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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Briefing Notes for James D Wolfensohn [JDW] - Follow-Up on Hill Visits - March

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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: Briefing Notes for James D. Wolfensohn - follow-up on Hill Visits

DATE: 03/31/95

Black Binder prepared by EXT - Contents:

- Follow-up to Hill Visits
- "How to Win" strategy for passage of World Bank legislation
- War Room in EXT
- Committee/Staff Lists
- Prototype of black book entry on Senators/Congressmen
- Editorials/Op-Eds Generated by the Bank
- Bank Materials:
 - *Common Interests
 - *Issues Briefs
 - *Talking Points
- Cato Institute

SUBSEQUENT CORRESPONDENCE:

- Memo to JDW from Matthew McHugh (3/20/95)
 - *Status of IDA Legislation on the Hill
- Memo to JDW from Matthew McHugh (3/23/95)
 - *Further Background Information for Hill Visits
- Memo to JDW from Matthew McHugh (3/27/95)
 - *Background Information for our Visits on the Hill
- Memo to JDW from Matthew McHugh (4/13/95)
 - *A Second Day of Meetings on the Hill

C. VPU

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D. EXTERNAL PARTNER

OFFICE MEMORANDUM

DATE: April 13, 1995

TO: Mr. James D. Wolfensohn

FROM: Matthew F. McHugh



EXTENSION: 80309

SUBJECT: **A Second Day of Meetings on the Hill**

As you and Jane wrestle with the complexities of your schedule, I hope that you will consider at least another half-day of meetings on the Hill. The Senate will reconvene the week of April 24, with the House coming back the following week. Thus, one day in early May would be most advantageous, if you can manage it.

Shortly after Congress returns we anticipate that relevant committees of the House and Senate will begin to consider the FY96 Budget Resolution and, hopefully, the authorization for the third year of IDA 10. The House subcommittee chaired by Rep. Callahan will likely mark-up the foreign aid appropriations bill later in May. Accordingly, while many judgments will not be finalized until the Fall, important preliminary decisions will be made starting next month.

With your help, we have met with many of the key legislators and staff on the House side. This effort will continue, but, given the limited time that you may have available, I would like to put a priority on your meeting with Senators. The only exceptions would be a meeting with Speaker Gingrich, if one can be arranged, and perhaps with Charlie Wilson.

On the Senate side, I see the following Committees and individuals as most important:

(1) Senator Dole. Given the obvious demands on his schedule, this will be difficult to arrange. When we had lunch on the Hill, there was some mention of your calling either Brent Scowcroft or Nick Brady to help put this together. This might be necessary if we decide to pursue Senator Dole.

(2) Foreign Relations Committee. We are advised that Senator Helms plans to begin mark-up of two bills in early May, the foreign aid authorization bill and the State Department reorganization bill. He is anxious to have bipartisan support from Senators like John Kerry and Diane Feinstein, and in this context may be willing to include the IDA authorization in the foreign aid bill if they urge him to. With this in mind, it would be helpful if we could arrange meetings for you with Senators Helms, Kerry, Feinstein, Lugar, and Kassebaum. Sen. Sarbanes is an IDA supporter, and would be pleased to see you, but he is likely to oppose Helms' initiatives because of

his opposition to the State Department reorganization. We will get more information from staff on all of this over the next few weeks.

(3) Budget Committee. As noted in a prior memo, the Budget Resolution does not usually identify spending for particular accounts, but rather sets a ceiling for all discretionary spending in the aggregate. The Appropriations Committee then allocates spending among the various appropriations functions, including foreign aid. However, there are some legislators who would like the Resolution to give more specific instructions on which programs to cut. We are hopeful that normal procedures will be followed. With this in mind, it would be helpful to see Senator Domenici, the Chairman of the Committee.

(4) Appropriations Committee. The Foreign Operations Subcommittee usually does not schedule its mark-up until after the House has passed its bill. In most years this means a mark-up in September. It could come sooner, but probably not before June or July in any case. At some point we should see Senators McConnell and Leahy, the Chairman and Ranking Member, respectively, but under the circumstances they are not as high a priority now as the others. We will also want to take advantage of the offer by Senator Hatfield to host a lunch for you with a number of his Appropriations Committee members.

In discussing your schedule with Jane, it seems that the best I can hope for is to get you for a full morning in early May, including perhaps a breakfast and lunch. If you are able to identify a day in early May, we will immediately work to arrange meetings with as many of the foregoing legislators as possible. As you requested, we will have a briefing book available for your review before those meetings.

cc: Mss./Messrs. Sven Sandstrom, Gautam S. Kaji, Richard Frank (EXC); Johannes Linn (FPRVP); Paula Donovan (FRMDR); Mark Malloch Brown, Judith Maguire (EXT)

SCHEDULE
FOR TUESDAY, MARCH 28, 1995

- 9:30. **Rep. Jim Leach** (R-Iowa), Chairman, Committee on Banking and Financial Services, Room 2186 Rayburn
- 9:50 **Rep. Michael Castle** (R-Del.), Chairman, Subcommittee on Domestic and International Monetary Policy of the Banking Committee, Room 1207 Longworth
- 10:15 **Rep. Bob Livingston** (R-La.), Chairman, Appropriations Committee, Room H218 Capitol
- 11:00 **Rep. David Obey** (D-Wis.), Ranking Democrat, Appropriations Committee, Room 2462 Rayburn
- 12:00 **Rep. Sonny Callahan** (R-Ala.), Chairman, Foreign Operations Subcommittee of Appropriations Committee, Room H144 Capitol
- 12:30-2 **Luncheon** at La Colline, 400 N. Capitol St., NW, with Republican staff members of key House and Senate committees.

Confirmed:

Jim Dyer, Staff Director, House Appropriations Committee
Charlie Flickner, Staff Director, House Foreign Operations Subcommittee
Jim Bond, Staff Director, Senate Foreign Operations Subcommittee

Also Invited:

Gardner Peckham, Speaker Gingrich's Staff
Robin Cleveland, Senator McConnell's Staff

- 2:15 **Rep. Charlie Wilson** (D-Tex.), Ranking Democrat, Foreign Operations Subcommittee of the Appropriations Committee, Room 2256 Rayburn
- 3:00 **Sen. Patrick Leahy** (D-Vt.), Ranking Democrat, Appropriations Committee, Room 433 Russell

OFFICE MEMORANDUM

DATE: March 27, 1995

TO: Mr. James D. Wolfensohn

FROM: Matthew F. McHugh 

EXTENSION: 80309

SUBJECT: **Background Information for our Visits on the Hill**

Our schedule for Tuesday has now been finalized and I am attaching the schedule for your reference. As you know, unanticipated meetings and roll call votes could require last minute adjustments, but at the moment the schedule looks firm. Unless I hear from you to the contrary, Jane and I will plan to meet you at 8:15 a.m. upon your arrival at National Airport.

Since this will be your first Hill visit in connection with Bank business, I should alert you to cautions previously expressed to me by Mr. Shihata. He takes a rather restrictive view of what we may appropriately say and do in contacts with legislators, relying primarily on Article III, Section 2, of our Articles. Among other things, that Section states that the Bank shall deal with its member governments only by or through their Treasury or other similar agencies.

In essence, Mr. Shihata believes that the Bank may provide information to legislators on our activities, particularly in response to requests from them, but that the Bank should not lobby for specific pieces of legislation. This is a fine distinction, to be sure, but one which has guided Bank contacts in the past. It helps to explain why Bank personnel have not been more pro-active previously. Now, given the much greater threat to IDA appropriations, the Treasury and others are pressing us to do much more, and many of us believe that it is in our interest to do so. In fact, we have substantially escalated our contacts on the Hill in recent months, but you should be aware of Mr. Shihata's concerns. When you have more time I will share with you a memo he has written on the subject..

I do not think that there is any problem with your visits tomorrow, which are in the nature of courtesy calls. There won't be much time for detailed discussions in any case. However, for your information I am attaching a set of talking points that highlight many of the facts we have been citing to demonstrate how the Bank serves U.S. interests. You cannot possibly cover all of these in our meetings, but you may want to touch on a few that strike you as particularly persuasive.

You may wish to consider, for example, the following points:

- (1) As the Bank's new President, you are anxious to have the advice, understanding, and support of Members of Congress. This is the reason you are taking this early opportunity, even before assuming office, of meeting with key members and staff.

- (2) You recognize that Congress is faced with some tough decisions on spending and that all programs, including U.S. support for the Bank, must meet the test of effectiveness in promoting U.S. interests.
- (3) U.S. leadership in the Bank has enabled it to be the single most significant actor in promoting economic reform and growth in the developing world, and in reducing poverty through its technical advice and lending for education, health, and other human resource projects. This has been of direct benefit to the United States, as for example in contributing to the expansion of its export markets.
- (4) Although most of the Bank's resources are raised in the private capital markets, its ability to promote growth and development in the poorest countries is dependent on appropriations for IDA. U.S. appropriations are critical for IDA because for every dollar the U.S. contributes, four additional dollars are contributed by other countries. If the U.S. substantially cuts back on its commitments, other countries will likely do the same and valuable ground will be lost in developing countries just when many of them are beginning to pursue sound economic and political reforms.
- (5) At a time of constrained budgets, both here and in other donor countries, it is particularly important to apply limited resources to those programs that have the greatest impact and return on investment. Because U.S. contributions to the Bank leverage so many other resources for development, they have the greatest impact and return.
- (6) You are determined to make the Bank an even more effective and efficient institution, but at this critical moment you would appreciate a vote of confidence from the Congress. Your first days as President will be determined, at least in part, by Congress' support for the commitments previously made by the U.S. to IDA.

Finally, since my last memo there has been one legislative development that you should be aware of. On Friday, the Senate Appropriations Committee marked-up the second rescission bill, which differs considerably from its House counterpart. In addition to providing greater protection to certain popular domestic programs, the Senate bill would recapture \$100 million in previously appropriated foreign aid funds. However, the decision as to which accounts will bear the burden of this rescission is left to the Administration. I would expect that prior to conference between the House and Senate there will be negotiations between the conferees and the Administration to more particularly identify these accounts. Of course, the bill could also be modified on the Senate floor.

Attachments

cc: Mss./Messrs. Sven Sandstrom, Gautam Kaji, Richard Frank (EXC), Johannes Linn (FPRVP); Paula Donovan (FRMDR), Mark Malloch Brown, Judith Maguire (EXT)

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TALKING POINTS

The World Bank: A Solid Financial Institution

The World Bank is a bank, not a foreign aid agency. Millions of Americans, through U.S. pension funds, are investors in World Bank bonds, and for good reason:

- World Bank bonds have a AAA rating with Moody's and Standard & Poor's. This has enabled the Bank to raise close to \$100 billion from private capital markets, which finances 75% of its lending operations.
- The Bank does not write off debt nor reschedule loans.
- 98% of its loans are current. Loan disbursements stop when a country is 60 days in arrears.
- No borrower has ever defaulted on a Bank loan.
- The Bank is cutting costs, reducing administrative expenses 12% over the next two years.

U.S. Contributions to the World Bank: A Good Investment in Tight Budgetary Times

In tight budgetary times, the U.S. contribution to the World Bank is an even better investment:

- The Bank gives the "biggest bang for the buck" in developing U.S. export markets: for every dollar contributed by the U.S., other nations contribute \$5. In addition, most of the Bank's resources are not raised from governments, but from capital markets and loan repayments. There is no similar leverage for U.S. bilateral assistance.
- Every dollar contributed supports over \$60 in development financing from other sources.
- U.S. interests are well-protected at the Bank: the United States is the Bank's biggest shareholder, with 17% of the votes.

The World Bank Invests Where It Counts: Developing U.S. Jobs & Export Markets

Over 80% of the world's population lives in the developing world, which accounts for 50% of the world's purchasing power. The World Bank has invested wisely in the developing world, and the U.S. has been a major beneficiary:

- More than 40% of U.S. exports go to developing countries. This total has doubled in just the last seven years, from \$91 billion to \$197 billion.
- U.S. exports to developing nations account for 4 million American jobs.
- U.S. exports to countries receiving Bank loans have grown an average \$5.6 billion a year.

American firms also benefit directly from Bank-financed projects:

- U.S. businesses have received almost \$23 billion in procurement contracts since the Bank began.
- Recent contract awards include: a \$155 million contract for the McDermott Company of Louisiana to provide steam generating equipment in China; a \$190 million contract for the M. W. Kellogg firm in Houston for a fertilizer facility in Indonesia; a \$21.5 million contract for MUCIA, a consortium of 10 midwestern universities, for a Malaysian educational center.

Growth of U.S. Exports is No Accident: The Bank's Pro-Growth Loan Conditions

The World Bank sets strong, pro-growth conditions for its loans. Again, this has had a direct payoff for U.S. businesses:

- The Bank has made some 250 loans to 75 different countries which include conditions for trade liberalization. These loans went to countries that imported one-fourth of total U.S. exports.
- Overall, U.S. exports to these countries increased 12% a year after these policy-based loans were implemented.
- Over a six-year period, U.S. exports to countries receiving these loans increased from \$55 billion to \$99 billion a year.

IDA – Investing in Tomorrow's Markets

A World Bank affiliate – the International Development Agency (IDA) – makes loans to the world's poorest nations; 85% of its loans are made to countries where per capita incomes average about \$40 a month.

- In 1994, the U.S. contributed just over one billion dollars to IDA. For every dollar contributed by the U.S., other nations contributed four dollars.
- IDA has been a good investment for the United States, creating new demand for American products. For American firms, workers and farmers, IDA has invested where it counts.
- In 1993, U.S. exports to IDA borrowers totaled \$20.3 billion, a 40% increase over the last six years.
- IDA "graduates" countries when their per capita income exceeds a certain level. The 20 countries which have graduated from IDA bought \$42 billion in U.S. exports in 1993.

Setting the Stage for Economic Growth

The U.S. can't expect to export its products to countries with a population that's too poor, too sick, or too uneducated to make the transition to a healthy, growing economy.

Let's look at the facts:

- One billion people in the developing world still live on less than \$1 a day.
- One billion people do not have access to safe drinking water; 1.7 billion lack adequate sanitation facilities.
- Within the next generation, three billion more people will be added to the five billion already on the planet – and 90% of those three billion will be in the poorest countries.

Children suffer the most:

- Nearly eight million children die each year from diseases linked to dirty water and air pollution.
- Fifty million children are mentally or physically impaired because of inadequate nutrition, and 56% of child deaths are caused by malnutrition.
- In places like Sub-Saharan Africa, one child in six dies before they are five years old.
- By 1998, roughly 150,000 children will have died of AIDS and another 300,000 will be infected with the virus.
- More than 130 million children do not get the chance to go to school, and 80% of those children are girls.

The World Bank helps set the stage for economic growth by improving basic living standards, through investment in education, health, nutrition and infrastructure:

The Bank is now the largest external financier of health, education, and nutrition programs in the world:

- Bank lending in these areas has increased to \$3 billion a year, and will grow by 50% in the next three years.
- The Bank is the biggest single source of external lending for education in the developing countries. Education lending has more than doubled in recent years averaging \$2 billion annually in 1989-94.
- The Bank is the world's largest lender for AIDS prevention and control; total lending now approaches \$600 million.

The World Bank and IDA: Protecting the Environment

- Since 1986, the Bank has invested \$9 billion in environmental projects – \$2.5 billion in 1994 alone.
- Lending for pollution control and the urban environment totaled \$2.7 billion in the last two years.
- Some \$1.4 billion in lending over the same period helped to protect natural resources and the rural environment.
- The Bank backs the preparation of comprehensive environmental action plans for all IDA recipient countries. By mid-1994 more than 30 countries had prepared such plans, and that number is expected to double in this year alone.
- A recent World Wildlife Fund report concluded: “continued participation of the U.S. in the financial support of IDA is a sound and cost-effective investment in global economic, political and environmental security.”

IDA Investments Have Produced Real Successes

- Private investors look to IDA to set the conditions that will force African governments to operate with greater accountability, respect the rule of law, enforce contracts and property rights, and govern more consistently and less arbitrarily.
- IDA is in the forefront of the battle to promote market reforms and an end to state domination of African economies. About 25% of IDA lending for Africa supports these reforms. And these loans are beginning to show results.
- Between 1988 and 1993, 21 countries undertaking reforms in Africa had positive growth – and half of them had growth rates of 4-5%.
- In IDA-supported countries, infant mortality rates have dropped by about 50% and life expectancy has increased by eight years.
- Since 1970, with help from IDA, 47% more people have access to safe water.
- IDA school programs have helped boost primary school enrollment by 36%.
- With a billion people still living in desperate poverty, support for the World Bank and IDA helps create jobs, boost exports, build markets, promote economic reform, and improve the quality of life for the poorest people of the world. It is one of the best investments the U.S. can make.

OFFICE MEMORANDUM

DATE: March 23, 1995

TO: Mr. James D. Wolfensohn

FROM: Matthew F. McHugh 

EXTENSION: 80309

SUBJECT: **Further Background Information for Hill Visits**

Our schedule of appointments on the Hill next Tuesday is progressing, and I am hopeful that we will have a productive day. I will provide you with a final schedule prior to that time, as well as a set of talking points for your consideration. In the meantime, I am attaching for your information a list of House and Senate members that Shelley Feist provided and which is indexed to indicate the nature of your prior contacts with these members. Also attached are the membership lists for the House and Senate committees that have some relevance to the Bank.

I have given some thought to your attendance at the Gridiron dinner and to which members you might give special attention if you have the opportunity. In addition to members of the Republican leadership, particularly Senator Dole and Speaker Gingrich, I think it would be most beneficial to touch base with members of the two Appropriations Committees. As you know, we are concerned about the rescission bills which potentially could recapture up to \$617 million from last year's IDA appropriation. As you will recall from my earlier memorandum, although neither of the two rescission bills passed by the House affect IDA, the first rescission bill passed by the Senate would recapture \$70 million from IDA. We expect the Senate Appropriations Committee to shortly be working on the second rescission bill, and there could be a conference between the House and Senate on these rescissions prior to the Congressional recess which begins on April 7. We are advised by Senate staff that there is no plan to include IDA in the second rescission package, but this is no guarantee.

Accordingly, if you have the opportunity to see them at the dinner, it would be useful to talk with Senators Hatfield, McConnell and Leahy, as well as Representatives Livingston, Callahan and Wilson.

Please let me know if you would like additional information before Tuesday.

Attachments

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Jon D. Fox, PA
Frank A. LoBiondo, NJ
J. C. Watts, Jr., OK
Sue W. Kelly, NY

Floyd H. Flake, NY
Barney Frank, MA
Joseph P. Kennedy II, MA
Carolyn B. Maloney, NY
Lucille Roybal-Allard, CA
Thomas M. Barrett, WI
Cleo Fields, LA
Melvin L. Watt, NC

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THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: March 20, 1995

TO: Mr. James D. Wolfensohn

FROM: Matthew F. McHugh, EXC *mfhc*

EXTENSION: 80309

SUBJECT: **Status of IDA Legislation on the Hill**

Meeting
- Complete
Matt's memos

- sorted for
duplicates/relevance
- 1 pkg Early Briefing
IDA

U.S. contributions to the International Development Association (IDA) are our primary concern on Capitol Hill this year. Pursuant to the current international agreement to replenish IDA (IDA 10), the U.S. has pledged a total of \$3.75 billion over three years, i.e., \$1.250 billion in each of the U.S. fiscal years 1994, 1995 and 1996. Last year's foreign aid bill for FY95 appropriated \$1.235 billion, and the Administration has requested the full \$1.250 billion for FY96, plus an amount to cover some arrears.

With respect to FY95, one-half of the IDA appropriation (\$617.5 million) is vulnerable to a series of rescission bills now being considered by Congress. A rescission is a bill to recapture a prior year appropriation that has not yet been committed or obligated. IDA is vulnerable because of language in last year's bill which fenced off one-half the appropriation pending a certification by the U.S. Treasury that the Bank is implementing certain reforms. Since Treasury may not certify until April 1, 1995, these funds have not been committed and thus remain subject to a rescission until at least that date.

With respect to FY96, the Administration's budget request of \$1.250 billion to cover the third year of IDA 10 is dependent on both an authorization and an appropriations bill. The first two years of IDA 10 have been authorized, but authorization of the third year was withheld to maintain pressure on the Bank to implement reforms in which certain members of Congress have an interest.

Thus, of the \$3.75 billion the U.S. has pledged to IDA 10, a total of \$1.8675 billion (plus some arrears) remain subject to Congressional review this year.

These IDA funds are at substantial risk because of circumstances that are both historic and related to the current political climate. Until very recently, the Bank did not make an effort to broadly educate members of Congress on the importance of IDA and its relevance to U.S. interests. This was a mistake and one which we are now attempting to rectify, both in Congress and with constituencies off the Hill. Traditionally, the Bank maintained a very low profile, while the Treasury took the lead in working with a relative handful of key members of Congress to secure the necessary legislation. Although this generally worked

out, it resulted in most legislators being ill-informed or misinformed about the Bank and its mission.

Beyond this pervasive ignorance about the Bank, we now have a situation in which the House Republicans must generate substantial budget cuts to pay for their Contract with America. To make their tax reductions and balanced budget amendment credible, they must produce significant reductions in spending, including cuts in many popular domestic programs. In this context, foreign aid cannot be exempt even though it represents less than one percent of the budget; it also appears to be a special target for many Republicans. Among the foreign aid accounts, IDA is a particularly tempting target because it is the largest item after Israel and Egypt, which represent more than 40 percent of the aid budget and are generally held harmless.

Given these circumstances, it is quite likely that IDA will sustain significant cuts along with many other programs. The challenge we face is formidable, and one in which you must play a vital role. In the short term, we must try to persuade key members of Congress to protect IDA from drastic cuts in the FY95 rescission bills and in the FY96 budget. At the same time, we must put in place an aggressive and sustained campaign to educate more members and their constituencies about the importance of IDA to U.S. interests and leadership. The future of IDA, including IDA 11 which the donors are now negotiating, will be strongly influenced by the success or failure of this effort.

The Status of the Rescission Bills

The House has already passed two rescission bills, neither one of which affects the FY95 appropriation for IDA. The first would recapture about \$2 billion to pay for additions to the defense budget. The second would recapture about \$17 billion in prior appropriations to pay for domestic disaster assistance and to make a downpayment on promised tax cuts and/or deficit reduction.

The Senate has passed one rescission bill, with a second to be considered by the Appropriations Committee as early as this week. Although the first bill went through the Appropriations Committee without touching IDA, an amendment was adopted on the Senate floor which would recapture \$70 million of last year's IDA appropriation. Last Friday, we picked up a rumor that the second bill would seek to recapture additional IDA funds, but in checking with Senate staff we were unable to confirm this.

Our immediate task is to contact key Senate appropriators to keep IDA out of this second bill, and then to persuade conferees in the House and Senate to adopt the House position when they meet to reconcile the differences between the House and Senate bills.

The Status of the FY96 Budget

Last week the House Budget Committee took the first step in the long budget process by completing its version of the FY96 Budget Resolution. Strictly speaking, the Budget Resolution does not directly affect IDA. However, if the Resolution is adopted it will lower the aggregate spending ceilings for discretionary spending by \$100 billion over the next five years. The Appropriations Committee must then allocate spending among the various discretionary accounts, including foreign aid, keeping total appropriations under the spending ceilings set by the Budget Resolution. Because the spending ceilings have been set so low, the Appropriations Committee will of necessity have to cut deeply into many programs.

Moreover, when the Committee reported the Resolution the Budget Committee Chairman, John Kasich of Ohio, released an illustrative list of discretionary programs that he personally believes should be cut to meet the spending targets. This list was not voted on by the Committee, but is an effort by Kasich to demonstrate that the spending ceilings in the Resolution are realistic. Although the list is not binding on Appropriations, and indeed exacerbates tension that has been developing between the two Committees (Appropriations is jealous of its prerogatives), Kasich suggested that the U.S. should terminate its support for IDA. He thereby identified savings of \$2.8 billion over five years, a nebulous figure, but one which reflects his lack of support for IDA.

The Senate Budget Committee has not yet acted, and it is unlikely that its Resolution will have a direct impact on IDA in any case. However, it is our hope that any illustrative list of program cuts released by Senator Domenici will avoid a similar mention of IDA.

As noted earlier, our primary task for FY96 is to obtain an authorization for the third year of IDA 10, as well as a meaningful appropriation. Our main focus, therefore, must be on the two authorizing Committees (Banking in the House and Foreign Relations in the Senate), and on the respective Appropriations Committees. None of these committees has yet acted on the FY96 requests.

The Bank Strategy

As you requested, I have attached to this memo a list of members of Congress and staff that representatives of the Bank have contacted on behalf of IDA. Many have been seen more than once, and will have to be seen again as the process unfolds. The Treasury people have also been diligently working the Hill on our behalf, as have some members of the Bretton Woods Committee.

Also attached is a list of key members of the House and Senate whom we would like you to visit. As you know, we are working to arrange some of these appointments for Thursday. By Thursday we will have a set of talking points for your review and guidance..

Finally, I have attached for your information a brief description of the steps our External Affairs Department has taken to begin putting in place a comprehensive campaign to educate a broader spectrum of constituencies about the Bank. This will complement our efforts on the Hill and, over the longer term, help to mobilize a wide variety of people who can assist us.

I look forward to discussing this with you further, and to working with you in the challenging days ahead.

Attachments

cc: Mss./Messrs. Sven Sandstrom, Gautam Kaji, Richard Frank (EXC), Johannes Linn (FPRVP); Paula Donovan (FRMDR), Mark Malloch Brown, Judith Maguire (EXTDR)

Memos/IDAHILL.jdw

Hill Contacts Already Made by Bank

Representatives of the Bank have contacted the following members of Congress and staff on behalf of IDA (names of Bank representatives are in parenthesis):

The House of Representatives

Rep. Robert Livingston, Chairman of the Appropriations Committee (McHugh, Riddleberger)
Staff: M.L. (Tripp) Funderburk (McHugh)

Rep. David Obey, Ranking Democrat, Appropriations Committee (McHugh)

Rep. Sonny Callahan, Chairman, Foreign Operations Subcommittee of Appropriations (McHugh, Donaldson)
Staff: Charles Flickner (McHugh, Riddleberger)
Nancy Tippins (McHugh)

Rep. Charles Wilson, Ranking Democrat, Foreign Operations Subcommittee (McHugh)
Staff: Kathleen Murphy (McHugh, Riddleberger)
Terry Peel (McHugh, Riddleberger)

Rep. Frank Wolf, Foreign Operations Subcommittee (McHugh)
Staff: Ann Campbell (Donaldson)

Rep. John Porter, Foreign Operations Subcommittee (Donaldson)

Rep. Ron Packard, Foreign Operations Subcommittee (McHugh, Donaldson)
Staff: Chris Peace (Donaldson)

Rep. Jim Bunn, Foreign Operations Subcommittee (Donaldson)
Staff: Jerome Hartle (Donaldson)

Rep. Joe Knollenberg, Foreign Operations Subcommittee (McHugh, Donaldson)
Staff: Martha Harrison (Donaldson)

Rep. Nancy Pelosi, Foreign Operations Subcommittee (McHugh, Donaldson)

Rep. Esteban Torres, Foreign Operations Subcommittee (McHugh)

Rep. John Kasich, Chairman, Budget Committee (Stanton)
Staff: Wayne Struble (McHugh, Jaycox)

Rep. Martin Sabo, Ranking Democrat, Budget Committee (McHugh)
Staff: Susan Warner (McHugh)

Rep. Martin Hoke, Chairman, Republican Budget Task Force on Foreign Aid (McHugh, Stanton, Donaldson)

Staff: Brett Coulson (McHugh, Stanton, Donaldson)

Rep. Susan Molinari, Republican Budget Task Force (McHugh, Stanton, Donaldson)

Staff: Jody Triandiflou (McHugh, Stanton, Donaldson)

Rep. Charlie Bass, Republican Budget Task Force (Donaldson)

Staff: Beth Lang (Donaldson)

Rep. Jim Leach, Chairman, Banking Committee (Stanton)

Staff: Jamie McCormack (Riddleberger)

Tony Cole (Stanton)

Rep. Michael Castle, Chairman, International Development Subcommittee of Banking (Stanton)

Staff: John Lopez (Riddleberger)

Rep. Doug Bereuter, Banking Committee (Stanton)

Rep. Ed Royce, International Development Subcommittee of Banking (Donaldson)

Rep. Barney Frank, Banking Committee (McHugh, Stanton)

Rep. Marge Roukema, Banking Committee (Stanton)

Rep. Lee Hamilton, Ranking Democrat, International Relations Committee (McHugh, Riddleberger)

Staff: Mike Van Dusen (McHugh)

Rep. Henry Hyde, Chairman, Judiciary Committee (Stanton, McHugh)

Rep. Donald Payne, Chairman, Congressional Black Caucus; International Relations Committee (McHugh)

Staff: Frank Kiehne (McHugh)

Rep. Amory Houghton, Ways and Means Committee (McHugh, Stanton)

Rep. Thomas Bliley, Chairman, Commerce Committee (Riddleberger)

Other House Staff Members:

Gardner Peckham, Speaker Gingrich (McHugh, Stanton)

Robert Okun, Speaker Gingrich (McHugh, Maguire)

Lestor Munson, International Relations (Donaldson)

Frank Record, International Relations (Donaldson)

Mauricio Tamargo, Rep. Ros-Lehtinen (Donaldson)

The Senate

Sen. Pete Domenici, Chairman, Budget Committee (Preston, McHugh, Stanton)

Staff: Gregory Vuksich (Riddleberger)

Sen. Mark Hatfield, Chairman, Appropriations Committee (Stanton)

Sen. Richard Lugar, Foreign Relations Committee (McHugh)

Staff: Andy Semmel (McHugh)

Sen. Jim Jeffords, Foreign Relations (Stanton)

Other Senate Staff Members:

Jim Bond, Appropriations Committee (McHugh, Stanton, Riddleberger)

Tim Rieser, Appropriations Committee (McHugh, Malloch Brown, Maguire)

Janice O'Connell, Foreign Relations Committee (Donaldson)

Pam Norick, Sen. Murray (Riddleberger)

Brian Malnak, Sen. Murkowski (Riddleberger)

Suggested Appointments for Mr. Wolfensohn on the Hill

U.S. Senate

Senator Bob Dole, Majority Leader
Senator Pete Domenici, Chairman, Budget Committee
Senator J. James Exon, Ranking Democrat, Budget Committee
Senator Mitch McConnell, Chairman, Foreign Operations
Subcommittee of Appropriations
Senator Patrick Leahy, Ranking Democrat, Foreign Operations Subcommittee
Senator Richard Lugar, Foreign Relations Committee
Senator Nancy Kassebaum, Foreign Relations Committee
Senator Mark Hatfield, Chairman, Appropriations Committee
Senator Fred Thompson, Foreign Relations Committee

U.S. House of Representatives

Speaker Newt Gingrich, Speaker of the House
Rep. Bob Livingston, Chairman, Appropriations Committee
Rep. David Obey, Ranking Democrat, Appropriations Committee
Rep. Sonny Callahan, Chairman, Foreign Operations Subcommittee
Rep. Charles Wilson, Ranking Democrat, Foreign Operations Subcommittee
Rep. Jim Leach, Chairman, Banking Committee
Rep. Michael Castle, Chairman, International Development Subcommittee
Rep. Floyd Flake, Ranking Democrat, International Development Subcommittee
Rep. Doug Bereuter, Banking Committee
Rep. Benjamin Gilman, Chairman, International Relations Committee
Rep. Lee Hamilton, Ranking Democrat, International Relations Committee
Rep. Susan Molinari, Budget Committee

EXTERNAL AFFAIRS - DESIGN OF A US GRASSROOTS CAMPAIGN IN SUPPORT OF IDA

Introduction

By tradition, the Bank has limited its activities on the Hill. That has changed drastically in the last months as Matt McHugh's note indicates.

