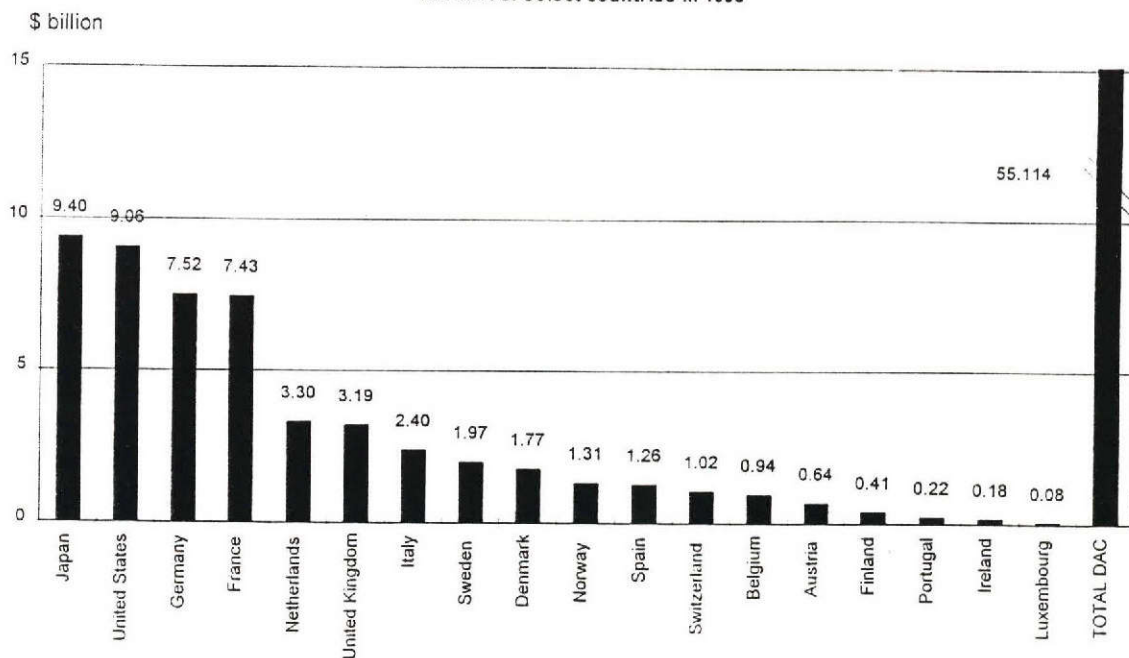
The fall in ODA and the sharp rise in private flows have dramatically changed the makeup of net resource flows to developing countries. In 1988, for example, official flows accounted for 64 percent of overall transfers while private flows made up the remainder. But last year, official flows accounted for only 22.6 percent of overall flows while private flows made up 76.2 percent.

Much of the global decline in ODA in 1996 was due to Japan's reduction of aid by 25 percent in real terms, the OECD figures show. This was caused by a sharp drop in Japanese contributions to multilateral agencies and significantly lower net flows of bilateral ODA loans due to rising repayments. But Japan was not the only OECD country to contribute to the ODA decline. Australia, Austria, Canada, France and Portugal also turned in lower ODA figures for the year.

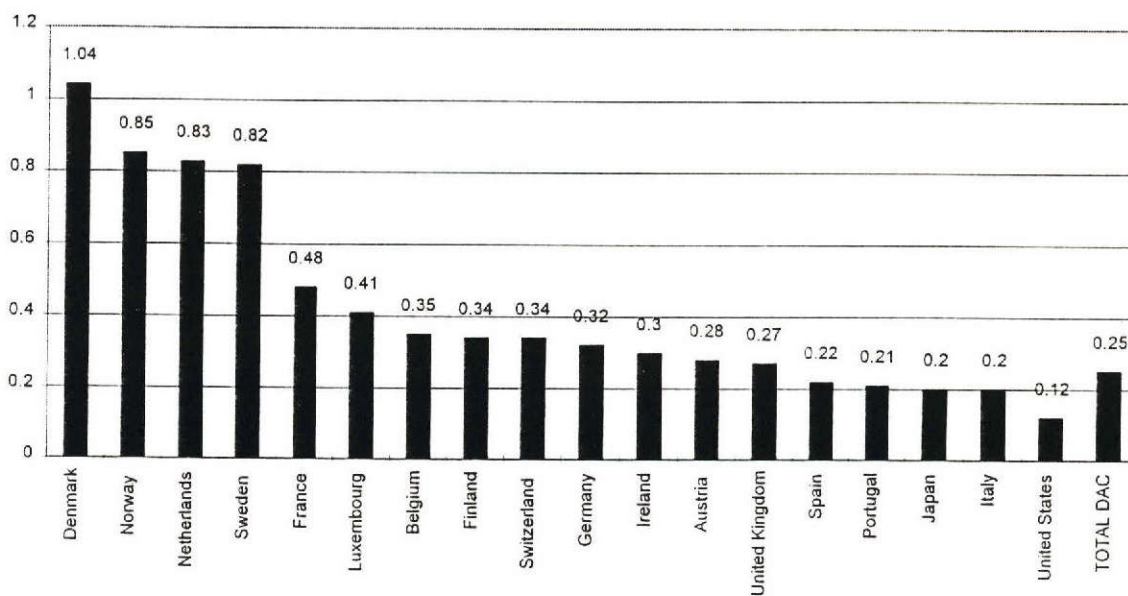
While ODA fell overall, though, there were some signs of hope. Aid rose in real terms in 10 of the 21 Development Assistance Committee member countries in 1996. These included several countries which had seen falling ODA levels in previous years, such as Finland, Germany and Sweden. The biggest gains came in Italy and the US, both of which made up for low contributions to multilateral agencies in 1995. Italian aid jumped 33.9 percent and US aid rose by 20.6 percent in 1996.

Overall, Japan remained the number one aid donor in real terms. But the rise in US contributions pushed the US up from the number four spot in 1995 to the number two ranking in 1996. France, meanwhile, fell from its number two spot to number four behind Germany which stayed at number three in real terms. In ODA/GNP rankings, Denmark remained the top aid donor, followed by Norway, The Netherlands, Sweden and France. The OECD's preliminary figures come out every June. The formal report

Net ODA of select countries in 1996



As % of GNP



showing the final statistics for 1996 will be published in January, with full analyses of individual country performances. Following are some charts based on the OECD statistics.

Flows to developing countries in 1996