Perhaps even more significant, however, the new actions outlined below conform to our new strategic positioning: in all our global communications we are moving in a systematic way to escape our reputation as an aid agency and taxpayer burden, and reposition ourselves as an innovative, self-financed bank – a friend of the private sector in all its forms and the poor's advocate in the new “market-based” world.

- EXT has made a substantial investment in a “Boiler Room”, which has greatly enhanced our capacity to get news out to the press, the Hill, and to our allies in the IDA effort. We have purchased software lists of 150,000 U.S. media names, and hope to purchase similar lists for Europe. The Boiler Room has been placed on a campaign “war-footing” and is driving a newly aggressive media, Hill and congressional district and state level strategy. We have also invested in a media analysis service to measure the effectiveness of this increased media activity; it will give us detailed breakdowns by topic and reporter, and give us a “favorability rating” for the coverage.
- We have hired Edelman Public Relations Worldwide to help us design and implement a grassroots campaign in support of the Bank/IDA in the U.S. The firm's resources at our disposal include two seasoned campaign operatives, who worked on the 1994 Republican House Campaign Committee – as issues and media directors. Mike Deaver is also part of this team working on our messages.
- We have undertaken a pilot grassroots outreach effort in two states - Ohio and Texas - which will serve as a model for the future. The pilot is utilizing the services of the Speakers Bureau and the Boiler Room. (This effort is being spearheaded by new EXT staff people.) Richard Frank has

just been in Ohio launching this effort, and Mark Malloch Brown will be in Texas later this week.

- We have established a new Speakers Program to place Bank staff before key business, finance and civic groups throughout the U.S. with an emphasis on states with Congressmen important to us.
- We are working closely with several of our natural allies -- energy and agriculture (commodity) groups. The energy groups have testified in support of the Bank, and written letters on our behalf. The agriculture groups are willing to be helpful in a low-key way with selected Members. The list of allies with whom we are working is expected to expand significantly in the weeks ahead.
- Matt McHugh and Jessica Einhorn are meeting with the Bank's underwriters to explore where they might be of help to us politically. (This is a sensitive area however.)
- Senior Management has given preliminary approval for EXT to launch a "corporate image" advertising campaign for the Bank. The Bank has never advertised, so this is a significant change in approach. EXT is asking for up to \$5 million in budget support for this campaign, and for sponsorship of carefully selected television programming. We consider this investment essential, as both in Washington and internationally, the basic "foundation" knowledge among opinion-makers about the Bank is missing.
- We are expanding our Government Affairs team with the recruitment of a former Treasury legislative staffer, and a Republican consultant. Their work will supplement efforts now underway by Edelman and by two full-time staff and an additional part-time consultant.
- We have reorganized our media relationship managers for U.S. based print and electronic media. This is allowing us to focus on sustained issue management in the media. We are also encouraging coverage of Bank projects in the field -- always a better story than the headquarters story.

- We have organized a Writers' Group, built around senior in-house writer/editors with a strong grasp of substantive issues, supplemented by a pool of freelance writers. The Group is rewriting and redesigning virtually all our public affairs materials, with initial priority on IDA materials.

The fact is though, we are dealing with a new House majority that has no institutional memory of the World Bank, and with the accumulated consequences of neglect of our Hill relations - because it was considered the Treasury's job not the Bank's to cultivate these relations.

KEY MEMBERS OF CONGRESS FOR THE
MULTILATERAL DEVELOPMENT BANKS

HOUSE OF REPRESENTATIVES:

Committee on Appropriations:

Chairman: Bob Livingston (R-Louisiana)
Ranking Member: David Obey (D-Wisconsin)

SubCommittee on Foreign Operations:

Chairman: Sonny Callahan (AL)
Ranking Member: Charlie Wilson (D-Texas)

Committee on Banking and Financial Services:

Chairman: Jim Leach (R-Iowa)
Ranking Member: Henry Gonzales (D-Texas)

Subcommittee on Domestic and International Monetary Policy:

Chairman: Mike Castle (R-Delaware)
Ranking Member: Floyd Flake (D-New York)

SENATE:

Committee on Appropriations:

Chairman: Mark Hatfield (R-Oregon)
Ranking Member: Robert Byrd (D-West Virginia)

Subcommittee on Foreign Operations:

Chairman: Mitch McConnell (R-Kentucky)
Ranking Member: Patrick Leahy (D-Vermont)

Committee on Foreign Relations:

Chairman: Jesse Helms (R-North Carolina)
Ranking Member: Claiborne Pell (D-Rhode Island)

TREASURY



NEWS

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FOR RELEASE UPON DELIVERY

Expected at 10 a.m. EST

February 28, 1995

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN
SUBCOMMITTEE ON FOREIGN OPERATIONS
EXPORT FINANCING AND RELATED PROGRAMS
HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman. Members of the Committee. I am pleased to present the Administration's FY 1996 appropriations request for the multilateral development banks. Our request of \$2.3 billion includes \$1.9 billion in regularly scheduled payments and just over \$400 million for the payment of arrears.

In addition, there is \$25 million for the enhanced structural adjustment facility of the International Monetary Fund; \$56 million for the North American Development Bank; and \$42 million for debt restructuring and buy-backs. Details of these programs are set out in a separate table at the end of my written statement.

Almost 60 percent of our request for the development banks is for the U.S. contribution to IDA 10, an agreement negotiated under President Bush in 1992. In fact, 88 percent of the request is to fulfill pledges made under the Reagan and Bush Administrations. This administration is fully committed to meeting all of these obligations. (Chart 1)

Meeting these obligations is important. U.S. participation in the development banks serves our national interests. This request is not about charity or foreign aid.

We live in an increasingly interconnected world of more than 4.5 billion people. Because of the development banks, a great many of these people are increasing their incomes and becoming better customers for the kinds of goods and services we excel at producing.

RR-108



Let me begin by emphasizing the stake that our country has in the multilateral development banks. These institutions are at the heart of the international economic system. The United States took the lead in creating that system just after the end of World War II. The banks have always had broad bipartisan support and have served our national interests well for more than 50 years.

This year there have been proposals to eliminate U.S. participation in the development banks. Some people are saying we should not proceed with negotiations for the next replenishment of IDA. Those proposals don't make any sense. They would not serve our national interests. It would be a grave mistake to turn our backs on the banks or walk away from our international obligations.

Cost-Effective Internationalism

We understand there is a new budgetary environment; that calls are being made for cuts in many other programs. We also know that the request for the development banks is cost-effective, that it responds to the need for substantial savings in budget authority this year and in coming years. This request is not a request for straight-line funding on a business as usual basis.

Secretary Bentsen made cost-cutting a major priority of our participation in the development banks. Over the past two years Treasury negotiated a 50 percent reduction in the annual costs of U.S. contributions to the Inter-American Bank, and cut back on the annual costs of our contribution to the Asian Bank. We will continue to lower these costs in future negotiations, including those for IDA 11.

The money we contribute to the development banks is very highly leveraged. The banks are cost-effective internationalism. First, they are able to draw in contributions from other countries -- four dollars for each dollar we contribute -- mostly from Europe and Japan. Second, they raise nearly all their funds for regular lending from private capital markets. That lowers the budgetary cost of our participation in the banks by substantial amounts every year. (Chart 2)

This ability to get results at a much lower cost is a unique advantage of our participation in the development banks. We are able to multiply scarce budgetary resources and remain engaged internationally -- pursuing our objectives and acting effectively in our own national interest.

Our Stake in the International Economic System

With the world's largest economy, the United States has an enormous stake in maintaining the stability of the international economic and financial system. Our own economic health and vitality, as well as our prospects for future growth, are intertwined with those of other nations. We need an international system that functions effectively and allows for continued growth of international trade and investment.

Strong backing from the IMF was an essential element in enabling the President to react swiftly and decisively in providing support to the Mexican peso. The World Bank is also a key player -- nearly \$9 billion in active loans and an additional \$4.5 billion in the pipeline.

The World Bank was also able to respond very quickly in providing advice to Mexico's banking supervisors. This is a good example of the role these institutions play in helping countries cope with problems that stretch their capabilities in this area. I've discussed the issue of the future of the institutions with my G-7 counterparts in Toronto, and the heads of state will be paying close attention to the matter at the Halifax summit.

All of the multilateral development banks have a part in strengthening the international economic system. Policy reform loans increase global growth by lowering trade and investment barriers in developing countries. Economic advice and market-building loans help Eastern Europe and the Former Soviet Union to become full-fledged participants in international trade.

Supporting Foreign Policy and National Security

The MDBs are extremely valuable assets in the conduct of U.S. foreign and national security policy. Their ability to mobilize financial resources -- to react rapidly when there is need -- gives us greater scope than we would have on our own to take action in times of international crisis.

The banks also help us respond to natural disasters and other emergencies through relief efforts. IDA is providing support following earthquakes in India and Armenia and flooding in Pakistan. Rwanda, Burundi, and Haiti are receiving emergency assistance from IDA to reopen primary schools and fund emergency health care.

Through the multilateral development banks, we have extended our country's financial reach: expanding our influence in areas vital to our national security interests. Russia is receiving substantial assistance in putting its economy on a market basis, and the banks are undertaking new projects in other countries in the region: privatizing state-owned corporations in Ukraine and lending money to small entrepreneurs in Georgia and Belarus.

At the end of 1994, the World Bank and the European Bank had lent more than \$24 billion in Central and Eastern Europe and the former Soviet Union. Some \$18 billion in additional projects are in the pipeline and should be committed over the next three years. (Chart 3)

The World Bank has taken the lead in providing financial support for the Middle East peace process. Last year it began an emergency assistance program for Gaza and the West Bank and is following up this year with a loan that focuses on health and education problems. Support is also going to Egypt and Jordan.

Economic Benefits to the U.S.

The MDBs provide substantial benefits to the U.S. economy. Caterpillar of Peoria, Illinois estimates that it gets \$250 million each year from contracts funded through the MDBs. These contracts help the economy in Illinois and have a ripple effect elsewhere through sub-contractors and suppliers.

Other U.S. corporations also get major contracts from the MDBs. AT&T is providing telephone equipment in the Philippines. McDermott International of New Orleans is doing electric power work in China with turbines supplied by Westinghouse. Offshore Pipelines of Houston is active in India.

Small and medium-sized firms also benefit. Engineering and consulting firms write feasibility studies, prepare final designs, and oversee implementation of projects. This work often leads to large-cost contracts for U.S. firms downstream.

We cannot afford to back away from commercial opportunities in developing countries. They are our most rapidly expanding export market, going from \$91 billion in 1987 to \$197 billion in 1993. That's 40 percent of our total exports, which creates nearly four million jobs and benefits our whole economy. We know that a great deal of the credit for this increase must go to the multilateral development banks for their work in economic reform.

The most important commercial benefits we get from the MDBs come from the work they do in creating more open and market-oriented economies in developing countries. Nothing is more important than promoting the private sector in these economies. This is where 85 percent of the world's people live. It is where most of the world's economic growth is taking place. And it is where most of the impetus for greater growth in our own economy will come from in the future.

The MDBs contribute to creating market-oriented economies by encouraging lowering tariffs, liberalizing investment regimes, reorganizing the financial sector, changing the tax system, providing incentives for investment, and creating a new legal and regulatory framework to spark private initiative.

The Importance of IDA

IDA plays an extremely important role in this respect. In the mid-1980s, it was given a new job: engineering economic reforms that emphasize market mechanisms and the private sector. IDA provides seed money for capitalism and free market reform. This type of reform does not come easily. It takes time and is a difficult and painful process.

IDA support is essential in getting poorer countries through that transition. Those countries have no natural constituency for international capitalism and free markets. It must be built from the bottom up and against strong resistance from the status quo.

This is a large part of what IDA does today. It helps remake developing countries in the image of the United States and the other industrialized democracies. One of its biggest success stories is India, which also shows how these programs have benefitted the United States.

Under IDA lending, beginning in 1991, India cut its tariffs and liberalized investment rules. Since then, the U.S. has become India's largest foreign investor. Our exports jumped from \$1.9 billion to \$2.8 billion in one year and Secretary Brown recently announced new contracts for U.S. firms of more than \$7 billion.

IDA has 20 graduates, including big emerging export markets for the United States like Korea, Indonesia, Thailand, and Turkey. In 1993, these 20 countries took \$42 billion in U.S. exports and current IDA borrowers took an additional \$20 billion.

IDA sets the stage for engagement by our bilateral export agencies like Eximbank, OPIC and TDA. What IDA and the other development banks do is an essential complement and support to our export agencies. All of the banks are used by U.S. firms to establish a toehold in new and emerging markets.

The development banks also promote the export of U.S. values: our commitment to democracy and political freedom, capitalism and free markets, privatization and economic reform, and a greater commitment to protection of the environment. All of the development banks are focussed on promoting good governance and public participation.

Protecting the Environment

Let me turn now to a new binational financial institution that we are jointly establishing with Mexico -- the North American Development Bank or NADBANK. For decades, communities along both sides of the border with Mexico have been plagued by the problems of raw sewage dumped in boundary waters, unsafe drinking water, and inadequate municipal waste disposal.

These are international problems which have had a strong impact on U.S. citizens. As part of NAFTA, the United States and Mexico have agreed to address these problems through the creation of NADBANK and its sister institution, the Border Environment Cooperation Commission or BECC.

When NADBANK is fully capitalized, each dollar in U.S. contributions will result in at least \$10 in new financing for border environmental infrastructure projects and community adjustment programs that will provide significant benefits to U.S. citizens and firms.

NADBANK, which has its top management in place, will be ready in coming months to look at projects along with the BECC. Its U.S. community adjustment window will soon be up and running too. The Bank will draw additional funds from the private sector and other sources.

Along with our request for funds for the development banks, we are requesting \$42 million to reduce debts owed to the U.S. Government. Joining other creditor countries in providing up to two-thirds debt reduction for the poorest countries, particularly in Sub-Saharan Africa, we are seeking to help those whose debt is worth very little but which continues to weigh heavily on them. Building on the Summit of the Americas, we are also proposing a buy-back and swap program for lower income countries in this hemisphere which will generate local resources for the environment and child development.

Another of our requests is for the Global Environment Facility or GEF, which is enlisting developing countries in the job of protecting the global environment. We cannot do this by ourselves. The GEF is low-cost insurance against global warming. It also targets ozone depletion, pollution of international waterways and protection of biological diversity.

Improving Performance/Reducing Arrears

We have also been working very successfully to make the MDBs more effective at what they do: improving project quality; adopting open information policies; making their operations more transparent; establishing independent inspection panels; improving their poverty programs; and strengthening their environmental performance. (Chart 4)

The development banks have greatly increased their lending for health, education and nutrition. Their work in the area of education for young women is particularly important. It results in smaller and healthier families and in higher family incomes. The World Bank has also become the largest lender for programs to combat AIDS. Carriers of the HIV virus were estimated at 9 million in 1990 and are expected to reach 29 million by the year 2000.

On the administrative side, the banks are making their managers more accountable, cutting back on budgets and reducing travel costs. These actions have been taken as a result of U.S. initiatives. They demonstrate how responsive the banks have been to our interests and concerns.

Yet, we are still around \$800 million behind in meeting our obligations to the banks. If we want to maintain our influence, we must pay down those arrears. We are the world's largest economy and the only nation that has such arrears. (Chart 5)

Mr. Chairman, I cannot emphasize too strongly how important these institutions are to our national interests. They are the most cost-effective way I know to assist development and economic stabilization. At our urging, the institutions are changing their culture and adapting to evolving challenges. And with this request, we are following through on the international commitments made by prior administrations, obligations we are expected to keep.

I can think of no better way to conclude, Mr. Chairman, than with a quote from President Eisenhower in 1960, when extensive cuts were proposed in the appropriation request he submitted for IDA:

" That such a program ... its continuance solemnly pledged by both of our political parties -- should now face a crippling cutback seems incredibly irresponsible. To me it is almost inconceivable."

Table: The Elements of the Request

The Administration's request includes the following:

- \$28.2 million for paid-in capital to the World Bank (IBRD). This will clear U.S. arrears to the 1988 general capital increase, which is currently supporting about \$17 billion in annual lending to about 78 eligible countries.
- \$1,386.2 million to the International Development Association (IDA). Of this, \$1,250 million is for the third and final installment of the U.S. contribution to the tenth IDA replenishment. The remainder would clear \$118.2 million in arrears.
- \$67.6 million to the International Finance Corporation (IFC). This includes \$47.5 million for the fifth and final installment to the IFC 1991 general capital increase, and \$20 million for payments due in prior years. This will support IFC's projected \$2.8 billion in loan and equity investments in private sector projects which could total investments of \$18 billion. For every dollar the IFC invests for its own account, other lenders and investors invest about \$5.4.
- \$110 million to the Global Environment Facility (GEF): \$100 million for the second installment of the U.S. contribution to the restructured facility to provide financing to developing countries for projects which will benefit the global environment, and \$10 million for the shortfall in appropriations from the FY95 request.
- \$26 million for the Inter-American Development Bank (IDB): \$25.6 million for the second installment of the U.S. contribution to eighth replenishment of the IDB, and \$0.3 million to clear arrears.
- \$20.8 million for the Fund for Special Operations (FSO): \$20.5 million for the second installment of the U.S. contribution to eighth replenishment, and \$0.3 million to clear arrears.
- \$100 million for the Multilateral Investment Fund (MIF) for the fourth scheduled installment of the U.S. contribution, which will assist Latin American and Caribbean countries in securing necessary investment reforms to stimulate both domestic and foreign investment in the region.
- \$13.2 million for paid-in capital to the Asian Development Bank (ADB) for the first of six installments to the fourth general capital increase.
- \$304.5 million to the Asian Development Fund (ADF): \$170 million for the fourth and final installment to the fifth replenishment, and \$134.5 million to clear arrears.
- \$127 million to the African Development Fund (AFDF) for a seventh replenishment.

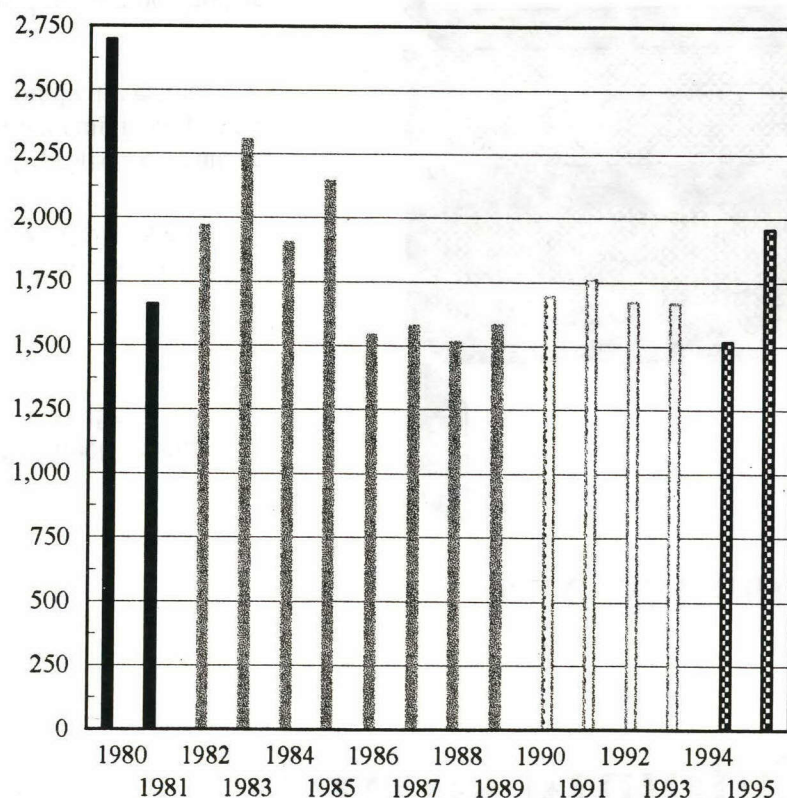
- \$81.9 million to the European Bank for Reconstruction and Development (EBRD) to clear arrears.
- \$56.3 million to the North American Development Bank (NADBANK) for the second installment of the U.S. payment to the NADBANK's capitalization.
- \$27 million to continue a multilateral program for Debt Restructuring for the heavily indebted, poorest countries that have a sustained record of economic reform.
- \$15 million for a pilot buyback and swap program for environmental and child development programs in Latin America.

Chart 1

U.S. Support for the MDBs has been Bipartisan

Appropriations for the MDBs

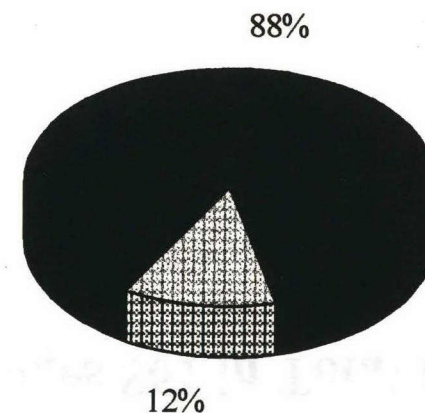
U.S. Millions



■ Carter ■ Reagan □ Bush ■ Clinton

Constant 1995 Dollars

The Bulk of the President's FY 96 Request is to Fulfill Reagan & Bush Administration Pledges



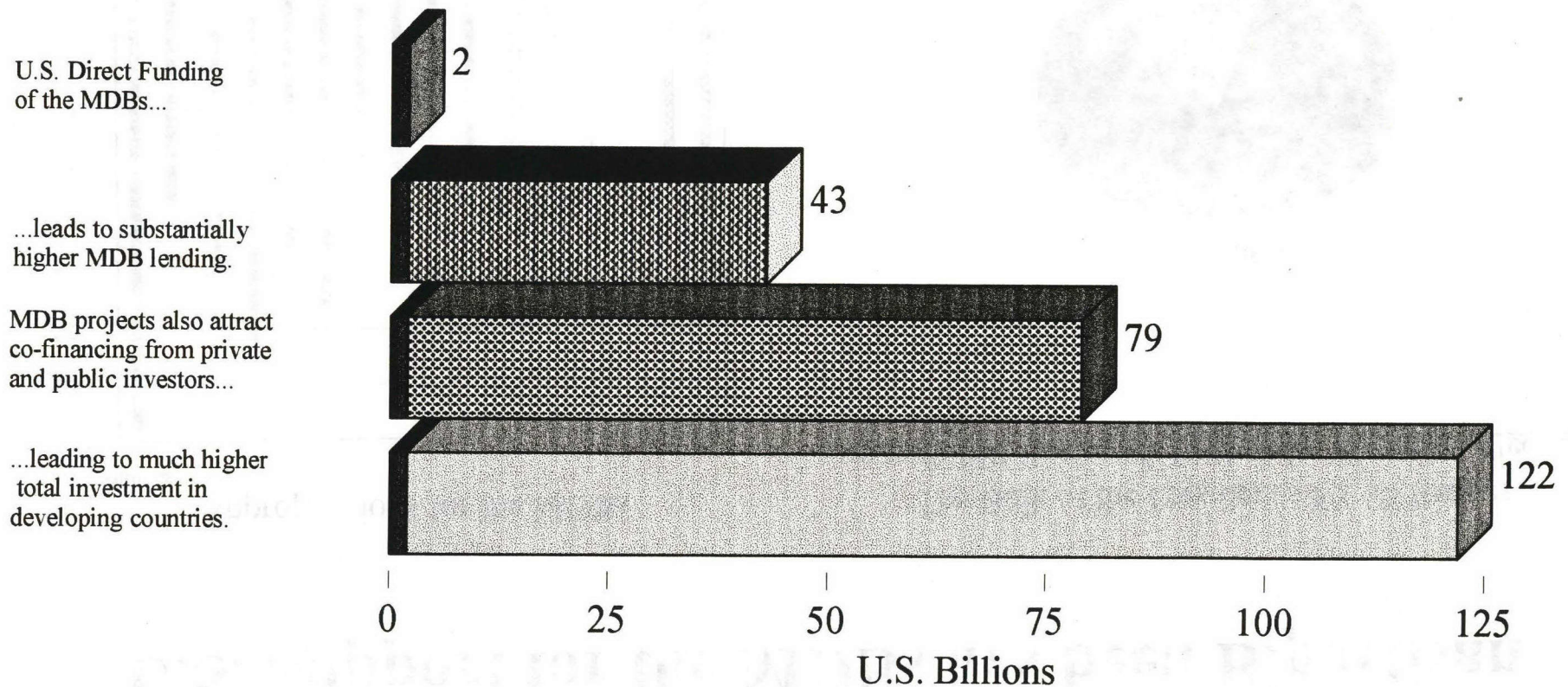
■ Clinton Pledges ■ Reagan/Bush Pledges

Composition of FY 96 Request

Chart 2

MDBs Multiply the U.S. Contribution

\$1 U.S. Contribution Leverages \$61 in Total Flows



Flows from FY 93

Source: MDB Annual Reports and Financial Data

Chart 3

The MDBs are Globally Active

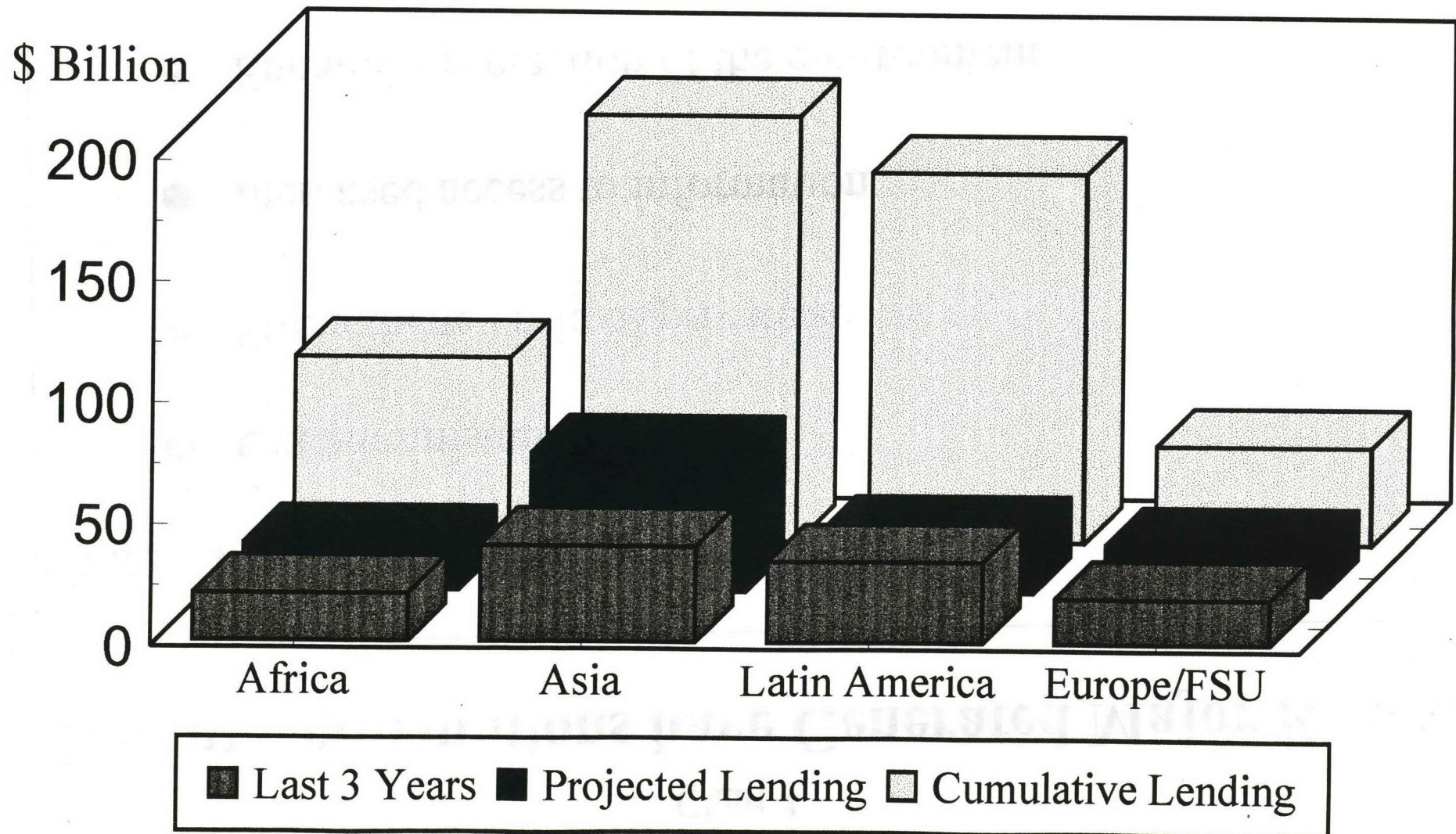


Chart 4

Recent Contributions have Generated Major Reforms

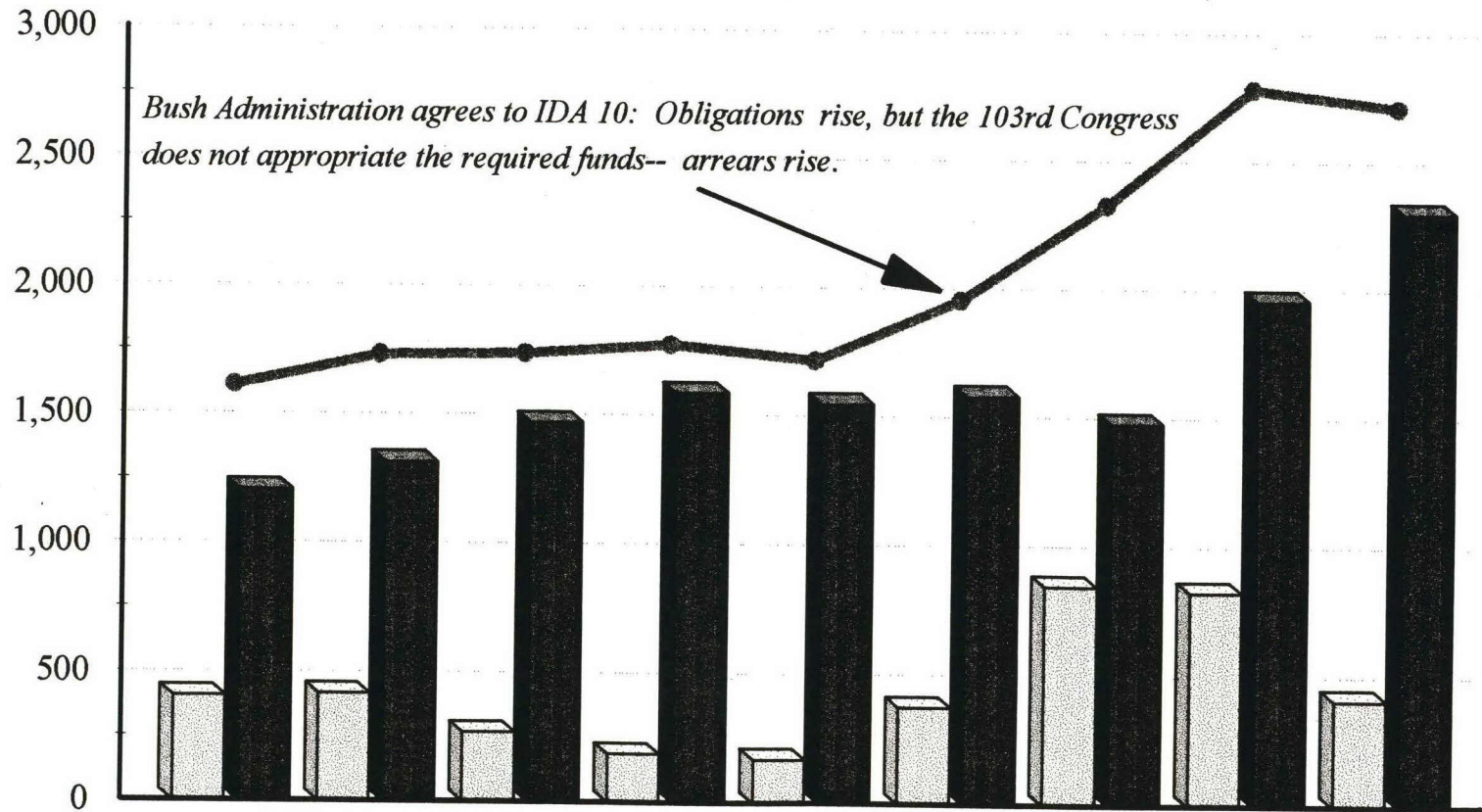
The Clinton Administration has:

- Cut administrative costs
- Strengthened role of private sector
- Increased access to information
- Enhanced protection of the environment
- Increased lending to health, education & nutrition

Chart 5

Arrears in the Multilateral Development Banks

U.S. Millions



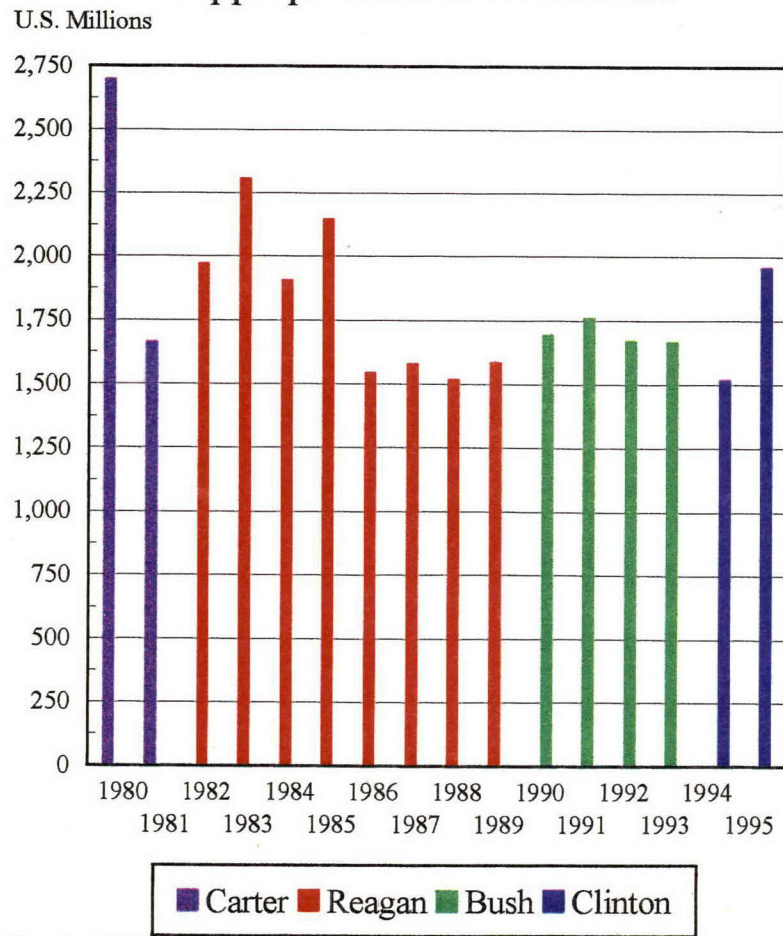
	1988	1989	1990	1991	1992	1993	1994	1995	1996 *
Outstanding Arrears	405.0	414.7	268.3	187.5	168.6	373.7	846.9	825.2	409.6
Appropriations	1,205.6	1,314.6	1,469.2	1,586.3	1,548.9	1,583.4	1,479.9	1,959.1	2,303.9
Payments Due	1,610.6	1,729.3	1,737.5	1,773.8	1,717.5	1,957.1	2,326.8	2,784.3	2,713.5

* Note: FY 96 Numbers Assume Full Funding of the President's Request

Chart 1

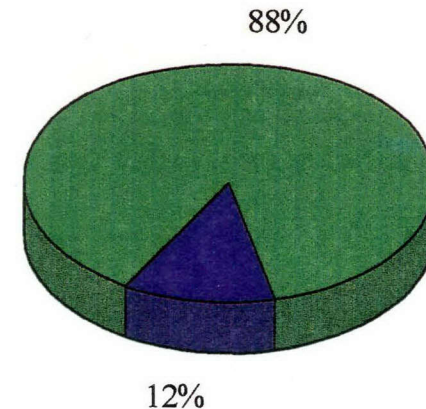
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Constant 1995 Dollars

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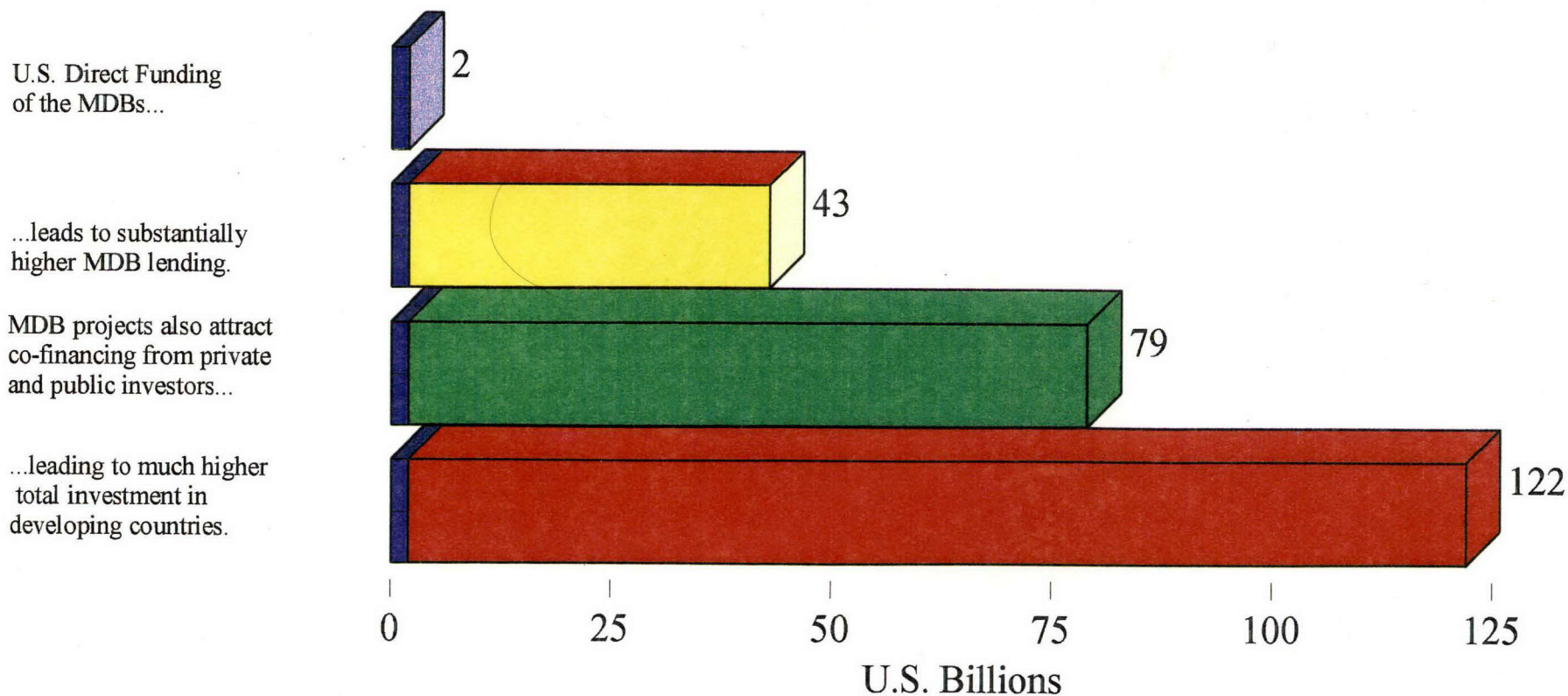
■ Clinton Pledges ■ Reagan/Bush Pledges

Composition of FY 96 Request

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MDBs Multiply the U.S. Contribution

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Flows from FY 93

Source: MDB Annual Reports and Financial Data

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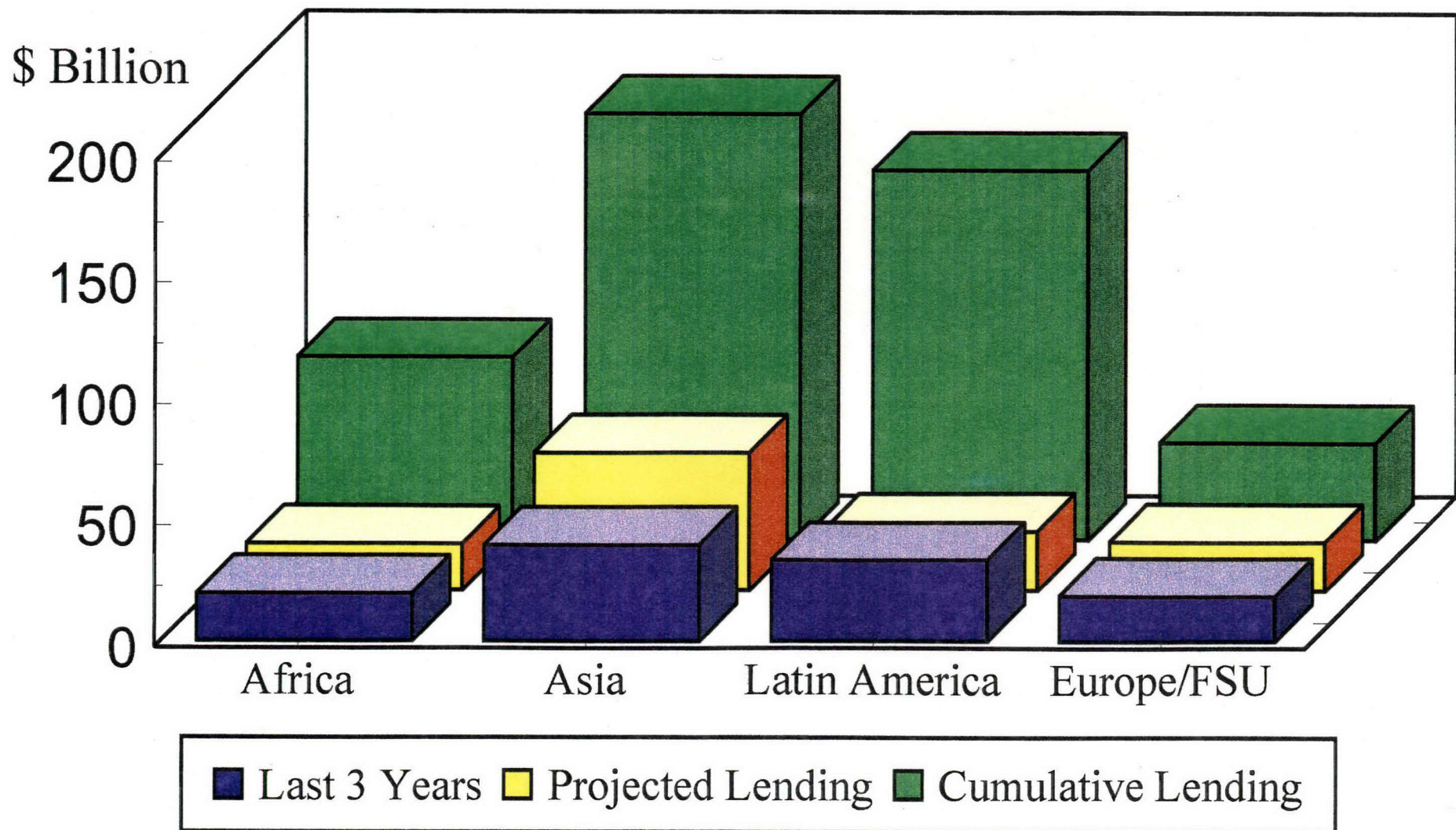


Chart 4

Recent Contributions have Generated Major Reforms

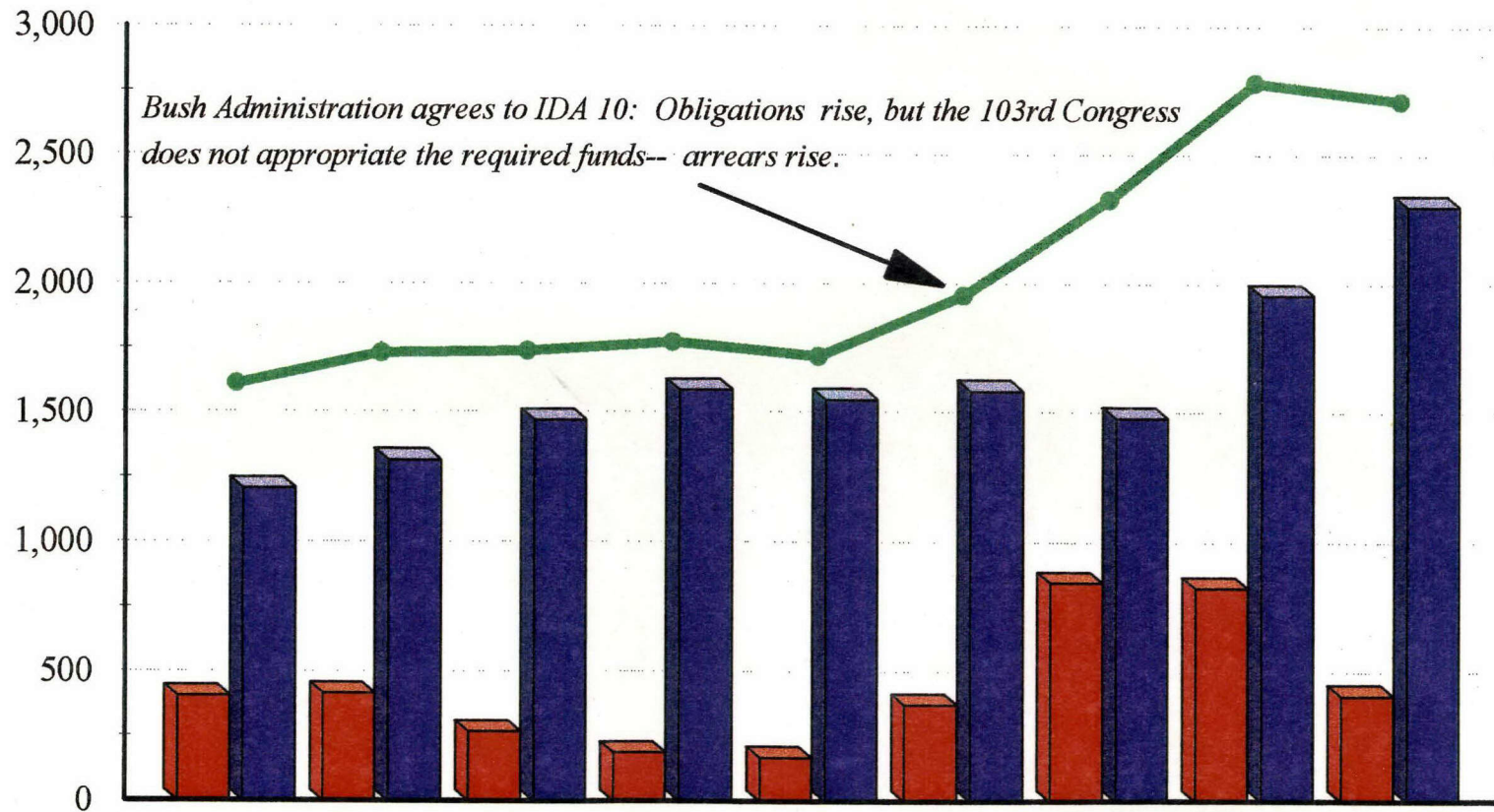
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* Note: FY 96 Numbers Assume Full Funding of the President's Request

INTERNATIONAL FINANCIAL INSTITUTIONS

Table 1

Summary of FY1996 Budget Request (to nearest dollar)

	FY 1994 Appropriation *	FY 1995 Appropriation	FY 1996 Request
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT			
Paid-in	27,910,500	23,009,101	28,189,963
Callable	< 902,439,500 >	< 743,923,914 >	< 911,475,013 >
TOTAL IBRD	930,350,000	766,933,015	939,664,976
INTERNATIONAL DEVELOPMENT ASSOCIATION	1,024,332,000	1,235,000,000	1,368,168,000
INTERNATIONAL FINANCE CORPORATION	35,761,500	68,743,028	67,556,000
GLOBAL ENVIRONMENT FACILITY	30,000,000	90,000,000	110,000,000
INTER-AMERICAN DEVELOPMENT BANK			
Paid-in	56,166,000	28,111,959	25,952,110
Callable	< 2,190,283,457 >	< 1,594,568,180 >	< 1,523,767,142 >
Subtotal	2,246,449,457	1,622,680,139	1,549,719,252
FUND FOR SPECIAL OPERATIONS	20,164,000	21,338,000	20,835,000
INTER-AMERICAN INVESTMENT CORPORATION	0	190,000	0
TOTAL IDB	2,266,613,457	1,644,208,139	1,570,554,252
MULTILATERAL INVESTMENT FUND	75,000,000	75,000,000	100,000,000
ASIAN DEVELOPMENT BANK			
Paid-in	13,026,366	0	13,221,596
Callable	< 95,438,437 >	< 0 >	< 647,858,204 >
Subtotal	108,464,803	0	661,079,800
ASIAN DEVELOPMENT FUND	62,500,000	167,960,000	304,528,525
TOTAL ADB	170,964,803	167,960,000	965,608,325
AFRICAN DEVELOPMENT BANK			
Paid-in	0	133,000	0
Callable	< 0 >	< 2,002,540 >	< 0 >
TOTAL AFDB	0	2,135,540	0
AFRICAN DEVELOPMENT FUND	135,000,000	124,229,309	127,247,025
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT			
Paid-in	0	69,180,353	81,916,447
Callable	< 0 >	< 161,420,824 >	< 191,138,376 >
TOTAL EBRD	0	230,601,177	273,054,823
NORTH AMERICAN DEVELOPMENT BANK			
Paid-in	0	56,250,000	56,250,000
Callable	< 0 >	< 318,750,000 >	< 318,750,000 >
TOTAL NAD Bank	0	375,000,000	375,000,000
MDB Other			
Paid-in	0	0	0
Callable	< 0 >	< 0 >	< 0 >
Subtotal	0	0	0
Budget Authority	1,479,860,366	1,959,144,750	2,303,864,666
Program Limitation	< 3,188,161,394 >	< 2,820,665,458 >	< 3,592,988,735 >
TOTAL MDBs	4,668,021,760	4,779,810,208	5,896,853,401
INTERNATIONAL MONETARY FUND			
QUOTA INCREASE	0	0	0
ENHANCED STRUCTURAL ADJUSTMENT FACILITY	0	25,000,000	25,000,000
DEBT RESTRUCTURING			
Poorest Countries	7,000,000	7,000,000	27,000,000
Buyback	-	-	15,000,000
TOTAL BUDGET AUTHORITY	1,486,860,366	1,991,144,750	2,370,864,666

* Post recession of IBRD.

INTERNATIONAL FINANCIAL INSTITUTIONS

Plan to Clear Outstanding Arrears by end-FY 1998 (to nearest dollar)

Table 2

	Arrears Cleared FY 1995 (1st Year)	Outstanding Arrears (end-FY95)	Arrears to clear in 2nd - 4th Year of Plan		
			FY 1996 (2nd Year)	FY 1997 (3rd Year)	FY 1998 (4th Year)
IBRD					
Paid-in	23,009,101	28,189,963	28,189,963	0	0
Callable	< 743,923,914 >	< 911,475,013 >	< 911,475,013 >	< 0 >	< 0 >
TOTAL IBRD	766,933,015	939,664,976	939,664,976	0	0
IDA	(15,000,000)	324,504,000	118,168,000	103,168,000	103,168,000
IFC	18,743,028	20,000,000	20,000,000	0	0
GEF	(10,000,000)*	10,000,000 *	10,000,000 *	0	0
IDB					
Paid-in	2,501,292	341,443	341,443	0	0
Callable	< 110,866,665 >	< 20,047,681 >	< 20,047,681 >	< 0 >	< 0 >
Subtotal	113,367,957	20,389,124	20,389,124	0	0
IDB/FSO	762,000	259,000	259,000	0	0
IIC	190,000	0	0	0	0
TOTAL IDB	114,319,957	20,648,124	20,648,124	0	0
MIF	(25,000,000)	60,000,000	0	0	60,000,000
ADB					
Paid-in	-	0	0	0	0
Callable	< - >	< 0 >	< 0 >	< 0 >	< 0 >
Subtotal	0	0	0	0	0
ADF	(2,040,000)	267,017,050	134,528,525	132,488,525	0
TOTAL ADB	(2,040,000)	267,017,050	134,528,525	132,488,525	0
AFDB					
Paid-in	133,000	0	0	0	0
Callable	< 2,002,540 >	< 0 >	< 0 >	< 0 >	< 0 >
TOTAL AFDB	2,135,540	0	0	0	0
AFDF	19,229,309	42,985,191 *	22,247,025 *	20,738,166 *	0
EBRD					
Paid-in	(840,247)	81,916,447	81,916,447	0	0
Callable	< (1,960,576) >	< 191,138,376 >	< 191,138,376 >	< 0 >	< 0 >
TOTAL EBRD	(2,800,823)	273,054,823	273,054,823	0	0
Budget Authority	11,687,483	835,213,094	415,650,403	256,394,691	163,168,000
Program Limitation	< 854,832,543 >	< 1,122,661,070 >	< 1,122,661,070 >	< 0 >	< 0 >
TOTAL MDBs	866,520,026	1,957,874,164	1,538,311,473	256,394,691	163,168,000
IMF					
QUOTA INCREASE	-	-	-	-	-
ESAF	(75,000,000)*	75,000,000 *	25,000,000	25,000,000	25,000,000
TOTAL IFIs	(63,312,517)	910,213,094	440,650,403	281,394,691	188,168,000
BUDGET AUTHORITY					

Note:

Arrears carry forward (with full funding)	469,562,691	188,168,000	0
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GEF Arrears will not appear until FY 1996 or FY 1997. FY 1994 appropriations of \$30 million help cover early years of replenishment.

AFDF arrears depend on conclusion of AFDF-7 negotiations. AFDF-7 replenishment was intended to cover 1994-96 operations.

ESAF Arrears would not appear until FY 2000. FY 1995 appropriations of \$25 million cover scheduled FY 1997-99 encashments.



As Prepared for Delivery
Adv. 10 a.m. EST
March 10, 1994

RECORD STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
EXPORT FINANCING AND RELATED PROGRAMS
OF THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman. I am pleased to present the Administration's FY 1995 appropriations request for the multilateral development banks.

Our request is just over \$2.0 billion for the multilateral development banks. In addition, there is \$100 million for the Enhanced Structural Adjustment Facility and \$7 million for debt reduction. The details of these programs are summarized in a separate table at the back of my written statement.

I cannot let this hearing pass without commenting on the remarkable changes in the U.S. economy over the past twelve months. Thanks in large part to the budget bill passed last summer, there is new confidence and increased optimism about our country's economic future.

Growth is strong, and unemployment is coming down. Investment is up, and this means we're on a course we can maintain. All indications point to steady and sustainable economic growth over the rest of the decade. These are major accomplishments in which we can all take pride.

But there is a second part to this story: the U.S. role in increasing global growth. More and more, this is where the economic action is. As President Clinton has said: the U.S. must be engaged abroad if we want to do well at home. That's why NAFTA and GATT are so important. That's also where the multilateral development banks come in.



Economic growth and development is what the banks do. They do this job better than anyone else. Their lending programs have helped turn developing countries into the most rapidly expanding export market for U.S. goods and services: \$186 billion in U.S. merchandise exports last year and more than 3 million U.S. jobs. The lesson is clear: the dollars we have sent abroad through the development banks come back home in increased U.S. exports and more U.S. jobs.

If you look beyond the G-7 nations, 95 percent of the population growth, and all the most rapid economic development, is in the developing world. At the same time, we have cases like Somalia, Haiti and Bosnia, which remind us that while there are tremendous opportunities, there are also great dangers. Our challenge is to lessen the dangers, and create more opportunities.

Threats to U.S. national security interests will continue in the post Cold War era. But the opportunities I spoke of are there. Important economic and political transitions are under way in Central and Eastern Europe, in the former Soviet Union, and in the Middle East and South Africa.

The development banks are the main sources of funding for these transitions. The United States must do its part, but we cannot afford to carry that burden by ourselves. We need the help we get from the development banks and, frankly, we have to do a much better job of getting this important message across to the American people.

The request for the development banks is 10 percent of the Administration's overall request for International Affairs this year. But the impact of the bank programs goes far beyond that 10 percent figure. As you can see from my first chart, contributions from other countries and borrowings in private capital markets generate lending of \$45 billion. That is almost 25 times the amount of our contribution, and 3.5 times our annual bilateral assistance account.

More than half of our \$2.0 billion request, nearly \$1.3 billion, will go to the International Development Association for poverty reduction in the world's poorest countries. Poverty reduction is one of the Administration's highest priorities.

Most of the rest will go to the regional development banks. Some \$100 million will go to the Global Environment Facility to combat ozone depletion and global warming, protect biological diversity, and begin to clean up international waterways. This is another very high priority for us.

Some \$87 million is needed to begin to reduce our arrearages to the development banks. Last year, when I first asked for your help in clearing them up, these overdue payments were \$374 million. Now they are more than \$847 million. These amounts are from agreements negotiated by the Bush Administration and this Administration believes we should honor them. With every cut in the appropriations for the MDB account, the arrearages have become even larger. This is an embarrassing situation for our country.

We have hard choices to make on the budget this year. Some people will say that \$87 million to begin to reduce these backed up payments is not that important. I disagree. As U.S. Governor for the banks, I am obligated to tell you: we must do something this year to begin to reduce those arrearages.

Other countries have budgetary problems, but they still manage to make their contributions on time. And let me tell you, they are tired of U.S. arrearages that keep going up every year. Time is running out for us on this issue. We risk the loss of our influence over important policy decisions within the banks. We have lost some credibility with other donors.

Last year, I listened closely to your concerns about the need to reform the development banks. I put in place a comprehensive agenda for change: poverty reduction, population and family planning, environment, transparency, improvements in loan implementation, and cuts in administrative costs.

We were successful in carrying out a large part of that agenda. We were persuasive. We had influence. Other countries followed our lead. But that won't happen again this year unless we get full funding for the multilateral development bank account. That means full funding for the current request and beginning to reduce those arrearages.

As I said earlier, the development banks are in the thick of the action on the international economic front. Together, they are the largest single source of official financing for economic growth and development. The economic policies they promote increase growth and protect U.S. interests in many countries around the world. The banks have a geographical and financial capability beyond the reach of any bilateral assistance program, including our own. Percentages of lending by region are shown in chart # 2.

The banks also work hard to reduce poverty, protect the environment, and promote sustainable development. Their programs make investments in people, and they encourage good governance and the creation of the institutions of civil society.

If you look at chart #3, you can see that loans made to support basic human needs increased this past year to more than \$15.5 billion. This boosts the amounts we provide through our bilateral assistance program through AID by a factor of seven at small cost to us. We want to increase this type of lending even more in the future.

Investments in education and primary health care are crucial. There is no higher priority than making sure that girls as well as boys are educated. Furthermore, family planning must be an integral part of our efforts to improve primary health care in developing countries.

Some say the development banks don't respond to U.S. policy initiatives. I think they're wrong. This past year, we've shown that the banks do respond to our initiatives. Let's look at the record.

First, we have seen real progress on loan implementation and cost cutting:

At the European Bank there have been: significant staff reductions, large cuts in administrative costs, more streamlined operations, and increased emphasis on field operations and private sector development. In six months, disbursements on loans more than doubled from \$307 million to \$665 million.

At the World Bank there have been radical reductions in travel costs; and administrative expenses are expected to be frozen in real terms over the next three years. We are also pushing new initiatives emphasizing rapid disbursements through decentralized operations and on-the-ground activities in borrowing countries.

Second, substantial improvements have been made on transparency and openness.

At the World Bank a new and more open information policy is now in place. A reading room containing a wide range of information on loans has been opened to the public. Similar changes in information policies and procedures are underway at the regional banks. Some are already in place; others are being negotiated as part of replenishment agreements.

An independent inspection panel is being created to give greater protection to the rights of people affected by the Bank's projects. We have made a major effort to see that the right people are appointed to that panel.

Third, there is good news on sustainable development and the environment.

Next week in Geneva we will press for final agreement on the Global Environment Facility. This will be a major landmark in international environmental cooperation and a significant accomplishment for our Administration. It fulfills important international obligations undertaken by the Bush Administration at the environmental summit in Rio de Janeiro in 1992.

All of the development banks are placing greater emphasis on environmental lending. Chart # 4 puts their annual lending for the environment at \$2.8 billion. In this area too, the banks increase what we can provide bilaterally by a factor of seven.

In the World Bank, we are starting to see real benefits from important policy changes in forestry, energy, agriculture and water resources. We believe these changes have altered the Bank's way of doing business and reshaped its lending program for the better.

We are also pushing environmental priorities at the regional banks. New environmental policies are to be created for key economic sectors and quantitative goals established for lending in the social sectors.

Of course, there is much more that needs to be done in these areas, both in the World Bank and in the regional development banks. All of it will not come overnight, but we are continuing to push ahead on many fronts. They've done what we asked. Now it is time that we follow through on our financial obligations.

Let me talk about three of the most important objectives we have for the multilateral development banks in 1994: Increasing U.S. exports; reducing U.S. budgetary costs; and reinforcing U.S. interests in strategic areas

As to the first objective, increasing our exports, the most recent data we have show U.S. procurement from development bank projects running at about \$2.7 billion last year. This was an increase of \$500 million over the previous year's estimate of \$2.2 billion. It created or sustained 54,000 U.S. jobs and was nearly twice the \$1.5 billion we put in last year, giving us an export bonus of eighty percent.

We already know that contracts funded by the banks go to U.S. business firms in all parts of the country. Some specific disbursements from last year were: \$650,000 to OPICO in Mobile, Alabama; \$12.7 million to Bechtel in San Francisco, California; and \$11.8 million to U.S. Chemical Resources in Tampa, Florida.

There was \$11.4 million to Caterpillar in Peoria, Illinois; \$4.9 million to Arthur D. Little in Massachusetts; \$9.9 million to Cargill in Minneapolis, Minnesota; and \$15.4 million to Foster Wheeler in Livingston, New Jersey. More than \$12 million went to business firms in Iowa, including \$1.3 million to Little Giant Crane Company in Des Moines. I don't want to forget \$23.0 million to Somat Drilling in Houston, Texas or \$1.6 million to the Case Company in Racine, Wisconsin.

Contracts like these give a boost to the U.S. economy. They mean a lot to the U.S. firms that get them and to the men and women who get jobs that are generated as a result. I think we have been doing well in getting this business, but we want to do even better in the future. Keep in mind, however, as I said last year, that the contracts I have just mentioned are only the tip of the development bank iceberg.

We believe that an additional \$5.0 billion in U.S. exports to developing countries comes from development bank lending programs that encourage policy reform and promote greater economic growth and more open trading systems. As Chart # 5 shows, we estimate that more than \$7.7 billion in U.S. exports are generated through the development banks each year, creating or sustaining at least 146,000 U.S. jobs.

Development bank lending goes hand in hand with increases in U.S. exports. It improves the economic climate in developing countries. It strengthens the capabilities of individual borrowers and makes them better customers for U.S. goods and services. It also paves the way for follow-on business in the future.

Let's look at lending figures for 10 developing countries in which the Export-Import Bank has its largest exposures. Over the past three years, those ten developing countries have received more than \$56 billion in loans from the multilateral development banks. As shown in Chart # 6, this multilateral development bank lending has created a fertile environment for the recent export success we have had in those 10 countries.

So within the Administration, we are working hard to make the development banks an integral part of our new export expansion strategy. This means closer cooperation on procurement issues with the development banks and our own Department of Commerce as well as with the Overseas Private Investment Company and the Trade Development Agency.

It means increasing commercial staff in the offices of U.S. Executive Directors at the banks and getting the word out earlier to U.S. firms interested in new business opportunities. We are making a special effort to promote exports of U.S. environmental goods and services, where we believe we have a large advantage.

The second objective is containing the budgetary costs of U.S. participation in the multilateral development banks. We want to work closely with you in this area. Once the arrearages are behind us, my objective is to either straight-line or reduce the level of the appropriations request we make to you each year.

We want to cut our costs by reducing paid-in portions of upcoming capital increases and by freezing or reducing our contributions to concessional windows. For example, we anticipate a substantial reduction in our contribution to the InterAmerican Bank, without any loss in the bank's capability to lend in Latin America. We are also looking to co-financing techniques which will extend the financial reach of the development banks without additional cost to the U.S. Government.

The third objective is working effectively within the development banks to reinforce U.S. strategic interests in regions in economic and political transition. At the start of my statement, I emphasized how we depend on the banks for a great deal of the money that must accompany the process of transition in those regions. Let me make a few remarks about what we are trying to accomplish through the banks in just two of those regions.

The Middle East:

Last fall I joined with Secretary Christopher in convening a donors conference in support of Middle East Peace. In many respects, the Palestinians will have to build their economy from the ground up. The World Bank is playing a critical role in the peace process: providing technical assistance and mobilizing financial support.

So far, the Bank has mobilized \$580 million for the Palestinians. Broad agreement has also been reached on the emergency and technical assistance programs. In December, \$50 million was approved for an emergency assistance project in Gaza, and other projects are in the pipeline.

South Africa:

We look forward to elections on April 27, and to creation of South Africa's first post-apartheid government. We have encouraged the World Bank to work closely with the new government as it comes into office.

The new government has a very difficult agenda in critical areas such as job creation, housing, education, health services, and support for small scale enterprises. We believe the Bank will be ready to respond rapidly to policies and priorities in these areas. As much as \$1 billion may come into the project pipeline in the first year.

On another African issue, the devaluation of the common currency in West Africa, we have congratulated these countries on taking that very difficult but necessary step and asked the World Bank to undertake new financial programs to provide additional support.

So we see the multilateral development banks actively engaged in these two widely separated but very strategic areas of the globe. This engagement serves our country's most vital political and national security interests.

Our most important economic interests are also served when export markets for U.S. goods and services continue to grow as a result of the banks' work. This is why our request for the banks must have a higher priority this year than last.

I have taken time this morning to outline some of the success we have had in working this past year to improve the performance of the multilateral development banks. I have not argued that the job is done. Certainly, the banks can and must continue to improve their performance. They are on the right road now and we will continue to press them in a number of areas in the future.

Before concluding, let me briefly mention two other elements of our request. First, \$100 million is needed to extend and enlarge the Enhanced Structural Adjustment Facility at the International Monetary Fund. The money, which will be spent over 15 years starting in fiscal 1997, will support loans at concessional interest rates to the world's poorest countries for economic and structural reforms, including the establishment of social safety nets. More than 40 countries are contributing, and our contribution will be less than a nickel of every dollar provided to the interest subsidy account. Our commitment to support the facility already has encouraged contributions from others, and gives us an effective voice in decision-making on reforms.

We have recently joined other creditor countries in the Paris Club in providing 50 percent debt reduction for the poorest countries. Most of the countries that will benefit are in Sub-Saharan Africa. Our fiscal 1995 request of \$7 million would allow us to continue this effort, and to pursue deeper debt reduction if others in the Paris Club agree.

Thank you, Mr. Chairman. I would be very happy to answer any questions you might have.

Table: The Elements of the Request

The Administration's request includes the following:

- \$23.3 million for paid-in capital to the World Bank (IBRD). This represents part of the unfunded shortfall in our FY 1992-4 requests on of the of the U.S. payment for its subscription to the 1988 General Capital Increase, which is currently supporting over \$18 billion in financing to about 60 countries.
- \$1,250 million to the International Development Association (IDA) for the second installment of the U.S. contribution to the tenth IDA replenishment, which will support approximately \$7 billion in commitments to the world's poorest and least creditworthy countries.
- \$88.7 million to the International Finance Corporation (IFC). This includes \$50 million for the fourth installment to the IFC general capital increase, and \$38.7 million for payments due in prior years. This will support IFC's projected financing of \$2.4 billion for loans and equity investment in private sector projects which could total more than \$18 billion. For dollar the IFC invests for its own account, other lenders and investors invest about \$6.5.
- \$100 million to the Global Environment Facility (GEF) for the U.S. contribution to the restructured facility to provide financing to developing countries for projects which will benefit the global environment.
- \$2.8 million to the Inter-American Development Bank (IDB) which will eliminate arrearages on payments due to the IDB in prior years.
- \$1.0 million to the IDB's Fund for Special Operations (FSO) which will eliminate arrearages on payments due to the FSO in prior years.
- \$100 million to the Multilateral Investment Fund (MIF) for the third scheduled installment of the \$500 million U.S. contribution which will assist Latin American and Caribbean countries in securing necessary investment reforms to stimulate both domestic and foreign investment in the region.
- \$190,000 which will eliminate arrearages on payments due to the IIC in prior years, and will complete the IIC's initial capitalization.
- \$170 million to the Asian Development Fund (ADF) for the third U.S. payment to the fifth replenishment. The Asian Fund will provide resources next year of about \$1.3 billion to support the poorer economies in the region.

- \$133,000 of paid-in capital for the African Development Bank (AFDB) which will eliminate arrearages on payments due to the AFDB in prior years.
- \$20.7 million for the African Development Fund which will go toward payment of arrearages, due to the AFDF in prior years.
- \$70 million for the European Bank for Reconstruction and Development (EBRD). This payment is the fifth U.S. installment for the initial capitalization of the EBRD.
- \$100 million to extend and enlarge the Enhanced Structural Adjustment Facility (ESAF). The Facility provides loans on concessional terms to support economic and structural reforms in the poorest countries, particularly those in Sub-Saharan Africa.
- \$7 million for reduction of debt owed to the United States Government by the poorest countries, particularly those in Sub-Saharan Africa.

U.S. Support for Developing Countries

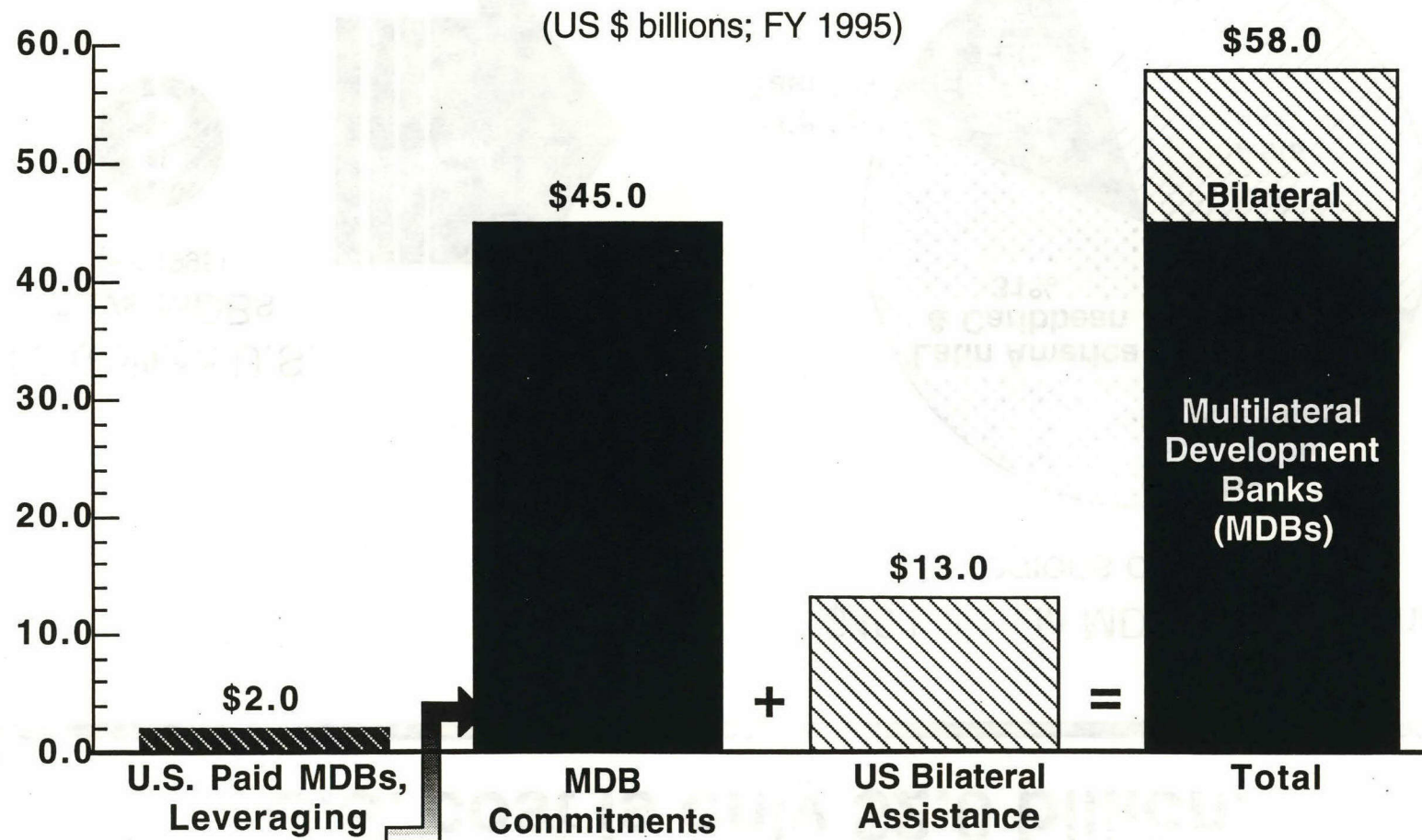
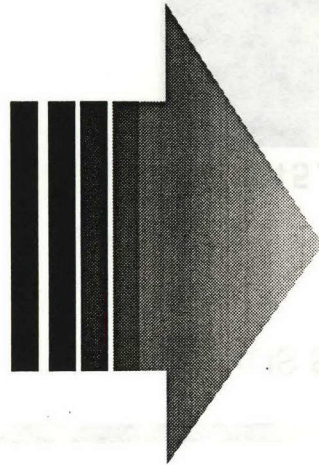


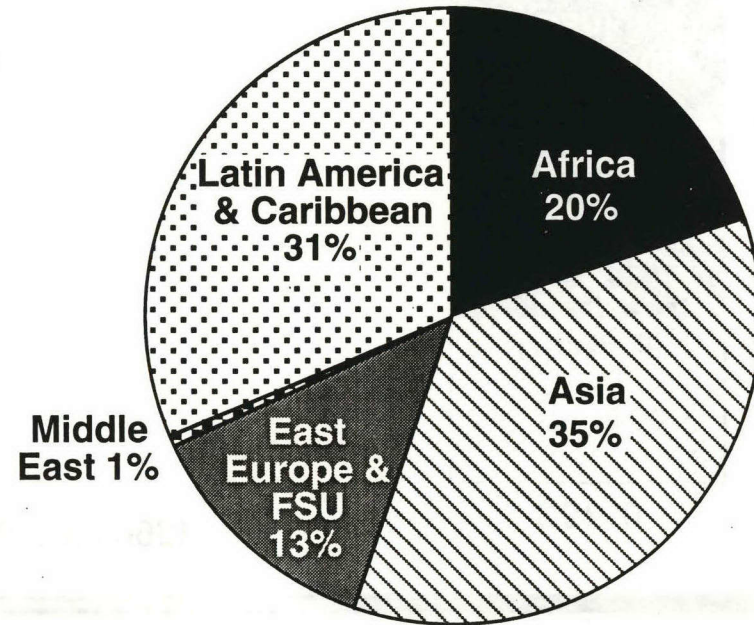
Chart 1

MDBs commit \$45 billion. U.S. cost is only \$2.0 billion.

\$2.0 billion U.S.
pays MDBs
(FY 1995)



\$45 billion in MDB commitments
to regions of the world



Lending By Region

MDBs Support Human Needs

(US \$ billions; FY 1992 Estimates)

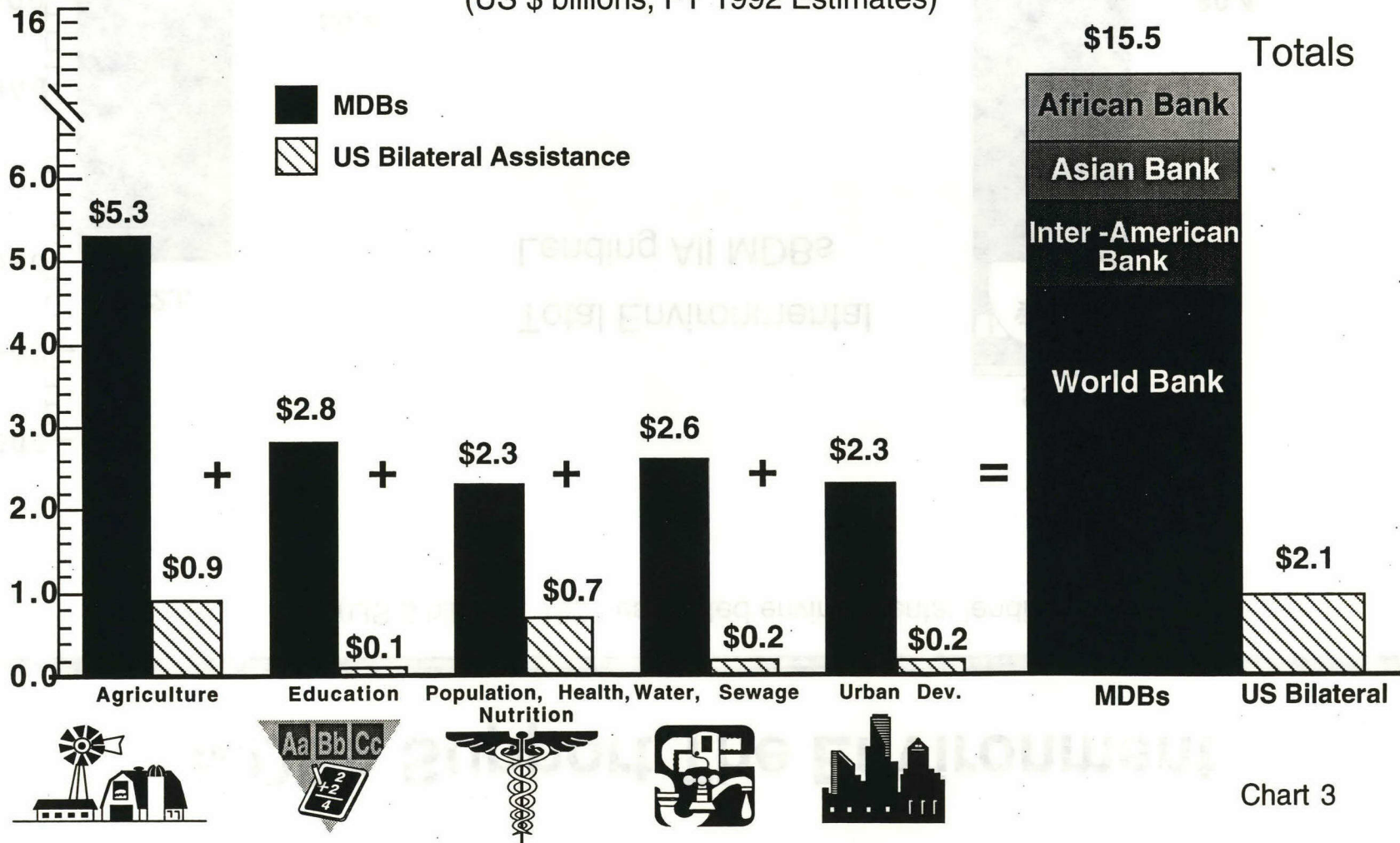
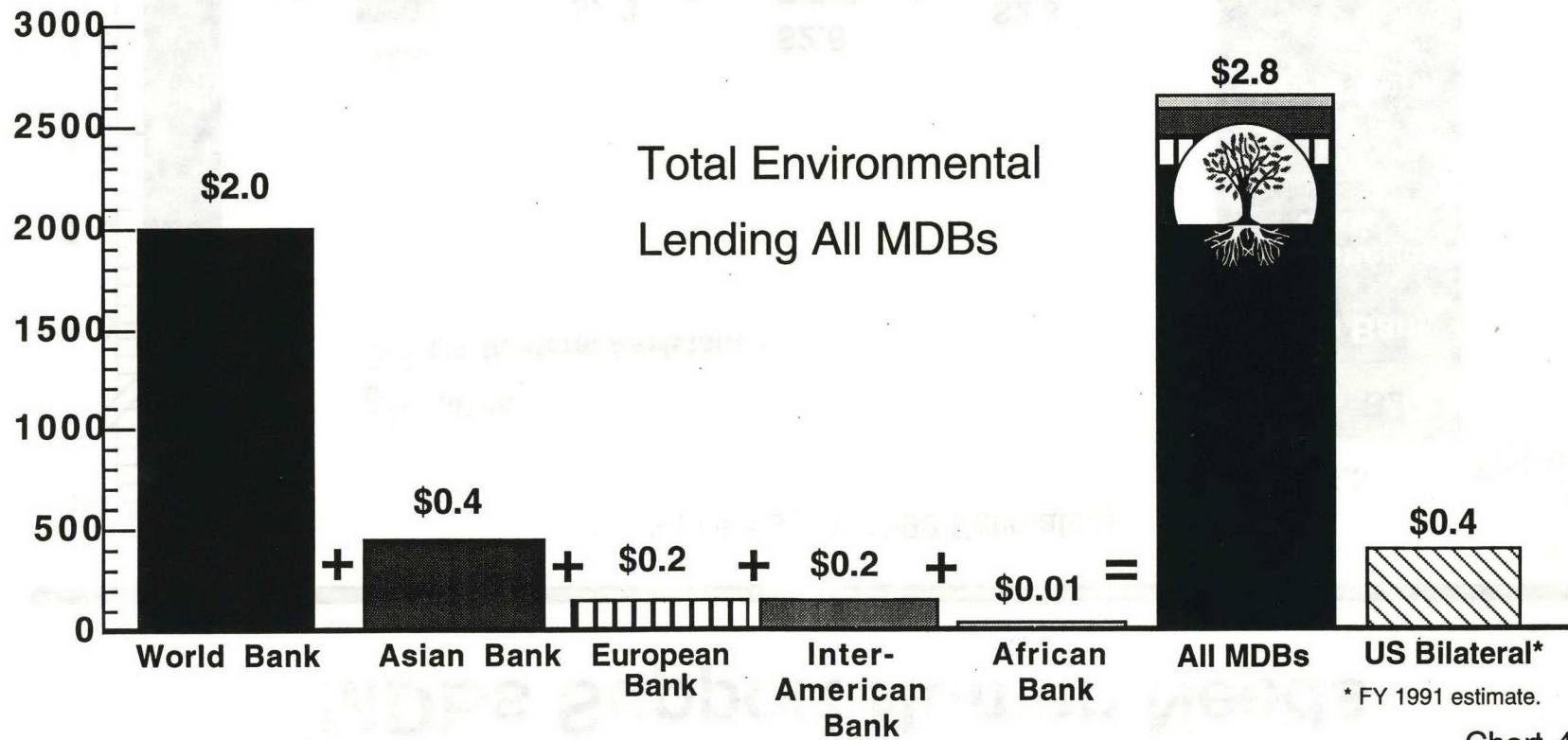


Chart 3

MDBs Support The Environment

(US \$ billions; 1992 estimated environmental lending)



Higher U.S. Exports = More U.S. Jobs

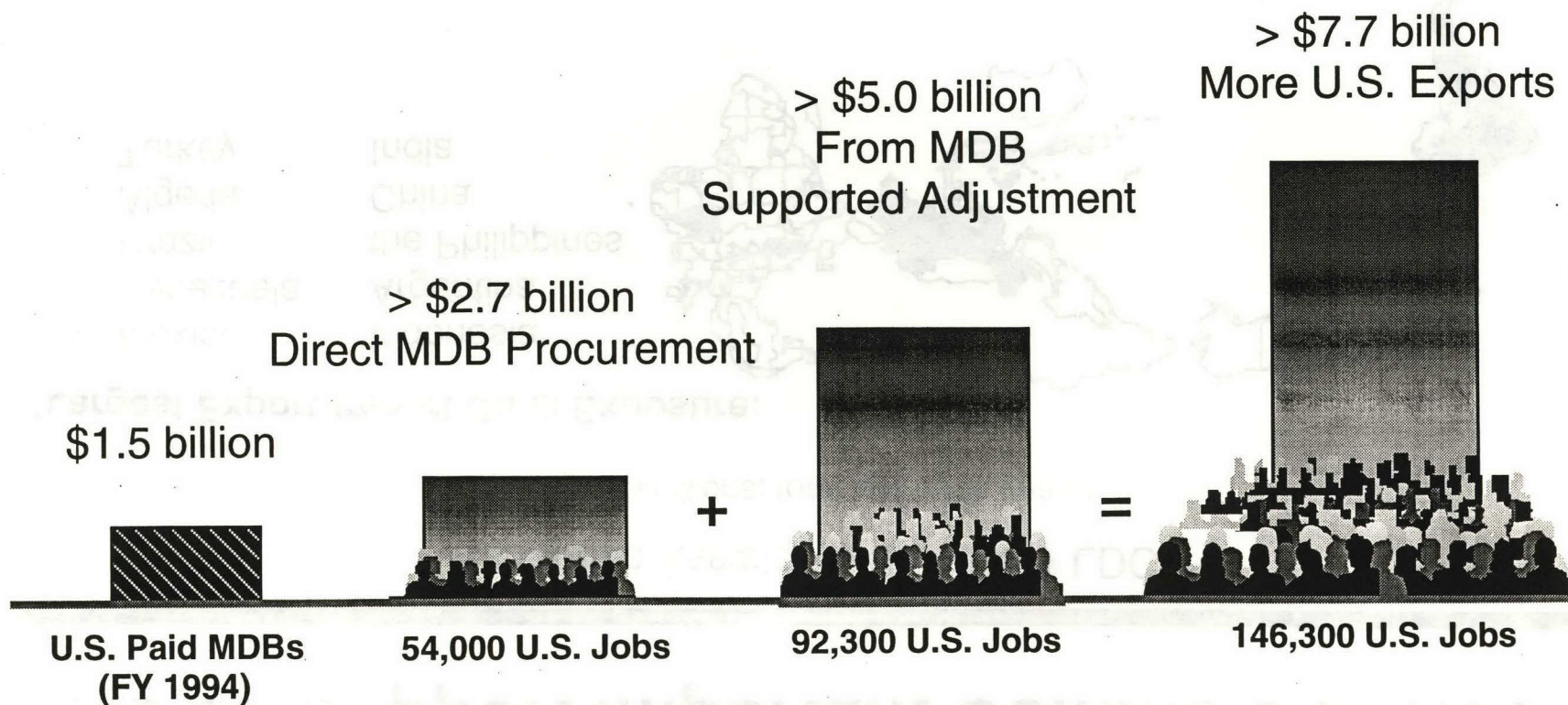


Chart 5

MDBs Support Important Commercial Ties

Economic Assistance to 10 key LDCs*

(US \$ billions; total last three years)

*Largest Export-Import Bank Exposure:

Mexico	Indonesia
Venezuela	Argentina
Brazil	the Philippines
Algeria	China
Turkey	India

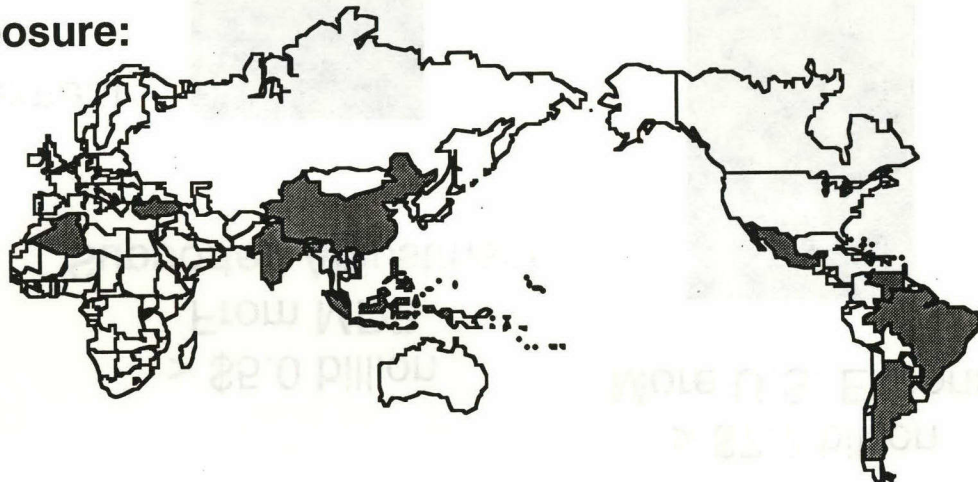


Chart 6

Presidential Archives

Classification:	
Date:	
Topic:	IDA
VPU:	
External: (NGO, government official, private sector, international institution, personal acquaintance)	
Document prepared by: (name, department, etc.)	Sands from

The World Bank
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

JDW
Documents
relating to IDA
you requested.
On

March 29, 1995

The Honorable
Robert E. Rubin
Secretary of the Treasury
U.S. Department of the Treasury
Room MT-3330
Washington, D.C. 20220

Dear Mr. Secretary:

We are grateful for the strong support you and your colleagues have provided the World Bank and the International Development Association (IDA). We are particularly concerned that the U.S. maintain this support during the IDA-10 replenishment period and into IDA-11 as well. As you have pointed out in your recent Congressional testimony, IDA provides tremendous leverage -- for every dollar the U.S. has contributed to IDA, the Europeans, Japanese and others collectively contribute four dollars, mobilizing far more resources than the U.S. could raise bilaterally for the same purposes.

We understand that the Congress has decided that fifty percent of the funds appropriated in FY 1995 for the IBRD and IDA shall be made available on April 1, 1995, or thereafter, only if you determine that the World Bank has taken certain steps in three major areas: a) implementing the recommendations contained in "Next Steps", the follow-up to the Wapenhans Report; b) implementing the action plan contained in chapter 8 of the April 8, 1994 resettlement review; and c) implementing the Bank's procedures on disclosure of information issued in September, 1993.

I am attaching to this letter three annexes which set out the actions the Bank has taken on each of these areas of concern. We believe that major progress has been made in implementing the recommendations. We hope you will find that the Bank has met the criteria necessary for an early and positive determination to the Congress on this matter.

Thank you for your continued support.

Sincerely,



Sven Sandstrom
Acting President

Attachments (3)

Next Steps

The Bank is giving very high priority to ensuring implementation of the changes set forth in Next Steps. Strengthening portfolio management to achieve on-the-ground results has been a hallmark of President Lewis T. Preston's leadership of the Bank.

Next Steps, a program of 87 actions intended to reorient the Bank's business processes so that Bank-financed activities have enhanced development impact, has been nearly fully implemented within 18 months of its presentation to the Bank's Executive Directors in July 1993. Major initiatives under Next Steps include Country Portfolio Performance Reviews (CPPRs), the Annual Report on Portfolio Review (ARPP), country portfolio restructuring, project mid-term reviews, and improved measurement and monitoring of development results through performance indicators. However, implementation of these actions is properly viewed as only the initial step of our long-term efforts in this area. Bank management fully recognizes that the increased attention to implementation reflected in Next Steps must be sustained over time. Indeed, new issues and additional points have emerged in this context of the work to date which are having an impact on how the Bank does its business. "Staying the course" on all these issues will be essential to developing the implementation culture that the Next Steps work set as a medium-term objective.

The ARPP has just been submitted to the Board. It provides full details of the Bank's follow-up to Next Steps recommendations (see Annex A in Volume I for a summary matrix), as well as the broader work on implementation around the Bank. The higher supervision levels identified in the report as well as the many region-specific initiatives to improve results on the ground are presented in considerable detail.

Resettlement

At the conclusion of the Bankwide Review of Involuntary Resettlement, Bank Management agreed to continue monitoring the status of the resettlement portfolio through the preparation of a special annual annex to the ARPP. The following additional comments in response to several specific questions posed by Treasury Department staff, should be read in conjunction with the portion of the ARPP devoted to this topic (Volume III, Annex 2).

Overall, the ARPP found "continuing improvement in the planning of new projects, and measurable positive changes in Bank "culture" with respect to resettlement. On the other hand, while resettlement planning is much improved, implementation still presents significant challenges. An analysis of implementation underlines the inherent difficulty of carrying out resettlement and consequently the continuing need for intensive treatment of the subject."

Once the Bankwide Review was concluded and the findings discussed at the Board, a major effort was made to ensure that Bank staff were made aware of the conclusions of the review, the recommendations in Chapter 8, and staff responsibilities in implementing these recommendations. Among the steps taken were the following:

- The Report of the Review, and the Chairman's Summary of the Board discussions, were sent to all vice-presidents, department directors and other recipients of Board documents.
- A copy of the same material, with encouragement to focus on the decisions summarized in Chapter 8, was sent directly by Mr. Michael Cernea, principal author of the report, to every task manager of a project with resettlement, and to many other staff members in the Bank. Division chiefs in divisions with resettlement projects were included in this distribution.
- Instructions were issued by the President's Office to regional vice-presidents on guidelines for preparation of the Regional Remedial Action Plans (RRAP) called for by the Review.
- The Bankwide Steering Committee (which was established to advise the Task Force on the Bankwide Review) met twice in late 1994 to discuss these instructions and other issues arising from Chapter 8, and further meetings were held within regional offices. The reports from the regions for the ARPP and the RRAP provided far-ranging evidence that the actions agreed in Chapter 8 were being carried out.
- In addition, Environment Department staff maintained close contact with regional staff, including Technical Departments which kept in close touch with their immediate colleagues on these same issues.

We are now revising the requirements for resettlement information to be contained in Staff Appraisal Reports (SARs); this will be completed by May 1995.

Twelve projects with resettlement components have already been approved in FY 1995; they vary radically in size and complexity, as the requirements for SAR information. For example, three projects involve resettlement of 100 people or less; in four cases, the resettlement activity is still to be defined by technical design work when approval of individual sub-projects will be given; the remaining five projects have detailed sections in the SARs on resettlement issues. (Staff will provide the U.S. Executive Director with further details, if needed.)

Supervision of projects with resettlement components was more intense in FY 1994 than at any prior period due, in part, to the Bankwide Review efforts, as noted in the ARPP annex. Subsequent to the ARPP we updated our information covering resettlement supervision over the last fifteen months (January 1994-March 1995), the period since the Bankwide Resettlement Review. This review shows that of the 129 projects with resettlement covered, 98 were supervised for resettlement, and 76 of those were supervised by resettlement specialists. This compares favorably to performance during the Resettlement Review, indicating that the Bank has maintained a high intensity of resettlement supervision following the Resettlement Review. The data also show that only three projects resettling more than 5000 people, all in China, have not been supervised during this period. Two of these will be supervised this spring, and the third completed all resettlement operations some time ago. Another seven projects, resettling between 1000 and 5000 people, have not been supervised during this period. Most of these have either completed all resettlement operations, or are in the early stages of development.

Mission supervision planning for FY 1996 will be done in May, as part of normal business planning. We will be reviewing these plans to confirm that in spite of the overall budget constraints resettlement components will be allocated sufficient staff resources to ensure that they are properly monitored and that any problems are adequately addressed.

The key instrument in developing the Bank's strategy in each country is the Country Assistance Strategy (CAS). While the CAS is not specifically mentioned in Chapter 8 of the Review, broader policy discussions are, in fact, proceeding in many countries with frequent Bank-financed resettlement projects. These are reported in the ARPP annex and include, for example, policy dialogue specifically on resettlement in Uganda, India, Turkey, Colombia, and Brazil. Assistance in institution-building through the Bank's Economic Development Institute (EDI) is proceeding in parallel in many countries throughout the world. We expect these policy discussions will become even more common in the future.

Furthermore, in this complex area, we must provide our staff and partners the best available thinking based on international research and experience. This is a continuous process, with guidance being issued and conveyed in various forms throughout the year on specific topics by the central Environment Department as well as the various regions and their departments responsible for resettlement work. For example:

- The Asia regions have issued a 150-page handbook for task managers on R&R in India;
- The Africa region has published and distributed to resettlement staff its working paper on this subject;
- Annual training courses are being conducted for task managers working on resettlement;
- The resettlement operational directive is being converted to the new Bank format and will be available in draft for review in the Bank in June of this year. This is one of the Operational Policies which will be distributed to the Board in draft;
- Urban resettlement will be addressed more substantially in the operational policy;
- The Bank's 18-20 resettlement experts are in regular and intensive communication informally with colleagues from around the Bank who are seeking specialized guidance.

Thus, as the information noted above and the extensive review in the ARPP makes clear, there is a considerable progress in our attention to difficult resettlement issues following on the Bankwide Review. But we are well aware that this is an area where continued and lasting effort will be needed, working very closely with the borrower upon whom the responsibility for implementation of sensible policies and practices falls. We are committed to providing to the maximum extent possible, the support and guidance that will help their efforts succeed.

Implementation of the Disclosure of Information Policy

The decision taken by the Bank's Board of Executive Directors on August 26, 1993, to approve a revised information disclosure policy represented a major step in ensuring much greater openness and access to information held by the Bank. The Bank has made major efforts since that time to ensure Bank member governments, staff and interested outsiders are aware of the new policy and its implications.

On January 20, 1995, the Executive Board received a report (Disclosure Policy Retrospective) which spelled out the first year's experience in implementing the new policy. This report indicated the steps taken to promote dissemination under the new policy. These include, inter alia, the following:

- wide circulation in early 1994, inside and outside the Bank, of a convenient pamphlet -- The World Bank Policy on Disclosure of Information -- setting out the policy.
- issuance of BP 17.50, Disclosure of Operational Information, in September 1993. This Bank policy instruction listed the various operational documents eligible for release, the procedures for disclosure, and the effectiveness dates for implementing various parts of the policy.
- issuance of a number of reminders and clarifications to staff. As experience with implementing the policy revealed specific problems (e.g. the scope of Project Information Documents (PIDs), the definition of factual technical documents), these notes provided further guidance in the form of Operational Memoranda. These include, inter alia, the following:
 - December 2, 1993 - Changes in procedures for length of PIDs, environmental reports for Category B projects, and resettlement and indigenous peoples development plans;
 - February 4, 1994 - Reminder about PIDs, including attachments describing the contents of PIDs for investment and adjustment operations;
 - April 18, 1994 - Concerning automatic release of Staff Appraisal Reports (SARs) for loans approved by the Board;
 - May 16, 1994 - Memo on facilitating release of factual technical material;
 - June 20, 1994 - Further guidance on release of factual technical material.

Our experience, as reflected in the Disclosure Policy Retrospective report, suggests that substantial progress has been made in the first year of implementation. A key feature of this was the establishment of the Public Information Center (PIC) on January 3, 1994 in Washington with world-wide outreach via Internet and the widely distributed PIC catalog of documents, in addition to PIC Offices in London, Paris and Tokyo as well. The demand for information has been great, particularly from the business community. The PIC has been able to meet this demand through the close collaboration of member governments and staff, who have made the documents available in a timely fashion to the PIC. Over 1500 individual Bank Group documents are now available through the PIC.

We believe that Headquarters staff have done a superb job in meeting the requirements of this new policy, despite the additions to their workload and, in some cases, lack of full clarity as to what was needed. As experience has been gained further improvements in performance have been made. The various memoranda noted above were intended to further strengthen staff effectiveness in implementing the new policy.

Nevertheless, we are aware that the system has not worked perfectly and there are additional steps needed to ensure that full benefit is gained from the new policy and practices. As the report to the Board points out, we will be making stronger efforts to ensure that resident missions and governments are able to reach out to people in their countries with information about projects that will have an impact on them. For example, seven major missions around the world will soon be issuing Project Information Documents (PIDs) locally in the language of the project area (in Bangladesh, India, Indonesia, Bulgaria, Russia, Cote d'Ivoire, and Brazil). This experience will be monitored and we would expect to expand this list as a result. Many Bank resident missions are already making available to their partners in-country translations of especially important documents. To actively promote these and other initiatives more broadly, a letter will be sent in April to all resident representatives outlining what they should do to further enhance their own work in promoting the dissemination of operational information designed to improve the quality of Bank-supported activities.

In addition, to further strengthen the process and identify any gaps that may exist in current systems, we have recently surveyed, in consultation with the six geographic regions, our compliance with BP17.50 to assure that documents which should be in the PIC are there. This review has found that for most categories of documents the requirements are being met. There has been good performance on Staff Appraisal Reports (SARs), Economic and Sector Reports, Sectoral Policy Papers, Environmental Data Sheets and Environmental Action Plans.

The performance on Project Information Documents has been good as well; nearly 800 Bank/IDA PIDs have been made available through the PIC. Our review did indicate, however, a few gaps; the regions have ensured that the small number of "missing" PIDs for projects where an Initial Executive Project Summary has been completed would be prepared rapidly and provided the PIC, in nearly all cases by April 1. In addition, we will need to continue to ensure that PIDs are revised as major changes develop in projects.

In the environmental area we have found that while staff and borrowers have been preparing environmental assessments and analyses as required for Category A and B projects, respectively, staff have not been sufficiently aware of the need to provide the PIC with the necessary documentation in a timely fashion. Each regional senior operations advisor has been reminded of these requirements and staff have been advised. As a result the PIC is now receiving the necessary environmental documents as they become available. Moreover, for all Category A and B projects coming to the Board during the last three months of this fiscal year (i.e., April - June 1995), the required information will have been sent to the PIC by April 1 at the latest and placed in the information system immediately thereafter. Thus, we expect that by April 1, the PIC will have the environmental data needed for all A and B category projects coming to the Board in April, May and June 1995.

There are, of course, many other requests for information made to the Bank which are being met on a case-by-case basis. Regarding "additional factual information" which may be made available, for example, after an initial period of uncertainty concerning procedures for release of such information, we have not had any complaints and have, in all cases we are aware of, been able (in consultation with the appropriate government) to satisfy the request.

Based on our recent experience in our regional review of compliance, we are certain that the Bank's monitoring of document disclosure will be made much simpler once we have introduced changes in the Bank's Management Information System (MIS) lending reporting categories to flag for task managers their responsibilities for documents which must be made available in the PIC. This will permit ready access to this same information by the PIC.

How IDA promotes Environmental Objectives

JDW-A more concise note about how IDA uses its "muscle" is - it is the environment is under way. Oh

IDA seeks to influence its borrowers' environmental policies and practices in two main ways--through the choice and design of its lending operations, and through non-lending activities that are closely linked with lending programs.

1. Lending Operations

Environmental Projects

IDA lends an average of \$500 million per year for environmental projects aimed at pollution prevention; soil, water and forest conservation, sustainable agriculture and strengthening of environmental institutions. In addition, many other IDA agriculture, infrastructure, water supply and adjustment operations include activities with environmental objectives.

IDA uses its projects to introduce and promote a variety of environmental objectives, such as:

- In agriculture - to reorient national research and extension programs toward integrated pest management, soil conservation and sustainable cropping systems;
- In water resources projects - to move away from simply constructing new facilities and begin to establish water users groups and other institutions that will ensure sustainable management of the water resource.
- In urban solid waste projects - to close existing dumps and open new sanitary landfills.

Environment projects usually call for borrowers to make changes in their practices and strengthen their environmental agencies and procedures. Recent examples include:

- India - Industrial Pollution Prevention Project. Besides strengthening State Pollution Control Boards, the project will involve private initiative by providing a line of credit for sub-projects by individual firms for waste minimization, resource recovery or pollution abatement and waste treatment schemes.
- Benin - Environmental Management Project will help the government introduce an environmental assessment process and prepare prevention plans for environmental crises. It also promotes public awareness of environmental issues so that civil society can participate in the decision-making process and help decentralize environmental planning and management.

- Honduras - Environmental Development Project not only strengthens the policy, legal and regulatory framework at the national level, but also supports projects at the local and community level and activities of small- and micro-enterprises.

Forest Management Projects

IDA is the largest source of external financing for forest management in its client countries. Through its projects, it encourages borrowers to make the difficult transition from exploitative and poorly regulated harvesting toward comprehensive, sustainable forest management. IDA's forestry policy makes lending operations to the forest sector conditional upon government commitment to undertake sustainable management and conservation-oriented forestry, and requires borrowers to consult with interest groups involved in a particular forest.

- In Côte d'Ivoire, which has the world's highest rate of deforestation, an IDA project has introduced land zoning to control and rationalize the harvesting of forests.
- In India, a series of state-wide forestry projects deals comprehensively with industrial forests, parks and protected areas and agriculture and soil conservation in forest zones.
- In Bhutan, the Third Forestry Development Project adopts multiple-use management and will implement a social forestry plan that will involve local people in forest resource management through a system of shared benefits and responsibilities.

Economic Reforms and the Environment

The economic reforms supported by IDA adjustment operations can have significant environmental as well as economic benefits. Typically, borrowers agree to eliminate or reduce subsidies on petroleum products, fertilizers and pesticides or energy prices--thereby reducing wasteful, environmentally damaging consumption. In addition, adjustment operations may include specific environmental conditions.

- In the **agriculture** sector, structural reforms aimed at opening up competition and permitting farmer crop choice usually result in higher crop prices, better farm management and land stewardship. Some borrowers introduce or strengthen land tenure or titling to help soil conservation under IDA projects.
- Environmental standards and guidelines for **industries** have been called for in adjustment operations in Côte d'Ivoire, Senegal and Sierra Leone.

- **Energy conservation** programs and studies of alternative energy sources have featured in adjustment operations for Bangladesh, Togo, Honduras and Zimbabwe.

2. Non-Lending Activities

The size and scope of its lending program enables IDA to discuss and influence borrowers' environmental policies and practices in the following additional ways.

Environmental Assessments

IDA requires its borrowers to do an environmental assessment (EA) or review for any project that will have a significant environmental impact. Since 1989, the World Bank has led the way in terms of policy, guidance development and dissemination and accumulation of experience in EAs. IDA together with its borrowers is breaking new ground, such as in the increased use of sectoral EAs, and using EAs in privatization and adjustment operations.

- In Kenya an EA was done for the energy sector that determined the costs and benefits of a variety of energy sector development alternatives, and proved an inexpensive and effective tool to help rank them.
- In Sri Lanka's Private Finance Development Project, an innovative component provides a special credit line exclusively for pollution control and prevention investments, thus creating an incentive for enterprises to improve environmental performance and to undertake the EA work required to prepare for such investments.

National Environmental Action Plans

IDA requires all borrowers to complete a National Environmental Action Plan (NEAP) and IDA management closely monitors each borrower's progress. For most borrowers, the NEAP has been their first attempt to systematically assess and prioritize the full range of environmental problems and to determine the investments and policies needed to address them. In preparing these plans, some borrowers have organized extensive consultations with local people, academics and environmental interest groups. Bilateral donors and IDA are now using NEAPs to help guide their assistance programs. In some cases, IDA also assists borrowing countries to undertake legal reforms recommended in the NEAP.

- The Gambia's National Environmental Management Act is the product of a participatory effort under the country's NEAP. It creates a general institutional framework for subsequent, more specific, environmental laws and

regulations and establishes a National Environmental Agency. In addition to assistance promulgating the law, IDA supports a project for Capacity Building for Environmental Management.

Intellectual Leadership

The World Bank and IDA provide intellectual leadership to the world's poorest countries by identifying and disseminating lessons from experience and good practice and by being at the forefront of policy-oriented research on concepts, methodologies and indicators. IDA's large portfolio of projects provides lessons from experience, and enables IDA to encourage borrowers to apply them in new projects and national policy. IDA's recent paper on water resources, for example, breaks from the fragmented, traditional approach and insists on a comprehensive, cross-sectoral approach to designing water resource investments, policies and institutions.

- In Tanzania, IDA and the government are developing a comprehensive water resources management strategy. It covers water supply and sanitation, industrial water pollution, water-related health issues, groundwater contamination, overfishing, coastal zone protection, irrigation issues, land use topics, data needs and regulatory and institutional issues. It will thus help analyze and resolve conflicts in water and land use.

IDA is a leader in developing new methodologies for valuing environmental costs and benefits in development.

- In collaboration with the Statistical Division of the United Nations, IDA has developed a framework for integrated environmental and economic national accounting.
- By developing a series of indicators of environmentally sustainable development, the Bank is helping provide a basis for national and international decision-making.
- In Zimbabwe, innovative valuation methods were used to estimate consumer surplus from safari tourism;
- In Pakistan, valuation methods were used to help set priorities in environmental management, to help safeguard scarce financial resource.

TABLE OF CONTENTS

- A. Follow-up to Hill Visits
- B. “How to Win” Strategy for Passage of World Bank Legislation
- C. War Room in EXT
- D. Committee/Staff Lists
- E. Prototype of Black Book Entry on Senators/Congressmen
- F. Editorials/Op-Eds Generated by the Bank
- G. Bank Materials
 - Common Interests
 - Issues Briefs
 - Talking Points
- H. Cato Institute

FOLLOW-UP TO HILL VISITS

I. Organization of a "Military Campaign"

- War Room established in EXT
- Political Support
 - John Donaldson on board
 - Offer made to George Tyler
 - Former Congressman Bill Stanton, part-time consultant
 - Edelman Public Relations firm retained
 - Strategy developed; will be refined over time

II. Black Books

- Black books being prepared on key Committee Members and Staff. Prototype entry prepared for JDW approval (see E).
- Meetings for JDW on Hill.
 - Courtesy notes drafted for visits on March 27. Sent to JDW.
 - Proposals for future meetings with Members will be sent to JDW by April 6. Also proposals for breakfast/lunch with key staff.

III. Meetings on Hill

Meeting with Jim Leach/Jamie McCormick

- MMH is calling Treasury to discuss "Chapter 11 for Countries" issue.
- Agenda for Halifax and briefs to be forwarded to Leach when completed (MMB to review).
- Suggestion regarding JDW lunch with Wayne Struble. John Donaldson has met twice with Wayne, and believes that there is a possibility to move him toward neutrality. His feelings toward the Bank are more intellectual than emotional, and more general than specific. He's not fond of foreign aid, and IDA is the biggest target in the Function 150 account. Despite his views, he has taken a back seat to others – principally the staff of the 150 task force, and Bret Coulson in specific.

Meeting with Mike Castle/John Lopez

- We are in daily touch with John Lopez. He will be invited for breakfast/lunch with JDW. This event should take place before May 1 if at all possible – prior to moving the authorization legislation.
- Report on March 27 hearing will be sent to JDW and Senior Management on April 3. Transcript has been requested.

Meeting with Bob Livingston/Tripp Funderburk

- Need for education campaign on Hill cited. This campaign underway. Will expand dramatically in next month.
 - Daily visits to key staff.
 - Distribution of materials: Common Interests, Issue Briefs, etc.
 - Enlisting favorable testimony from third parties (e.g., Enron).
 - Favorable editorials being solicited (See F).
 - Recess strategy developed: visits to key Districts and intensive follow-up with local media.

Meeting with Dave Obey/Terry Peel, et al

- Two Cato Reports on Bank's finances being provided (See H and Book).

Meeting with Sonny Callahan/Charlie Flickner

- Comment on energy companies as enthusiastic about Bank's role. MMH convened meeting of Washington representatives of key energy companies on March 24. They agreed to support us on Hill through testimony and visits to Members/staff. One – Enron – testified before Senator Helms on Thursday.
- Need to educate American public. We are constantly engaged through our Speakers Bureau and our enhanced media campaign (See C).

Lunch with Jim Dyer and Charlie Flickner

- We are organizing briefings for Committee staff during the recess.
- We have prepared talking points for the Hill (See G). Specially tailored bullets will be prepared for future meetings with members.

- Target Budget Committee. MMH has met with Budget Committee Members working on international programs (150 Task Force), as had Bretton Woods Committee. Future visits to be arranged by MMH.
- MMH will arrange meeting with Gingrich.

IV. **Request for IDA Contingency Plan**

- Resource Mobilization now reviewing country work programs. Will be able to present scenarios for various resource levels in three weeks or so.

LEGISLATIVE CRITICAL PATH

There are three overriding objectives in the legislative strategy necessary to win the war concerning IDA this year, to improve the climate in anticipation of IDA 11 and provide a more accurate, complete understanding of the World Bank Group in the Congress over the coming year. They are:

- Reinforce traditional base of support among Democrats in Congress
- Provide incentives to moderate Republicans to actively support IDA
- Provide reassurances/comfort level to at least neutralize Conservative Republicans

To achieve these goals will require us to identify and define these groups, determine the factors which are necessary to achieve success, and deploy the resources necessary to accomplish our objectives.

To a large degree, we are already able to differentiate Members and Senators into their appropriate groups, and we have a significant base of information which enables us to determine the factors influencing each group. The most notable exception to this is the unusually large group of Freshmen, especially in the House. However, we are taking active steps to overcome this obstacle by the end of the April recess.

Identifying the above objectives is the first step in a strategy. The other essential factor is knowing what process, or critical path, will most likely result in success, at least with regard to the immediate objective of preserving IDA.

With regard to IDA, the critical path is as follows:

HOUSE/SENATE BUDGET COMMITTEES

Although not essential in funding the third year of IDA 10, the 5 year budget resolution which is presently being drafted by the Budget Committees will make certain assumptions that will be factored into the marks which are provided to authorizing and appropriating committees. The Budget Committees will be acting by May 15.

- To the extent possible, we must make a persuasive case to Budget Committee members that IDA should figure in their assumptions. This effort is presently underway and should be fully expressed by May 1.
- Targeted Members on the House Budget Committee include the Function 150 Task Force, Committee leadership and moderates, as well as their respective staff.

- A similar effort is being implemented with the leadership of the Senate Budget Committee.

HOUSE BANKING COMMITTEE

The third year of IDA 10 must be authorized before we can expect appropriators to appropriate any funds. Authorizing legislation is pending before the Banking Committee, and must be reported out of full Committee by May 15. A day of hearings on the legislation had been scheduled for April 5, but will now be delayed until after the recess because of unrelated scheduling problems. While there is concern that there is little margin for error on timing to get the legislation through the subcommittee and full committee by May 15, such a timetable remains realistic.

Chairman Sonny Callahan of the House Appropriations Foreign Operations Subcommittee has indicated that, if the Banking Committee reports the legislation out of Committee, he will include it in his bill.

- Because of the delay in holding the hearing and markup on the legislation until after the recess, we have the opportunity to attack one of our biggest hurdles to passage -- the lack of knowledge or institutional memory concerning this program on the Subcommittee. With the exception of Chairman Castle and Rep. Royce, all the remaining Republicans on the Subcommittee are Freshmen.
- During the recess, we will meet with all responsible staff of Subcommittee Members, and as many of the full Committee Members as possible. Following the recess, we will meet with all of the Members before the hearing/markup in early May.
- Getting the legislation out of the Banking Subcommittee will require convincing a majority to agree. Chairman Castle is supportive, and the Democrats will likely support. However, we must obtain our majority by attracting sufficient support from new Republicans who are presently underinformed about IDA.
- At the full Committee, we must rely on the leadership of Chairman Leach and traditional supporters such as Rep. Bereuter and Roukema among senior Members, and solid support from the Democratic side.

HOUSE APPROPRIATIONS FOREIGN OPERATIONS SUBCOMMITTEE

Assuming success in getting the authorization legislation through the Banking Committee, the next major hurdle is to convince Chairman Callahan to act on his promise to include the authorizing legislation in his bill, which will likely be marked up by early June.

This step is critical for two reasons. First, it avoids having to take the authorization legislation to the floor of the House, where achieving 218 votes would be very difficult. Secondly, it provides a way to avoid needing the Senate Foreign Relations Committee to

vote out and pass their version of authorizing legislation. If the authorizing legislation is ultimately included in the appropriations bill, it allows for a lower threshold of active support from authorizers in the Senate. Procedurally, we should ask the committee to provide funds “subject to authorization” and get agreement that the authorizing legislation will be added in conference (to avoid point of order challenges).

- We face a significant challenge, Callahan notwithstanding, in getting the authorizing legislation into the appropriations bill. We face the additional challenge of obtaining acceptable funding for the third year of IDA 10.
- In order to be successful, we must count on solid support from the Democrats, where Rep. Pelosi has serious problems if China remains in the picture, and solid support from 2-4 moderate Republicans, as well as Chairman Callahan’s leadership.
- We have to overcome the well informed objections of senior Subcommittee staff, who have followed IDA for many years.
- We have already been engaged in an active effort to achieve a majority on the Subcommittee, having met with all relevant staff and many of the Members. Our efforts will continue and intensify once it is clear that the authorizers are acting.

FULL HOUSE APPROPRIATIONS COMMITTEE

- At the full Committee level, we can count on tradition to some degree. The full Committee provides a great deal of deference to the work of Subcommittees. Assuming some degree of deference, we will need the active support of Chairman Livingston and Ranking Member Obey to hold their respective Members in line.

HOUSE FLOOR

Our chances for success increase significantly to the degree that we can avoid any separate votes on IDA on the House floor. To achieve this will require a minimum of neutrality from the House leadership. In theory, if the appropriators have approved legislation within their targets, the leadership should not be uncomfortable in allowing the legislation to go to the floor with a relatively tight rule protecting key elements.

- We have to assume that this legislation will be going to the floor before the July recess. By that point, we will have to fully implement our education effort with regard to targeted House Members and the House leadership.

SENATE FOREIGN RELATIONS COMMITTEE

The character of the Senate Foreign Relations Committee is dominated by the personality and priorities of its Chairman, Senator Helms. However, the Chairman has a full agenda

which he is actively pursuing, and we have traditional supporters among the Republicans and Democrats on the Committee.

Issues such as IDA will be determined at the full Committee level, with little authority vested in the Subcommittees. It will be very difficult to obtain the active support of the Chairman to get IDA authorizing legislation through the Committee and to the full Senate. However, it becomes somewhat easier to succeed if we need only the approval of the Committee to include the legislation in the appropriations bill. With all of the legislation which the Committee is considering, and especially the legislation reorganizing trade and development functions in the State Department, such a course might be possible. In this case, the Foreign Relations Committee could still help craft the legislation through hearings and recommendations to the appropriators.

- Our principal objective with regard to the Foreign Relations Committee is to persuade the Chairman and key supporters that IDA promotes exports, creates and preserves jobs, and is a more efficient use of resources than bilateral programs.
- We must assume that hearings will be held, and prepare our supporters to defend us against strong opposition. Our opponents know that this committee is the most likely to be sympathetic to their point of view, and they will seek to exploit it.
- Senator Helms and others on the Committee have not been supportive, but are open to good arguments.

SENATE APPROPRIATIONS FOREIGN OPERATIONS SUBCOMMITTEE

To be successful, we will need active support from this Subcommittee. To the extent that we can reduce our theater of action to resolving differences between the two appropriations bills, our chances of success are very good. Our activities with this Subcommittee are focused on ensuring that IDA funding is included in their version of the bill. Ideally, they would also provide the necessary authorization, and make the issue not a factor in conference. At a minimum, this Committee must obtain the acquiescence of the Foreign Relations Committee to accept the House bill's authorization language.

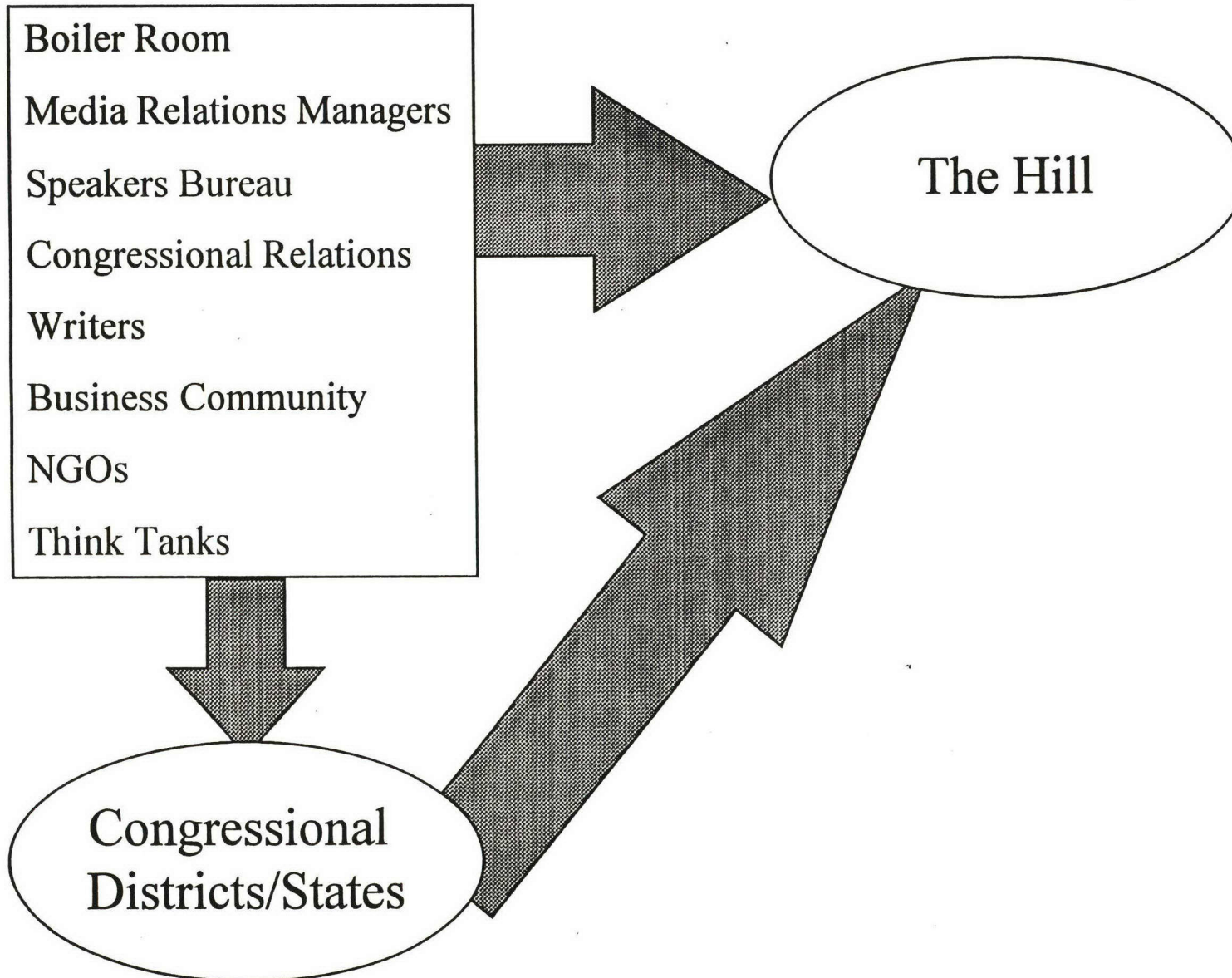
- Senator McConnell is the key person who must be convinced to support our strategy, and this will prove to be difficult. McConnell is a shrewd politician, and IDA is not a popular political issue. Chairman Hatfield, while supportive, will not likely interfere with one of his "cardinals" or Subcommittee Chairmen.
- We need McConnell to be at least inclined toward our position, tangible support from the other Republicans on the Subcommittee, as well as solid support from Democrats.

SENATE FLOOR

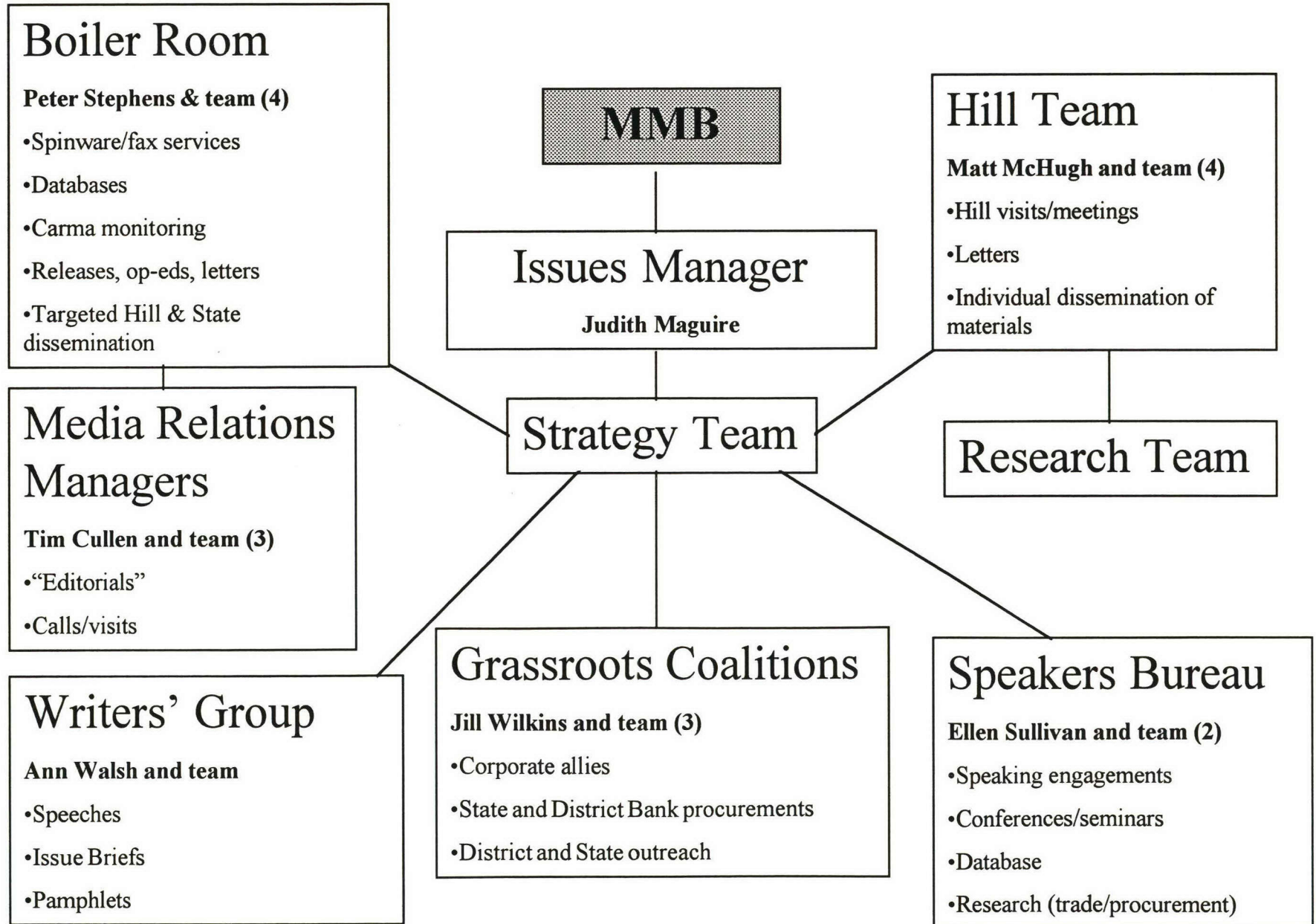
With regard to the Senate floor, we cannot bring the legislation forward protected by any tight rule. The bill will be subject to amendment and filibuster. Accordingly, we will need to enlist the support of the Senate leadership, in addition to the support of Senator Hatfield (he will be free to be actively supportive at this point) and other advocates to head off challenges from Conservatives.

In conclusion, we cannot hope to convince everyone of the virtues of IDA. To the extent that we can reduce the area of engagement to the smallest group possible -- the appropriators -- with the support of a broader group, our chances for success increase.

US STRATEGY - APPROACH



US STRATEGY - ORGANIZATION



US Strategy: Lists

HILL

A LIST

Key Members:

- Sub-committees
- Leadership
- Associated staff

B LIST

Other Targeted Members:

- Full committees
- Members with relevant sector interest

C LIST

All Members:

- Legislative Directors
- Press Secretaries
- Legislative Assistants

State Delegations

PRESS

A LIST

Key Journalists:

- Top 10 National newspapers

B LIST

Top 50 newspapers:

- Business editors
- Editorial page writers
- Foreign affairs reporters
- Environmental reporters
- New services

C LIST

Key Committee Members and other targeted states:

- Newspapers
- Radio
- TV

OTHER

A LIST

Key Leaders:

- National commodity producers
- National financial sector
- National service organizations
- National business and trade associations

B LIST

B1: Key State Leaders:

- Commodity producers
- Financial sector
- Business associations
- Service organizations
- Companies with WB procurement
- State/local government

B2: All State Leaders

As above

C LIST

Key District Local Leaders:

- Business associations
- Financial associations

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Congressman Sonny Callahan

Alabama - 1

Subcommittee on Foreign Operations, Chairman
Committee on Appropriations

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Ms. Nancy Tippins -- Legislative Director and Foreign Operations Staff Member

Biographical Sketch

Congressman Sonny Callahan



HUMBLE BEGINNINGS

From the cab of an 18-wheeler to a seat on one of the most influential committees in Congress, the road Sonny Callahan has traveled getting to our nation's capital has never been dull.

Congressman Callahan was first elected to the United States House of Representatives on November 6,

1984. He has since been reelected five times and is now serving in his sixth term.

Alabama's First District is located in the southwest corner of the state and encompasses six counties — Baldwin, Clarke, Escambia, Mobile, Monroe and Washington.

Politically speaking, the First District has long had a reputation of returning its representative to Washington. For instance, Callahan's two immediate predecessors, former Congressmen Jack Edwards and the late Frank Boykin, served in Congress for a combined total of 48 years.

DEEP ROOTS IN THE PRIVATE SECTOR

Prior to coming to Congress, Sonny Callahan had a successful career in the private sector.

As a small businessman, he knows what it is like to meet a payroll each month. Likewise, his experience in filling out mounds of paperwork and meeting numerous federal regulations has resulted in his being an outspoken advocate of less government intervention into the lives of our small businessmen and women.

LEADING THE FIGHT AGAINST BIG GOVERNMENT

A 12-year veteran of the Alabama House and Senate, Sonny Callahan came to Washington in 1985 committed to providing a conservative voice in Congress for the more than 577,000 people he represents. A review of his record indicates he has done just that.

In 1992, Congressman Callahan won appointment to the powerful House Appropriations Committee, where he was a vocal opponent of unnecessary foreign aid programs. In January 1995, he was tapped to chair the Foreign Operations Subcommittee, becoming one of the 13 "Cardinals" on Appropriations.

It is here the congressman intends to continue his role as a watchdog for the American taxpayer. And it is certain, now that the House is under Republican control for the first time in 40 years, that U.S. foreign aid will receive even closer scrutiny than in years past.

"Foreign aid is often misunderstood," Callahan says. "Our role in Congress should not be to micromanage the State Department, nor tie the hands of the Administration. However, the Constitution clearly provides Congress with a say in how our tax dollars are going to be spent. And as the Foreign Operations chairman, it is my intention to redirect and reprioritize our foreign aid spending.

First and foremost, we must ensure that our tax dollars are spent in a manner that promotes our national security and national interests.

Furthermore, I am deeply interested in foreign assistance programs that return dollars to the United States and create jobs here."

STAYING IN TOUCH BACK HOME

Leading the fight for a leaner, more fiscally responsible government is only one part of Sonny Callahan's job. Staying in touch with his constituents, and helping them fight the often frustrating battles they have with a bloated federal government, is also a big part of his workday.

Time and again, the Congressman is called upon to help his constituents cut through the bureaucratic red tape of the federal government. And time and again, Sonny Callahan is there, providing prompt, courteous service and a staff that knows who is the boss... *the people of South Alabama.*

From frequent town hall meetings and other appearances back home, to numerous visits to area schools, Congressman Sonny Callahan is today one of the most accessible public officials in South Alabama. The fact that he spends so much time back home is one reason he is able to remain in touch with local concerns which matter the most.

■ Biography in Brief

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☐ **Committee Assignments:** Appropriations
Subcommittees: Foreign Operations (Chairman)
Transportation
Military Construction (vice chairman)

☐ **Background:** Born in Mobile, on September 11, 1932.

☐ **Education:** Educated in Alabama public schools; graduated from McGill Institute, Mobile. Attended The University of Alabama - Mobile Campus (predecessor to The University of South Alabama).

☐ **Military:** United States Navy, 1952-1954.

☐ **Personal:** Married to the former Karen Reed. Children: Scott, Patrick, Shawn, Chris, Kelly and Cameron (deceased).
Grandchildren: Patrick, Jr. and Janet Ashton.

FIRST DISTRICT

Mobile, where the Tombigbee and Alabama Rivers flow into the Gulf of Mexico, was once an American frontier. Held by the Spanish until after the Revolutionary War, it was wrested away by threats of war from Secretary of State John Quincy Adams. During the Civil War, Mobile was one of the blockaded ports of the Confederacy; it was while steaming into Mobile harbor in 1864 that Admiral David Farragut, lashed to his mast, cried, "Damn the torpedoes! Full speed ahead." Today, Mobile is full of graceful signs of its slightly exotic past: behind the docks and rail lines are downtown buildings and old houses with Spanish motifs, French accents, or tropical Art Deco lines. Further inland are neighborhoods with spacious houses, often with double porches, overhung by huge live oaks, graced sometimes with Spanish moss. Mobile is a Gulf Coast version of Charleston or a smaller, perhaps more comfortable. New Orleans, with a taste for shellfish and spicy food. Its economy was based originally on docks and shipyards, factories and terminals, but with a determination to impose touches of beauty on an almost perfectly flat landscape that used to be unhealthy and choked with vegetation.

Mobile is also, as befits a frontier city with a martial past, bristling with arms: one of the proudest possessions of the city is the battleship *U.S.S. Alabama*, moored at the head of Mobile Bay, with its guns aimed out toward the Gulf. Geographically, Mobile lies just about in the middle of America's Gulf Coast. This southern seaboard of the Confederacy, for years afterward a part of the solidly Democratic South, has been one of the most hawkish and often one of the most Republican parts of the nation, from Richard Nixon's reelection in 1972 to George Bush's primaries and general election in 1988. The Mobile area is usually the most Republican part of Alabama and the area most supportive of conservatives in Democratic primaries; blacks vote heavily Democratic, but country club whites are joined in most elections by blue-collar whites whose lives are centered on tradition-minded religions or proud patriotism.

Mobile forms the heart of Alabama's 1st Congressional District, which extends north along the lazily flowing Tombigbee and Alabama rivers, near the old forts and mansions and miles of fields that once grew cotton (more likely now to be producing soybeans or scrub pine). Also here are surviving back country settlements of blacks and Cajans (who may or may not be descended from Louisiana Cajuns). To the south, along the shores of the Gulf of Mexico, are the condominiums which are the final homes of thousands of affluent southerners. Redistricting changed the district only mildly for 1992, slicing off black-majority Wilcox County and northern parts of Clarke County.

The congressman from the 1st District is Sonny Callahan, a Republican with a rags-to-riches biography and a Democrat-to-Republican political history. The oldest boy in a family of nine children whose father died young, Callahan went to work at the age of 12, during World War II; fortunately, the boss was his uncle who owned a warehouse company. After serving in the Navy

during Korea, Callahan rose to become president of the company at 32 and expanded into real estate and insurance. Like so many go-getters, he ran for the state legislature and was elected at 38. A Democrat, he ran for lieutenant governor and lost the 1982 Democratic primary to liberal Bill Baxley. Then 1st District Republican Congressman Jack Edwards decided to retire in 1984 after 20 years and asked Callahan to run as a Republican; he did and won, though with smaller margins than expected, 61% in the Republican primary and 51% in the general.

Callahan has boasted one of the most conservative voting records in the House; he wants government spending and revenues to grow no faster than the economy and is solidly anti-abortion. He spent one term on Public Works, where he promoted Mobile area projects, then switched in 1987 to Energy and Commerce, where he pushed to allow more lenient recycling standards for paper manufacturers. He also pushed a bill which directed the Secretary of Agriculture to assist states in developing programs to help forest landowners preserve their property and enhance the multiple-use potential of private forest land. He switched to Appropriations for 1993, where he can continue to pursue projects like replacing the Dog River Bridge (already underway) and securing equal funding for the protection of the Gulf of Mexico at Great Lakes and Chesapeake Bay levels. Interestingly, he is one of the few members of Congress who live on houseboats on the Potomac River (others include Gary Ackerman and James Traficant); he explains that, unlike a Washington house, he can take it back to the district when he retires. He was reelected in 1992 with a solid but not overwhelming margin.

The People: Pop. 1990: 577,375; 34% rural; 13% age 65+; 70% White; 29% Black; 1% Amer. Indian; 1% Asian; 1% Hispanic origin. Voting age pop.: 414,788; 26% Black; 1% Hispanic origin. Households: 57% married couple families; 27% married couple fams. w. children; 36% college educ.; median household income: \$22,881; per capita income: \$10,961; median gross rent: \$322; median house value: \$52,600.

1992 Presidential Vote

Bush (R)	118,420	(51%)
Clinton (D)	84,193	(36%)
Perot (I)	26,749	(12%)

1988 Presidential Vote

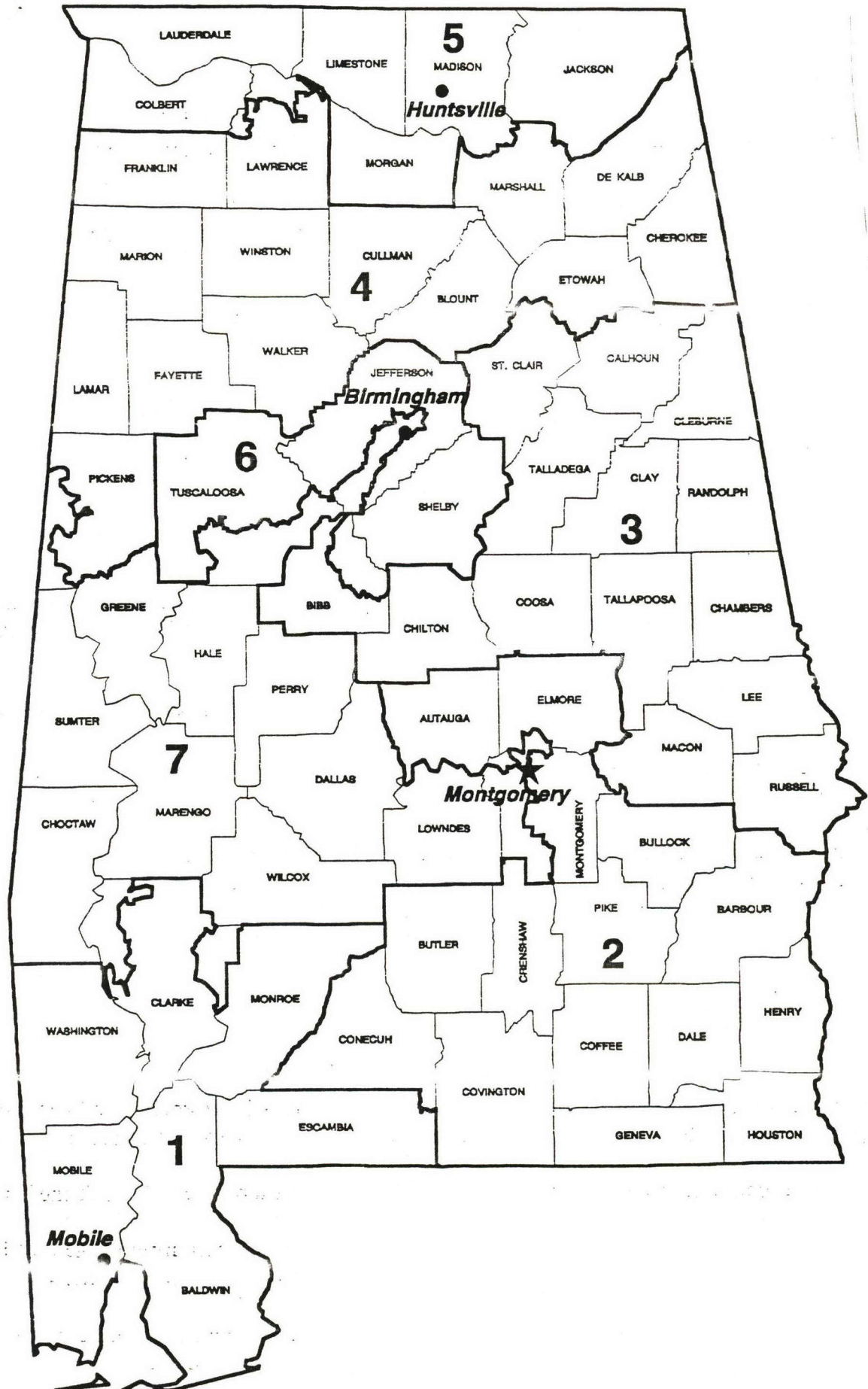
Bush (R)	119,249	(63%)
Dukakis (D)	69,315	(37%)

Rep. H. L. (Sonny) Callahan (R)



Elected 1984; b. Sept. 11, 1932, Mobile; home, Mobile; U. of AL; Catholic; married (Karen).

Career: Navy, 1952-54; Finch Cos. 1955-85, Pres., 1964-85; AL House of Reps., 1970-78; AL Senate, 1978-82.



Template

PERSONAL NOTES

Spouse:

Spouse's Occupation:

Children:

(Names)

(Ages)

Outside Interests:

(i.e. Golf)

Residence(s):

Washington, D.C: (i.e., Lives on house boat two “doors” down from Bank staffer)

Home State/District:

Vacation:

Automobiles:

Organization Membership(s):

Charitable Activities:

Musical Interests:

Template

ACTIVITY LOG

Personal Contact Activities

JW:

War Room Hill Team:

World Bank Communications Activities:
(i.e. fax, press releases)

Recommendation: Written and electronic logs to be kept.

Template

WORLD BANK AND FOREIGN AID ISSUES

Vote History on Foreign Assistance Authorization and Appropriation Bills:

Vote History on World Bank:

Relevant Quotes:

Relationship with Allies of World Bank:

Relationship with Opponents of World Bank:

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THE BEACON JOURNAL

Thursday, March 16, 1995, Page A15

COMMENTARY

GUEST
VIEWPOINT

Foreign aid: An investment in global security

Richard H. Frank became managing director of the World Bank last month, and has been with the World Bank or its International Finance Corp. arm since 1970. He also is on the board of directors for numerous U.S. and Latin American companies and is an adjunct professor of international finance at Georgetown University's business school. Frank is speaking this afternoon to a reservations-only luncheon meeting of the Akron Council on World Affairs and the Akron-Canton chapter of the Ohio Society of Certified Public Accountants.

BY RICHARD H. FRANK

As never before in history, events unfolding far from our shores are changing the way Americans do business. Roughly 5 billion people now live in market-oriented economies vs. just 1 billion a decade ago. Nations that used to be known as the Third World are transforming themselves into emerging markets.



Frank

During the first three years of this decade, developing countries contributed 70 percent of the growth in global gross domestic product, and half the growth in trade. Asia and Latin America grew more than twice as fast as the industrial countries. And U.S.

exports to developing nations supported 4 million American jobs.

These nations have seen the future, and it works. That future is one of freer trade and less government regulation, more entrepreneurs and fewer bureaucrats, higher living standards, greater prosperity and a cleaner environment.

The myth of a monolithic Third World — poor, backward, dependent on aid — was always distorted. Today, it is plain wrong. The countries of East Asia are growing rapidly. Latin American countries have fundamentally redefined their political and economic institutions and, by and large, put the debt crisis behind them. For the nations of Eastern Europe and the former Soviet Union, with their educated work forces and large industrial base, the challenge is not development, but redesign and reconstruction.

In Africa and the low-income countries of South Asia, there remains a basic need for development. These are the poorest countries. Yet, even here, there are signs of progress. Three years ago, there was almost no foreign investment in India. Today, the world's largest democracy has opened its borders to private capital, with nearly a third of foreign, direct investment coming from American-based firms.

Fears of a global capital crunch, in which too many emerging markets would chase too little capital — sending long-term interest rates soaring — have proved false. In the decade before 1993,

the total market value of stocks traded in emerging markets grew from just \$67 billion to more than \$1.6 trillion. And the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade talks, a critical step toward global free trade, will further galvanize these emerging markets. So, too, will the work of the World Bank.

The bank began by assisting with the reconstruction of Western Europe and Japan just after the Second World War. Since then, it has provided about \$300 billion in financing for 6,000 projects, contributing to the 50 percent increase in life expectancy and the doubling of literacy rates and per-capita incomes in the developing world.

The bank combines financial support with advice through its long-term relationships with virtually every developing nation. It often is first to open doors to emerging markets, by helping governments put in place policies conducive to private investment. Today, the bank is a major force in the privatization of state-owned enterprises and the creation of new capital markets around the world.

The recent crisis in Mexico is a reminder that the road from being a "developing country" to becoming an "emerging market" is not always smooth. Yet, fundamental growth potential across Latin America remains strong. And as capital flows to the region recover, the World Bank's paramount role is to help

safeguard sound economic policies and sustain growth by addressing critical medium- to long-term needs: investments in people, infrastructure and the environment. Already, the bank is the world's largest external supporter of investments in education, health and nutrition in developing countries — investments that are critical for long-term growth and competitiveness in the global economy.

For the United States, the bank represents a tremendous bargain. For each dollar the United States contributes, the bank leverages \$118 in financing from other sources. And 75 percent of bank funds are raised on global financial markets through bond offerings, rather than from taxpayers.

This is not aid, it is investment.

U.S. firms also benefit from procurement contracts awarded through World Bank-financed programs. For example, Ohio's Babcock & Wilcox recently won a \$155-million contract to provide boilers and steam-generating equipment for a power plant to be built in eastern China under a World Bank-financed program.

Today, with the end of the Cold War, the potential is greater than ever before for the bank to fulfill the mission conceived for it some 50 years ago. As the barriers among nations collapse, so, too, do the limits to growth. And as new markets emerge, Americans will benefit from a growing community of trading partners, in a safer, more secure world.

ROCKY MOUNTAIN NEWS (DENVER, CO)

Enemies of World Bank should take second look



**Holger
Jensen**

**Foreign
Affairs**

Tucked away in the list of "illustrative spending cuts" suggested by House Budget Chairman John Kasich is the International Development Association, which helps the poorest of the world's poor.

IDA is the only portion of the World Bank financed by American tax dollars — the rest of the bank's money is borrowed on capital markets — so it falls in the category of foreign aid, one of the principal targets of some conservative Republicans such as Sen. Jesse Helms, R-N.C.

But it is hardly a giveaway.

First, IDA funds are disbursed as low-interest loans; they have to be repaid. In the World Bank's 50-year history, no country has ever defaulted on a loan. Second, whatever we put into IDA, we get back twentyfold in trade and procurements from U.S. companies.

Last year the United States contributed \$1.25 billion to IDA. For every American dollar, the Japanese, Europeans and other international donors gave four more. That plus loan repayments financed \$6.6 billion in IDA lending — \$2.7 billion to Africa, \$1.4 billion to East Asia and \$1.9 billion to South Asia.

The money was invested in agriculture, education, health, transportation and urban development. It also helped reconstruct countries devastated by natural disasters, such as earthquakes in Armenia and India, floods in Pakistan and drought in Kenya.

The 78 nations that receive IDA loans have 57% of the world's population. A billion of them live on less than \$1 a day, and their governments are too broke to borrow any other way.

But there have been some spectacular success stories.

South Korea joined the World Bank in 1955 with a per capita income of \$80. In 1961 it became an IDA borrower. In 1978 it "graduated" from IDA and began to contribute to the fund as a donor country. On March 3 it ended its dependence on the World Bank altogether.

Today, with a per capita income of nearly \$8,000, South Korea is the world's 12th-largest economy and 11th-largest trading nation. It is our seventh-largest trading partner, buying more than \$18 billion worth of American goods a year.

Overall, U.S. exports to IDA borrowers totaled \$20.3 billion in 1994. Our exports to the 20 "graduates," such as South Korea, were more than double that amount, some \$42 billion.

If one includes lending by the World Bank's other affiliate, the International Bank for Reconstruction and Development, the figures are even more impressive. Its borrowers buy \$180 billion worth of American goods, fully 40% of our exports.

About 4 million American jobs now depend on these markets in developing countries. Each additional \$1 billion in exports creates 20,000 new jobs. The best part of the deal is that private money is being used to boost American business opportunities and political influence abroad.

The World Bank gets most of its financing by selling bonds in 170 member nations. Millions of Americans invest in them directly or indirectly through their pension funds. This makes us the bank's largest and most powerful shareholder.

What few tax dollars do go to IDA are recovered in World Bank contracts awarded to American firms. And not a dime of the taxpayers' money covers the bank's administrative costs; its salaries, office space and travel expenses are paid for with loan income.

Nor have taxpayers ever been called upon to cover a loss. The bank is financially conservative, takes no foreign exchange or interest-rate risks, carefully monitors all loans and insists on timely and complete payments. As a result, it is consistently profitable — \$1 billion net income in 1994.

Kasich and other Republican critics of the World Bank obviously don't know how it works.

Holger Jensen is international editor of the Rocky Mountain News.

HOUSTON CHRONICLE

BANG FOR BUCKS

International lending benefits U.S. and poor nations

The question often arises as to whether the United States can afford to continue to contribute to the International Development Association, which provides interest-free loans to the world's poorest nations. The answer to the question is that the United States can ill afford not to maintain its IDA contributions.

The IDA is a vital source of developmental funding that provides the planet's poorest people and cities with clean water, viable infrastructure, and improved health-care and educational opportunities. From a purely self-interested perspective, ending contributions to this World Bank affiliate will cut yearly federal spending by \$1.25 billion at a far greater cost to American business and foreign policy objectives.

In 1993, the U.S. exported \$20.3 billion in goods to IDA borrower countries. Exports to one-time IDA borrower nations that prospered, then graduated from the program totaled \$42 billion. Four million American jobs depended on those exports.

U.S.-backed IDA loans also do more, cost-

effectively than almost any other means to promote American economic and political policy in developing countries — many with annual per capita incomes of around \$305. For example, South Korea, with the incentive of such loans for infrastructure, industry, energy and trade, adopted free-market economic policies that led to its becoming the first debtor nation to assume World Bank lender status. The other Asian, African and Latin American nations that use IDA loans to fund private-sector projects can look to South Korea as a role model and likewise adopt such strategies.

U.S. participation in IDA encourages contributions from other wealthy nations, magnifying program benefits. And because it is the largest single IDA participant — with Japan, European countries and others pitching in \$4 for each \$1 contributed — the United States can use this enormous leverage to shape economic policies in the developing world.

IDA participation requires a relatively modest investment and reaps bountiful rewards.

This news item appeared on page 10A of the March 27, 1995 issue of

JOURNAL OF COMMERCE

THERE'S A NEW, much more aggressive style at the World Bank, even before the entry of James Wolfensohn, the bank's recently elected president.

No longer is the bank quietly absorbing congressional budget cuts. For the first time in memory it is publicly arguing against the congressional knife — specifically, a House proposal to slash funds for the bank's International Development Association, which lends to the world's poorest nations.

In a press statement, the bank warns that the proposed cut will hurt U.S. companies, which, it says, earn more from World Bank contracts than the U.S. government contributes to IDA. Those IDA loans, the bank says, also benefit U.S. foreign policy by helping prevent "tomorrow's wars."

"Where else," it asks, "can the United States leverage so much at so little cost as through the World Bank and IDA."

This news item appeared on page 2B of the March 26, 1995 issue of

ST. LOUIS POST-DISPATCH

HEADLINE: SAVE THIS VITAL AID PROGRAM

BODY:

At a time when Congress is seriously considering canceling virtually all foreign aid, it is essential to retain at least one form of assistance that can help the poorest nations of the world develop: the International Development Association (IDA), a facility of the World Bank to which the United States contributes \$ 1.25 billion a year. But recent cuts proposed by the House Budget Committee would eliminate that, too. It shouldn't happen.

Every dollar given by this country to the IDA is matched by four dollars - from Japan, Western Europe and the rest of the industrial countries. Hence, cutting the U.S. contribution will trigger a much larger reduction in total IDA resources. This will deny money to nations so poor they can't effectively tap the world's capital markets.

The IDA's primary recipients are African and Asian countries. The latter are a success story. Supporting the private sector as well as funding health and environmental programs developing nations often can't afford has enabled many IDA recipients to become middle-income countries. South Korea and Turkey are prominent examples.

But the nations of Africa have further to go and still need help. If a budget-conscious Congress is determined to do more with less, the IDA is the right tool to preserve. What's more, it's been a profitable one for the United States. This country exports some \$ 20 billion to IDA countries.

The total amount of foreign aid the United States appropriates each year is less than 1 percent of its budget. The majority goes to Israel and Egypt. If the rest is to be trimmed, as some in Congress wish, the least they can do is leave our nation's contribution to the IDA intact. Good sense and an active conscience in a world of so much poverty demand no less.

MINNEAPOLIS STAR TRIBUNE

Foreign aid

For sake of U.S., continue to invest

When the pressure's on to find ever more spending cuts — as it is in Congress right now — foreign aid always makes an attractive target. To many Americans, the results are less concrete than the results of federal programs in their hometowns. Yet as the Republican majority in Congress adapts to the reality of its new governing status, its members have a duty to learn the ramifications of choosing policies of isolation over those of involvement.

For a case in point, consider Rep. John Kasich's suggestion — just a blip in his list of long-term spending-cut possibilities — to terminate the International Development Association (IDA). It is a suggestion that has Jesse Helms' support in the Senate. Seen as a little part of a big list, the IDA may look like a quick and handy \$2.8 billion savings from a program few Americans know about. Seen from the vantage point of those who've worked with the IDA, however, it's a shortsighted, counter-productive move that would undercut the United States' long-term interests. And that's not to speak of the interests of natural GOP constituents: U.S. businesspeople whose export potential may be affected.

The IDA is a World Bank affiliate that provides development capital to the world's most poverty-stricken nations. Unlike some other international lending programs, the IDA is primarily funded by donations from a group of wealthier countries — including two, Korea and Turkey, which used to be IDA borrowers. For donor countries,

giving has multiple effects — from helping bolster stable democratic societies to helping create export markets for U.S. goods.

In regard to the latter, consider this: According to the World Bank, U.S. exports in 1993 to IDA "graduates" (nations like Chile and Thailand, whose per capita incomes now make them ineligible as borrowers) amounted to \$42 billion — each billion of which creates 20,000 U.S. jobs.

The plight of the IDA (which in addition to Kasich's idea is facing a Senate threat to cut \$70 million from the current U.S. obligation) is only one example of America's apparently dwindling interest in helping poorer countries, particularly in Africa. That trend runs counter to America's long-term interests on several levels.

Foreign aid is not a giveaway. It is an investment with multiple payoffs, many of which are impossible to predict at the time of giving. It helps support emerging democracies, which may flail and fail if they cannot produce economic as well as political results for their people. It helps avert disasters that occur when the effects of drought, for example, are exacerbated by political instability and lack of economic infrastructure. It builds trading partners and markets for U.S. businesses. In short, foreign aid is a long-term investment in long-term U.S. interests; it must not be sacrificed for short-term political gains at home.

FT. WAYNE (IN) JOURNAL-GAZETTE

Boost U.S. jobs

Expand — don't cut — foreign aid

It will be bad news for American businesses if congressional Republicans — not content to disembowel programs for women, children and the poor in America — do the same to similar programs in other countries.

Rep. John Kasich of Ohio, who heads the House Budget Committee, wants to strip funding for the International Development Association (IDA), gutting economic-development programs in the world's poorest countries. That's bad news for American businesses trying to find new markets for their goods.

Like many of the GOP's budget cuts, this one's short-sighted. The United States can only benefit from encouraging development in the poorest countries. Like investing in disadvantaged areas here, developing stronger economies in Third World countries means more markets for American goods.

According to the World Bank, U.S. exports to developing countries rose from \$71 billion to \$180 billion between 1986 and 1993. That's 40 percent of all U.S. exports.

For every additional \$1 billion in exports, 20,000 more Americans are employed. Cutting off aid for these countries simply cuts jobs for American workers. That means less work for employees at Tokheim, Magnavox and Franklin Electric, all of which sell products overseas.

But Kasich says the nation spends too much on foreign aid and points to surveys showing Americans think up to 30 percent of the budget goes to foreign aid. He should be ashamed at encouraging such myths.

In fact, all the money dedicated to foreign aid — both military and non-military assistance — totaled less than one-tenth of one percent of the entire U.S. budget outlay of \$1.4 trillion. And only half of that tiny amount goes toward economic-development projects. The rest goes toward peacekeeping and security arrangements with other countries.

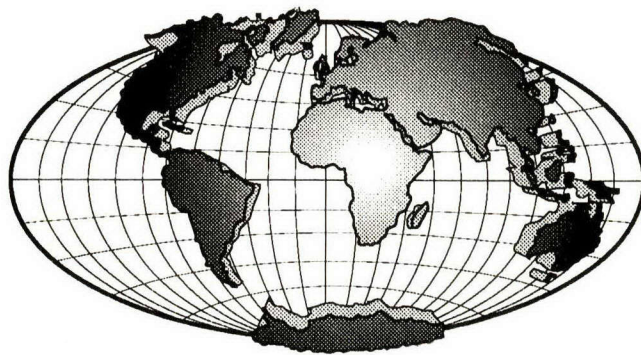
"People just don't understand," says Al Drattell of the World Bank, which oversees the operations of the IDA. "By supporting the IDA, the United States gets jobs, companies get profits, and the country encourages foreign policy initiatives."

Established in 1960, the IDA provides development capital for countries whose per capita income averages about \$1 a day.

Improving the lives of people in these countries can lead only to a more stable global economy, better markets for American goods and better lives for more of the world's inhabitants.

Imagine the good we could do if we increased economic development aid for these countries.

Common Interests: The United States and the World Bank



THE WORLD BANK GROUP

THE WORLD BANK GROUP is a partner in opening up markets and strengthening economies. Its goal is to improve the quality of life and expand prosperity for people everywhere, especially the world's poorest.

A first-rate financial standing and access to the world's capital markets enable the Bank to invest broadly in societies—from health, education and the environment, to infrastructure and policy reform.

Beyond its role as financier, the Bank is an advisor to its clients: a source of global experience and expertise. This enables it to catalyze and sustain vital private capital for investment in development.

Above all, the World Bank is a relationship bank, continually adapting its products and services to meet the changing needs of its global membership.

The heart of the World Bank's work is to efficiently intermediate funds between rich and poor countries. Over its 50 year life, the World Bank has lent well over \$300 billion for more than 6,000 development operations in more than 140 countries. The diversity of its work is reflected in the nature of the Group.

The biggest affiliate of the World Bank Group is the *International Bank for Reconstruction and Development (IBRD)*.

The IBRD is owned by and accountable to its 178 member countries. Each country has shares and votes in proportion to its size in the world economy. The U.S. is the biggest shareholder and has 17 percent of the votes. Only a small part of

each member country's capital subscription to the IBRD has to be paid in.

This structure underpins the IBRD's enormous financial strength. It is also profitable, conservatively managed, and cost-effective, having an administrative expenses-to-assets ratio well below that of commercial banks. The IBRD finances its operations mainly by borrowing on capital markets on the finest terms and passing the savings on to developing country members. Investors in the IBRD's bonds similarly benefit from its strength and efficiency.

While the IBRD lends to countries able to pay market rates, another affiliate, the *International Development Association (IDA)*, lends on concessional terms to the poorest countries—often those with individual incomes of less than a dollar a day. IDA is funded primarily by government contributions from its richer member countries. The *International Finance Corporation (IFC)*, invests directly in private enterprise in developing countries. The *Multilateral Guarantee Investment Agency (MIGA)* offers foreign private investors in developing countries insurance against non-commercial risks.

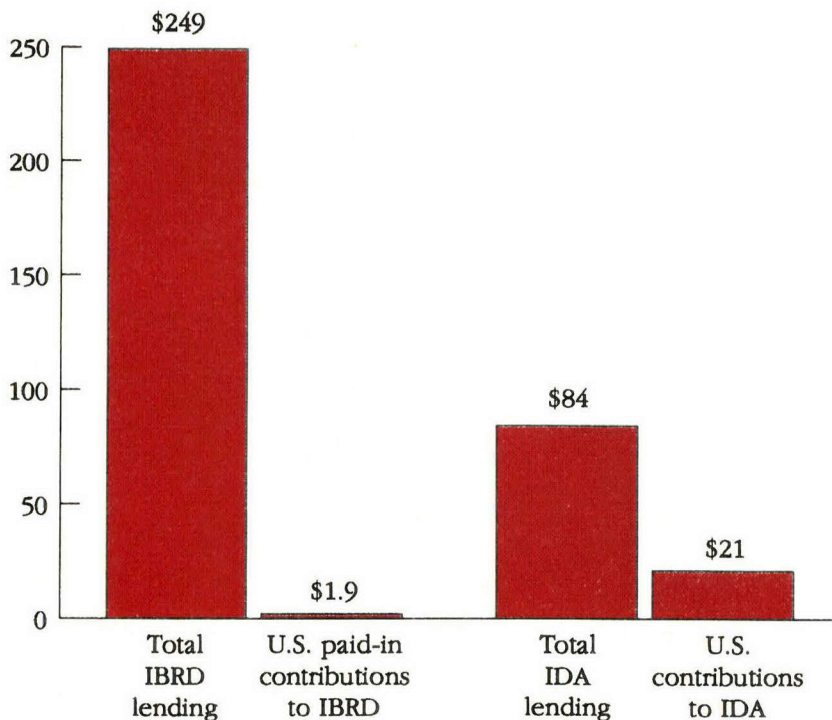
The World Bank's near-universal membership gives it global reach. In working with its members, the World Bank builds on its financial role by mobilizing resources other than its own—especially private capital—and offering research and policy advice. The World Bank distills and disseminates its cross-country experience and helps connect clients with the world's best development knowledge base.

When the American people first backed the World Bank 50 years ago, they picked a winner. And in the half-century since, U.S. support for the World Bank Group has been a remarkably successful investment for its biggest shareholder: politically, economically and socially, the U.S. has found in the Bank a cost-efficient way to extend its global leadership at the same time it has reaped benefits at home. Bank lending has opened new markets for American products; Bank projects have meant big business for American companies; Bank bonds have returned billions to American investors, all while improving lives throughout the developing world.

Now, when budget dollars must stretch even further, an innovative institution that relies more on capital markets than taxpayers to help the U.S. pursue vital international interests is even more important. More than ever, the World Bank Group offers its American partners global reach at low cost in ways that pay off both at home and abroad.

Leverage: World Bank Lending and U.S. Contributions, 1947-94

Billions of U.S. dollars



“We cannot begin to duplicate bilaterally the amount the World Bank can lend as a multilateral institution. The cost would be prohibitive.”

— *James Baker, former Secretary of State and Treasury*

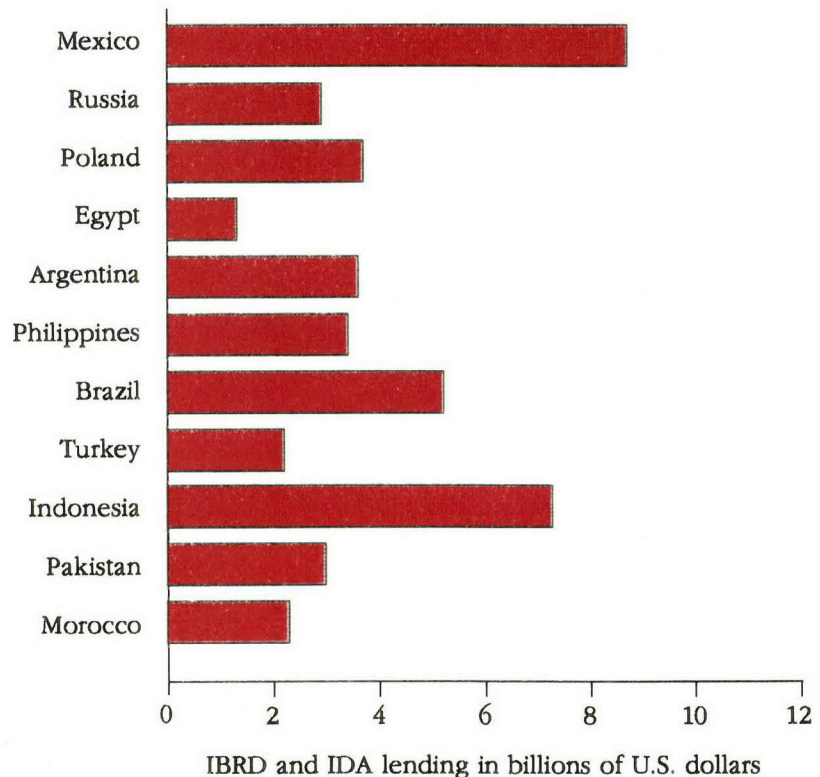
HOW THE U.S. BENEFITS FROM THE BANK

“A diplomacy that focuses only on the representations of sovereign governments and not on the conditions that put those governments and [U.S.] interests at risk will forever be caught short. Millions of refugees, the spread of drug trafficking, pollution of our air and water and the disruption and loss of markets will inevitably undermine our security and our standard of living....This is where American leadership—in the security field, in international economics, in diplomacy *and* in the field of development—comes so vitally into play.”

—*Foreign Policy expert*

- *Politically* : The Bank plays a key role in many countries and regions where the U.S. has vital interests such as the Middle East, Mexico, the Philippines, and South Africa. The Bank is also helping Russia and other former Soviet republics and countries in Eastern Europe make the transition to market economies.
- *Economically* : The greatest new opportunities for U.S. business are in the developing world. Sales to developing countries are the fastest growing U.S. export sector. Between 1986 and 1993 U.S. exports to developing countries rose from \$71 billion to \$180 billion. The Bank plays a crucial role in developing these markets.
- *Socially* : Economic growth is fundamental to social stability and averting political upheaval in developing countries. The Bank is the single largest lender to developing countries for education, health care, the environment, and urban development.

World Bank Lending to Selected Countries, 1990–94



THE WORLD BANK HAS BEEN AN EXCELLENT DEAL FOR THE U.S.

- Bank lending is chiefly financed by capital market borrowing, not by taxpayers.
- Millions of U.S. citizens have invested in World Bank bonds directly or through their financial instruments or pension funds.
- Not a dime of taxpayers' money is used to pay for the Bank's administrative costs. That means salaries, office space, and travel costs are financed out of the Bank's loan income.
- World Bank procurement from American companies exceeds in value U.S. contributions to the Bank.
- The U.S. is the biggest and most influential shareholder, with 17 percent of the votes in the Bank.

THE WORLD BANK IS VERY STRONG FINANCIALLY

- The Bank is financially conservative. It takes little or no foreign exchange or interest rate risk and maintains prudent reserves.
- Loans are prepared thoroughly, carefully monitored, and fund successful investments by the borrowers.
- The Bank insists on timely and complete servicing of loans. No borrower has ever defaulted on a Bank loan and no call has been made on taxpayers to cover a loss.
- The Bank has been consistently profitable (\$1 billion net income in fiscal 1994).
- A long-held AAA credit rating attests to the market's great confidence in the Bank.
- The Bank is committed to reducing its administrative costs by about 12 percent over the next two years.

“With the growing importance of economic development in foreign policy, the increasing role of developing countries in the world economic system, and the challenge of post-cold war reconstruction upon us, America’s stake in the World Bank and the regional development banks has never been greater.”

— Senior U.S. Treasury official

THE WORLD BANK HELPS DEVELOP MARKETS FOR U.S. EXPORTS AND CREATES JOBS

“The international financial institutions are a cost-effective way to meet our foreign policy goals. Every dollar the U.S. contributes to the World Bank supports \$118 in development financing from other sources. The developing country recipients of these loans are the fastest growing markets for U.S. goods and services, and currently support over three million American jobs. Moreover, in 1992, American firms exported \$2.2 billion to Bank-financed projects worldwide, a good return on our \$1.6 billion contribution in the same year.”

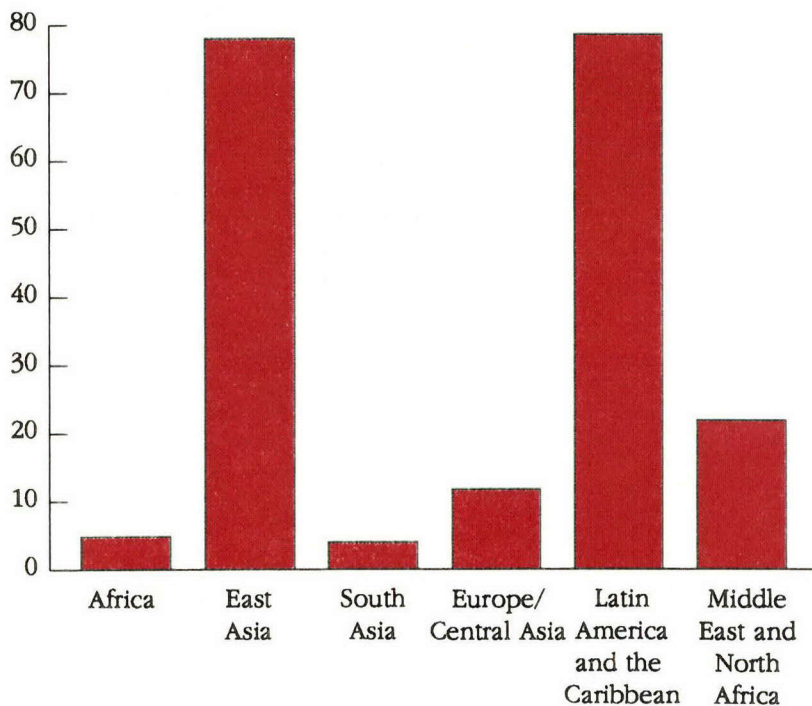
— a bipartisan group of nine former U.S. Secretaries of Treasury

World Bank lending boosts U.S. exports to developing countries and creates high-paying jobs in this country.

- More than 40 percent of U.S. exports (worth about \$180 billion) go to developing countries, and the amount is rising.
- Every additional \$1 billion of exports creates 20,000 new jobs in the U.S.
- Growth in agricultural exports to developing countries is expected to average 9 percent a year, versus 5 percent a year to developed countries.
- 1993 exports to IDA graduates (those countries which now have incomes too high to borrow from IDA) were \$42 billion. Graduates include such countries as Chile, Colombia, Thailand, Turkey, and Korea.

U.S. Exports to Developing Countries by Region, 1993

Billions of U.S. dollars



THE WORLD BANK IS PRO-PRIVATE SECTOR

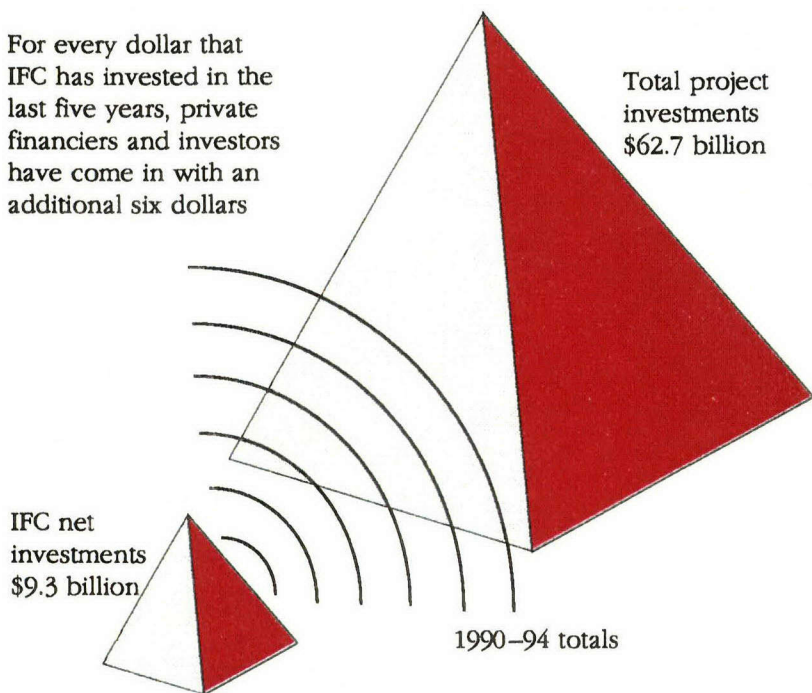
- The Bank supports about \$25 billion of private investment in developing countries each year. That is some 10 percent of all private investment by enterprises in developing countries.
- The Bank backs reforms with lending and advice to create a market-friendly climate and help make government more efficient.
- The International Finance Corporation, (IFC) the fastest growing of the World Bank affiliates, invests \$2.5 billion a year directly in the private sector. IFC operations are expected to grow at more than 10 percent a year.
- The Multilateral Investment Guarantee Agency (MIGA) promotes private investment by offering equity investors guarantees against non-commercial risks such as war and expropriation. MIGA's work complements OPIC and the Export-Import Bank.

WORKING IN THE FORMER SOVIET UNION AND EASTERN EUROPE

- Since 1991, the World Bank has committed more than \$14 billion to 22 countries in the region.
- A \$500 million Bank loan will help Ukraine halt its economic decline and boost living standards.
- The Bank helped craft Russia's critical privatization program. A \$200 million Bank project is providing capital for private enterprise there.

IFC Mobilizes Billions for the Private Sector (1990-94)

For every dollar that IFC has invested in the last five years, private financiers and investors have come in with an additional six dollars

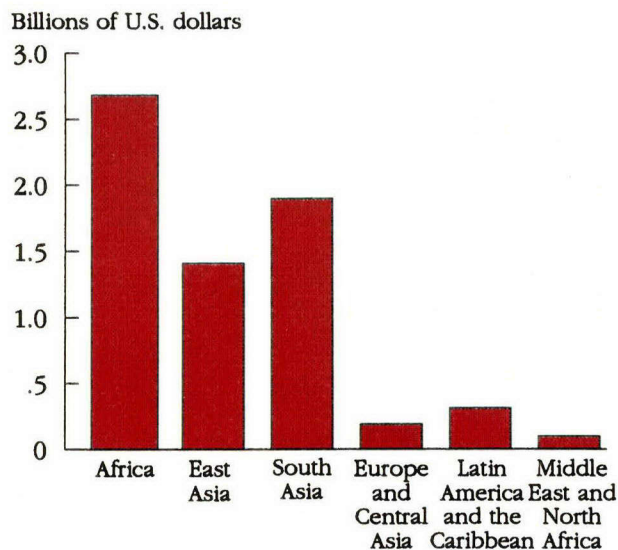


IDA PLAYS A SPECIAL ROLE IN THE WORLD BANK GROUP

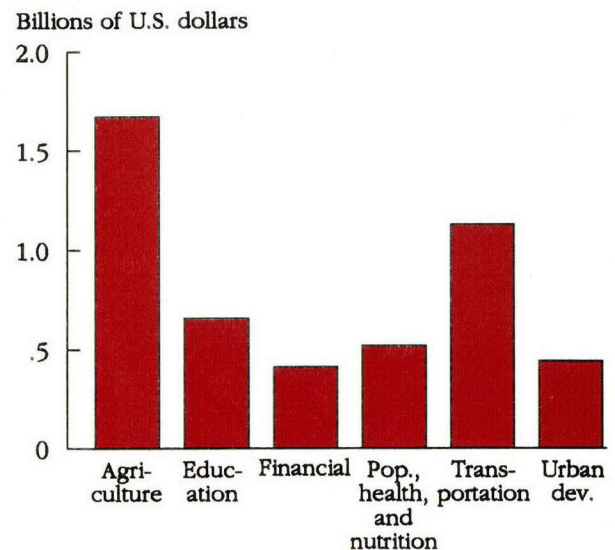
Reducing and eliminating poverty lies at the very core of development itself. It is critical to the economic well-being of us all—and to the survival of any decent society.

- The 78 nations that receive IDA funds have 57 percent of the world's population. A billion people live on less than one dollar a day.
- IDA was founded in 1960 to help those poor nations. President Eisenhower suggested that IDA be affiliated with the World Bank because he thought this would ensure that IDA was run in a businesslike way.
- Donors, including the U.S., value IDA's role in the World Bank Group because the Bank applies the same rigorous project analysis and management standards to IDA loans using public funds as it does to IBRD lending using private funds.
- IDA has the same priorities—population and health, the environment, economic growth, good government, and strengthening the private sector—as the IBRD.
- IDA is also available to help countries devastated by natural disasters: reconstruction after earthquakes in Armenia and India in FY 1994; floods in Pakistan in FY 1993; and Kenya's drought in 1993. And it has played a leading role in spurring emergency economic help for countries experiencing special difficulties such as Haiti, Burundi, and Rwanda.

IDA Lending by Region, 1994



IDA Lending by Sector, 1994



IDA IS A COST-EFFECTIVE WAY TO DELIVER U.S. ASSISTANCE

- The U.S. contributed just over \$1.2 billion to IDA last year. But for every dollar the U.S. contributes, four dollars come from the Europeans, the Japanese and others. More than 30 member nations contribute to IDA.
- Added to these direct contributions are funds from repayments on earlier IDA loans. Fully 18 percent of its lending program is financed by repayment from recipient nations.
- These contributions and repayments financed some \$6.6 billion in IDA lending last year. Of this \$2.7 billion went to Africa; \$1.4 billion to East Asia (Cambodia, China, Laos, Mongolia and Viet Nam); and \$1.9 billion to South Asia (Bangladesh, Bhutan, India, Nepal and Pakistan). Relatively small amounts went to Central Asian and Latin American countries.
- How did the countries use this money? IDA provided investments in agriculture, education, health and nutrition, transportation and urban development. Nearly 30 percent of the loans support open and free markets, privatization and the reform of public enterprises.
- All of this helps develop markets for U.S. goods. Last year, U.S. exports to IDA borrowers totalled \$20.3 billion. And, more specifically, the 20 countries which have “graduated” from IDA bought \$42 billion in U.S. exports in 1993.

IDA WORKS

- In IDA-supported countries, average life expectancy has risen from 53 to 62 years since 1970. Infant mortality has fallen from 114 to 73 per 1,000 live births.
- Where 33 percent of the people in IDA-supported countries had safe water in 1985, 68 percent have it now. Primary school enrollment is up by 36 percent since 1975.
- Real annual economic growth in 22 African nations working with IDA to liberalize their economies has averaged over 4.2 percent in the past two years.

“The next few years will be critical ones for the countries in Eastern Europe, the former Soviet Union, Africa, Latin America, and Asia, which are seeking to adopt sensible economic policies that promote free markets and democracy. The challenges that these countries face also bring profound threats to global stability and prosperity. As developing countries and countries undergoing transition seek to advance and sustain the progress they have made—and as we tackle the difficult task of helping those who lag far behind—strong external support, including support from the multilateral development banks, will be vital.”

— U.S. Treasury Department official.

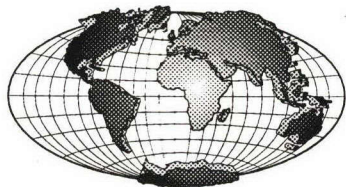
- With help from IDA: Bolivia overcame a major economic crisis in the 1980s and is recording 4 percent real growth. India is transforming its economy. Uganda, with 6 percent real growth, is demobilizing 50,000 soldiers.
- IDA is backing economic reform and stabilization in Albania, and in some of the poorest of the former Soviet republics, such as Armenia and the Kyrgyz Republic.

The very poor countries of today are the markets of tomorrow. The World Bank and IDA provide an efficient and cost-effective way to promote strong and open markets for U.S. products, higher living standards and stable governments worldwide.

The World Bank has an unmatched capacity to harness financial resources. In many ways, it has the world's greatest financial franchise. It has more knowledge and experience in the development process than any other institution in the world. A changed and changing Bank will, with strong support from the United States, remain at the very center of the world's development effort.

—Senior U.S. Treasury official

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Issue Brief

WORLD BANK

The World Bank: The Environment's Leading Lender

The World Bank is the world's largest lender for the environment. Its partnership with 178 member countries makes it uniquely placed to fight global environmental risks. The World Bank is at work, country by country, with \$9 billion in environmental lending since 1986, almost \$2.5 billion for 25 projects in 1994 alone.

By drawing on the World Bank's global reach, expertise and innovative financing, countries have found an efficient way to address the far-away causes of environmental threats at home. As a lender and key advisor, the Bank is on the ground fighting cross-border problems such as water and air pollution, global warming, hazardous waste control and ozone depletion. And in the two years since the Rio Earth Summit, the Bank has committed a record \$4.4 billion in new loans for 48 projects to strengthen countries' management of the environment.

From the World Bank's \$50 billion environmental portfolio:

- A new \$918 million package of projects is helping Mexico treat sewage and clean up pollution along its border with the United States.
- In the past two years, the Bank has launched projects that will cut the emission of ozone depleting substances by 23,000 metric tons.
- As cities in developing countries double in size over the next three decades, the Bank is at the forefront of the "brown agenda," boosting urban environmental, anti-pollution and sanitation capacity globally.
- Health is improving around the world as World Bank projects connect thousands more families a year to clean water and sanitary sewage treatment systems.
- A World Bank trust fund is in place to help conserve the vital Brazilian rain forests, an expanding new source of new medicines and materials.

"Clean Technology" means Gains Abroad for Cutting-Edge U.S. Companies

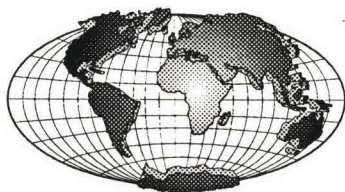
By helping developing countries protect the world's oceans and air, the World Bank has also opened vast new markets for U.S. manufacturing and engineering expertise. Within five years, sales of equipment and services to protect the environment—an industry dominated by U.S. companies—will run as high as \$600 billion.

And as more countries raise their environmental protection standards, industries in the U.S. and other developed countries won't need to worry that their own increasing investments in clean technologies will cost them competitiveness.

IDA and the Environment

The poorest people are the most often and most severely affected by environmental degradation. The Bank's International Development Association—which lends to the poorest countries—recognizes that to work in the long term, development depends on good environmental policies. To that end, IDA has moved to make environmental considerations part of all its work:

- In the past three years, IDA has provided some \$1.4 billion for environmental projects, including efforts to protect forests, fish, water, wildlife and soil.
- IDA backs the preparation of comprehensive national environmental action plans for all IDA recipient countries.
- IDA helps governments assess the potential environmental AND social impact of their projects, and boosts the capacity of fledgling environment ministries.



Issue Brief

WORLD BANK

The World Bank: Programs for People Work

Social investment works. The lesson from around the world is clear: "people programs" are not just good for human well-being, they are sound economics too. That's why the World Bank is now the biggest external financier of health, education and nutrition in the world. That's why Bank lending for social investment has increased fivefold in the last decade (to average more than \$3 billion a year, and it's projected to grow to \$5 billion a year over the next three years). During the last generation, advances in the human condition in the developing countries have been tremendous:

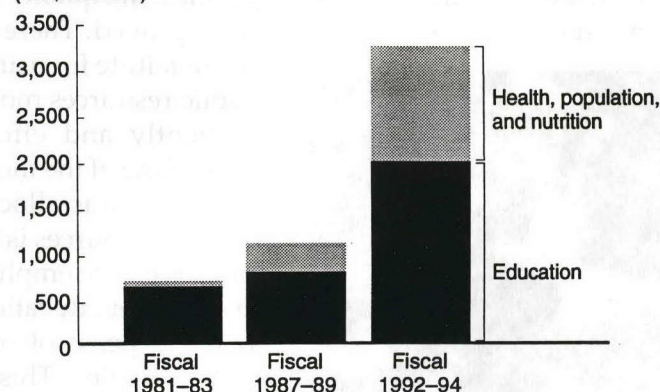
- life expectancy in the developing countries climbed by more than 50 percent in the last generation, from 40 to 63 years;
- literacy rates doubled in the same time, as have incomes per person;
- a disease like smallpox, which was killing 5 million people a year in the 1950s, has been eradicated;
- a child born today in the developing world is only half as likely to die before age five and is twice as likely to learn to read.

And yet, an enormous challenge remains:

- nearly eight million children die every year from diseases linked to dirty water and air pollution;
- around 130 million children never get the chance to go to school;
- almost a billion people never earn enough to feed their families;
- three billion more people will be added to the global population within the next 60 years—creating an unprecedented demand for more education, health care and jobs.

Bank lending for human resources has risen dramatically

Annual average commitments
(US\$ millions)



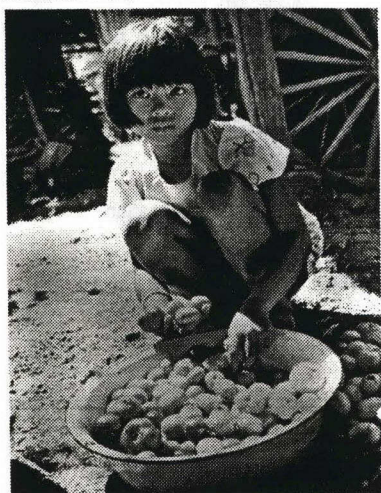
Source: World Bank data.

The Focus Must Be People And Policies

To meet these challenges and improve people's lives, the right mix of smart economic reform and social investment is essential. By itself, social spending is not enough; without sound economic policies, simply pouring money into social programs will not work. No country has managed to improve the quality of people's lives over the long run without economic growth. On the other hand, experience shows that the right *economic* policies do lead to *social* gains. From Botswana to Chile to Indonesia, countries that have launched growth-oriented policies have also been able to expand access to health and education—and increase jobs and wages. And as reforming countries emerge as attractive markets for international capital, even more opportunities emerge for the country's people.

- *Macroeconomic stability is key:* Curbing high inflation, for instance, can help prevent social disintegration.
- *Sectoral policies are key:* Healthy economies grow out of strong capital markets, good infrastructure and well-functioning labor markets.
- *Agriculture, in particular, is key:* Policies that fail to benefit farmers will bypass most of the poor.
- *Openness to trade and private investment is key:* In countries where trade grew faster than average over the past 20 years, wages grew. Where trade did not grow, wages stagnated.

In addition to these economic policies, the quality of social spending itself can be much improved. There is



no substitute for using public resources more efficiently and effectively. One of the most common mis-allocations of resources is to give excessive emphasis to higher education at the expense of primary schooling. This is inequitable, because students in higher education typically come from the highest income groups; and it is wasteful, because

the subsidies displace private spending.

A similar story can be told for health: most poor people do not have access to hospitals, yet that is where 50 to 70 percent of public health expenditures in developing countries go. To give an example of what can be done by focusing resources on basic health services: China spends a full percentage point of gross domestic product (GDP) less on health than do other countries at the same per capita income level, but life expectancy is ten years higher.

We must be clear on this point: **improving** the impact of social investment means **increasing** the share of public spending that goes to the poor.

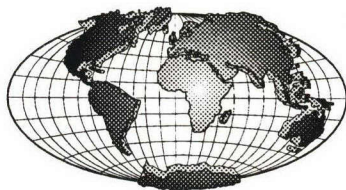
Social Progress is More Important than Ever

With a billion people still in living in desperate poverty, social investment is at the heart of how countries prepare for the 21st century and a world in which computer skills will be as important as literacy, and in which rich and poor nations will be linked increasingly through trade, and capital and information flows. To meet those new challenges, all countries need growing, competitive economies and healthy, well-educated people. The World Bank is in the business of helping them to achieve these goals.

Safety Nets Must be There for the Most Vulnerable

Without the right policies in times of economic transition, poor people are at even greater risk. That's why World Bank economic reform programs include strong social safety nets, programs that protect the most vulnerable from the risks of a shifting economy. And to be effective, social spending must reach the people who need it most. That's why the World Bank works with borrower countries not only to maintain social expenditures, but to focus them on the poor; through an emphasis on primary education, basic health and the early needs of children.

- Last year, two-thirds of the Bank's economic reform lending included safety net programs to protect the poor or to keep vulnerable people from slipping into poverty.
- The Bank sponsors innovative social funds in dozens of countries—including Ecuador, Peru and Pakistan—that channel funding past cumbersome bureaucracies straight to the grassroots needs of the poor.
- Investment loans also protect the poor. In Togo, for example, a major Bank-sponsored urban development project will provide more than a million work days for local unskilled workers.



Issue Brief

WORLD BANK

The World Bank: Building Markets

Developing countries are open for business. One after another they are shedding their reputations as poor, backward, aid-dependent nations and are emerging as key markets and trading partners. Fast-growing developing economies generated 70 percent of the growth in global GDP in the first three years of this decade. And as they grow, developing countries buy more goods and services from abroad; that means more exports and more jobs for industrial countries.

The market is huge: almost 5 billion people live in developing countries—90 percent of the world's population.

- Developing countries grew twice as fast as industrial countries during the first three years of this decade.
- Investment in developing countries runs at \$1 trillion a year.
- Developing countries are expected to expand by 5 percent a year over the next decade—much faster than industrial countries.
- By that time, they will be buyers of half the world's output.

The World Bank is There First

These markets are enormous and their potential is bigger still. But they are fast-changing countries, and tensions and instability are always a risk. So the challenge for developing countries and the World Bank—their biggest development partner—is to manage change carefully to protect and expand their new success.

The World Bank, as a market builder, is often first

US Business: Thriving in World Bank Markets

World Bank market building and investment translate into American exports and jobs:

- More than 40 percent of US exports are to developing countries.
- These exports provide 4 million American jobs.
- In 1993, the United States exported \$42 billion worth of goods to countries to World Bank "graduates"—countries that have grown out of the need to borrow from the Bank. Korea, the world's eighth biggest economy and a key US ally and trading partner, is the Bank's most recent World Bank graduate.

into emerging markets. From Asia to Latin America, the Bank's lending and advice has knocked down barriers to trade and ushered countries into the mainstream of the world economy. And the Bank is working harder than ever to deepen free market reforms and expand them to virtually every developing country.

How the World Bank Builds Markets:

World Bank reforms strengthen economic policy to cut budget deficits, reduce inflation, liberalize trade and investment and privatize state-owned enterprises.

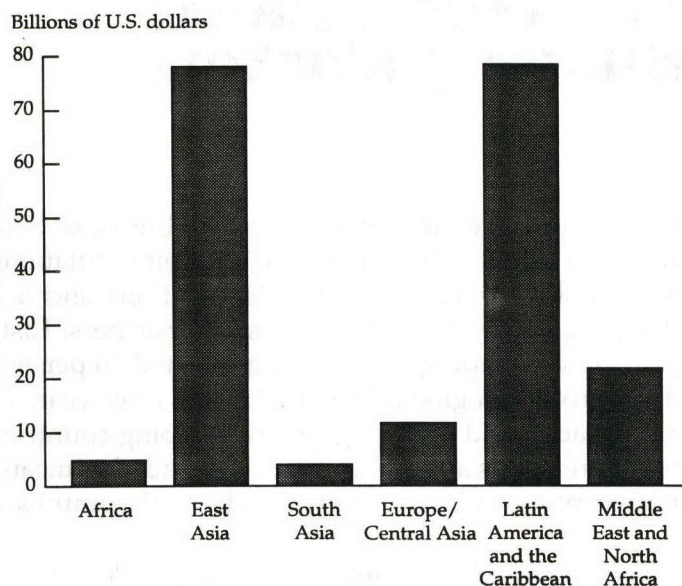
About three-quarters of Bank lending contains reform measures aimed specifically at the private sector. And the reforms work:

- Under Bank-backed reforms, Argentina cut inflation from five-digits to just 5 percent and is running a budget surplus.
- India sharply reduced restrictions on foreign investment and saw outside investment jump from very little in 1990 to more than \$4 billion in 1994.
- Russia has privatized more than 15,000 medium and large businesses employing 15 million workers, creating 40 million new shareholders. And thousands of small business—shops and trucking firms—are now in private hands.
- Bank advice on cutting red tape and burdensome regulations simplified customs rules in Peru, introduced workable property laws in Poland, eased investment rules in India.
- In the poorest countries, the Bank works to set the stage for private sector growth through its International Development Association. Twenty five percent of IDA lending in Africa backs economic and market reforms.

The World Bank Invests in the private sector, which stimulates growth and competition. The Bank's presence reassures other investors. Bank financing backs about \$25 billion of separate private sector investment in developing countries each year—some 10 percent of *all* investment by private enterprise in developing countries. Special programs are designed to reach small businesses: with non-governmental organizations and governments, the Bank recently launched a \$100 million fund for micro-enterprises in Africa.

- The Bank's International Finance Corporation, which invented the term "emerging market," invests \$2.5 billion a year directly in the private sector and expects its business to grow by 12 to 15 percent a year. IFC has been instrumental in privatizations around the world and has set up emerging market funds such as the Asian Infrastructure Fund. IFC has ad-

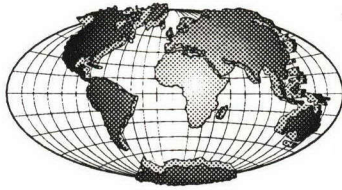
U.S. Exports to Developing Countries by Region, 1993



vised governments on establishing financial markets—for example a stock exchange in Zambia and a futures and options market in Thailand.

- The Bank and its Multilateral Investment Guarantee Agency (MIGA), also offers insurance against risks associated with government (for example, not adhering to an electricity price agreement) and against non-commercial risks such as civil disturbance and expropriation.

The World Bank provides key public investments in health, education, infrastructure and the environment. The bank is the world's biggest external investor in health and education in developing countries. Heavy Bank investment in rural roads, irrigation, sewerage and water supply creates thousands of business opportunities for companies around the world. And the Bank invests more than \$2 billion a year in protecting the environment.



Issue Brief

WORLD BANK

The World Bank: Rebuilding Africa

"The pain level in Africa is going to be horrendous by early in the next century and the entire human race is going to have some obligation to help think through and help deal with it."

—Newt Gingrich, Speaker of the US House of Representatives

World Bank-sponsored development is working for millions of people around the world. In Africa, progress clearly has been slower and the challenges ahead are greater. But there is more hope than ever for Africa. A fragile progress has taken hold and the World Bank—Africa's biggest development partner—is working country by country to boost the continent out of dependency and into partnership in the world economy. African governments are embracing political and economic freedom as the path to development—more than 30 elections have occurred in the last five years, and a majority of countries have now legalized political opposition. And where reforms have taken hold, countries are becoming more stable and growth is stirring—21 reforming countries experienced real growth between 1988 and 1993.

Now is the time. The problems are still daunting. Sub-Saharan Africa has the fastest growing population in the world and by 1998, AIDS will have killed 150,000 African children and infected 300,000 more. But in more countries than ever, the Bank is helping Africa gain ground politically, economically and socially. With hope growing, now is the time push forward with development that works.

Building on the Basics: Stability, Sound Economics, Investing in People

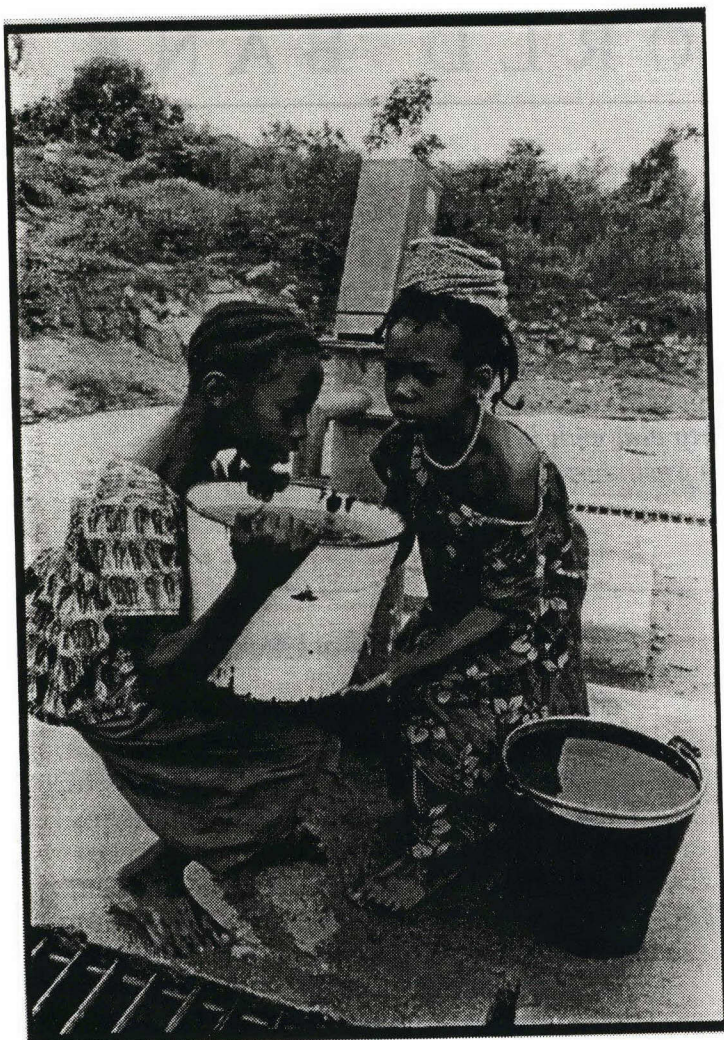
Through the World Bank—and particularly its affiliate the International Development Association—developed countries have found a cost-effective way

"The Multiplier Effect"

The Bank is more than Africa's biggest lending partner, it is an enormous catalyst for international assistance, and World Bank backing is often multiplied many times by other funds from abroad. Governments and other lenders match each dollar of IDA lending in Sub-Saharan Africa with 50 cents of their own. Conversely, donors by agreement may withhold bilateral assistance until a country reaches agreement with the Bank and/or the IMF.

International investors, too, see World Bank presence in a country as a "green light" for investment. They know that under Bank terms, African governments agree to "clean house" with greater accountability, respect for laws, and enforcement of contracts and property rights. That's good for business: Africa's fledgling stock markets posted the world's largest gains in U.S. terms in 1994; and from 1990 to 1993, the U.S. alone exported more than \$10 billion in goods and services to Sub-Saharan Africa.

to nurture the positive changes occurring in Africa. The Bank's portfolio in Africa includes 590 operations with total commitments of \$22.2 billion, with the bulk



Economic Reform

Under World Bank programs, African governments have started to eliminate economic distortions that smother private enterprise, generate crippling inflation and keep farmers poor. Fully 25 percent of IDA lending in the region backs such market reforms—programs that help shrink Africa's sprawling public sectors which consume 20 percent of capital and human resources—and help make agriculture—Africa's biggest asset—respond to market forces.

And the reforms are working:

- Per-capita income climbed from 1988 to 1993 for half of countries in the region;
- A dozen African countries, including Tanzania, Ghana and Botswana, enjoyed 4 to 5 percent annual economic growth in that same period;
- Economic growth outpaced population growth in half of Sub-Saharan Africa;
- Merchandise exports grew by 4.4 percent a year from 1988 to 1993, reversing the steady decline of the early 1980s.

Investing in People

The early economic gains bring the extreme human needs of Africa into sharp relief. Far too many Africans still live without clean water, basic health care, education and other essential services. Much remains to be done, but the fivefold jump in World Bank lending for social investment—to roughly \$3 billion a year—is making a difference in people's lives:

- A child born today in the developing world is only half as likely to die before the age of five and twice as likely to learn to read.
- The Bank is now the single largest source of funding for AIDS prevention and control in the developing world, with programs totaling \$600 million.
- A disease like smallpox, which was killing 5 million people a year in the 1950s, has been eradicated.
- A dozen countries have nearly achieved universal primary education and a dozen more have made substantial gains, in spite of rapid school-aged population growth and economic constraints.

of the investment going to agriculture, transportation and education. The Bank's projects promote the fundamentals of development:

Stability

Stable conditions are necessary for development to work, and too often progress in Africa is swamped by political or economic turmoil. Bank programs work to head off crises by promoting realistic economic policies, meeting people's basic needs such as food, health and education and by encouraging democracy and popular participation. Somalia and the human tragedy in Rwanda are recent shocking reminders of the much-higher costs of instability.

TALKING POINTS

The World Bank: A Solid Financial Institution

The World Bank is a bank, not a foreign aid agency. Millions of Americans, through U.S. pension funds, are investors in World Bank bonds, and for good reason:

- World Bank bonds have a AAA rating with Moody's and Standard & Poor's. This has enabled the Bank to raise close to \$100 billion from private capital markets, which finances 75% of its lending operations.
- The Bank does not write off debt nor reschedule loans.
- 98% of its loans are current. Loan disbursements stop when a country is 60 days in arrears.
- No borrower has ever defaulted on a Bank loan.
- The Bank is cutting costs, reducing administrative expenses 12% over the next two years.

U.S. Contributions to the World Bank: A Good Investment in Tight Budgetary Times

In tight budgetary times, the U.S. contribution to the World Bank is an even better investment:

- The Bank gives the "biggest bang for the buck" in developing U.S. export markets: for every dollar contributed by the U.S., other nations contribute \$5. In addition, most of the Bank's resources are not raised from governments, but from capital markets and loan repayments. There is no similar leverage for U.S. bilateral assistance.
- Every dollar contributed supports over \$60 in development financing from other sources.
- U.S. interests are well-protected at the Bank: the United States is the Bank's biggest shareholder, with 17% of the votes.

The World Bank Invests Where It Counts: Developing U.S. Jobs & Export Markets

Over 80% of the world's population lives in the developing world, which accounts for 50% of the world's purchasing power. The World Bank has invested wisely in the developing world, and the U.S. has been a major beneficiary:

- More than 40% of U.S. exports go to developing countries. This total has doubled in just the last seven years, from \$91 billion to \$197 billion.
- U.S. exports to developing nations account for 4 million American jobs.
- U.S. exports to countries receiving Bank loans have grown an average \$5.6 billion a year.

American firms also benefit directly from Bank-financed projects:

- U.S. businesses have received almost \$23 billion in procurement contracts since the Bank began.
- Recent contract awards include: a \$155 million contract for the McDermott Company of Louisiana to provide steam generating equipment in China; a \$190 million contract for the M. W. Kellogg firm in Houston for a fertilizer facility in Indonesia; a \$21.5 million contract for MUCIA, a consortium of 10 midwestern universities, for a Malaysian educational center.

Growth of U.S. Exports is No Accident: The Bank's Pro-Growth Loan Conditions

The World Bank sets strong, pro-growth conditions for its loans. Again, this has had a direct payoff for U.S. businesses:

- The Bank has made some 250 loans to 75 different countries which include conditions for trade liberalization. These loans went to countries that imported one-fourth of total U.S. exports.
- Overall, U.S. exports to these countries increased 12% a year after these policy-based loans were implemented.
- Over a six-year period, U.S. exports to countries receiving these loans increased from \$55 billion to \$99 billion a year.

IDA – Investing in Tomorrow's Markets

A World Bank affiliate – the International Development Agency (IDA) – makes loans to the world's poorest nations; 85% of its loans are made to countries where per capita incomes average about \$40 a month.

- In 1994, the U.S. contributed just over one billion dollars to IDA. For every dollar contributed by the U.S., other nations contributed four dollars.
- IDA has been a good investment for the United States, creating new demand for American products. For American firms, workers and farmers, IDA has invested where it counts.
- In 1993, U.S. exports to IDA borrowers totaled \$20.3 billion, a 40% increase over the last six years.
- IDA "graduates" countries when their per capita income exceeds a certain level. The 20 countries which have graduated from IDA bought \$42 billion in U.S. exports in 1993.

Setting the Stage for Economic Growth

The U.S. can't expect to export its products to countries with a population that's too poor, too sick, or too uneducated to make the transition to a healthy, growing economy.

Let's look at the facts:

- One billion people in the developing world still live on less than \$1 a day.
- One billion people do not have access to safe drinking water; 1.7 billion lack adequate sanitation facilities.
- Within the next generation, three billion more people will be added to the five billion already on the planet – and 90% of those three billion will be in the poorest countries.

Children suffer the most:

- Nearly eight million children die each year from diseases linked to dirty water and air pollution.
- Fifty million children are mentally or physically impaired because of inadequate nutrition, and 56% of child deaths are caused by malnutrition.
- In places like Sub-Saharan Africa, one child in six dies before they are five years old.
- By 1998, roughly 150,000 children will have died of AIDS and another 300,000 will be infected with the virus.
- More than 130 million children do not get the chance to go to school, and 80% of those children are girls.

The World Bank helps set the stage for economic growth by improving basic living standards, through investment in education, health, nutrition and infrastructure:

The Bank is now the largest external financier of health, education, and nutrition programs in the world:

- Bank lending in these areas has increased to \$3 billion a year, and will grow by 50% in the next three years.
- The Bank is the biggest single source of external lending for education in the developing countries. Education lending has more than doubled in recent years averaging \$2 billion annually in 1989-94.
- The Bank is the world's largest lender for AIDS prevention and control; total lending now approaches \$600 million.

The World Bank and IDA: Protecting the Environment

- Since 1986, the Bank has invested \$9 billion in environmental projects – \$2.5 billion in 1994 alone.
- Lending for pollution control and the urban environment totaled \$2.7 billion in the last two years.
- Some \$1.4 billion in lending over the same period helped to protect natural resources and the rural environment.
- The Bank backs the preparation of comprehensive environmental action plans for all IDA recipient countries. By mid-1994 more than 30 countries had prepared such plans, and that number is expected to double in this year alone.
- A recent World Wildlife Fund report concluded: “continued participation of the U.S. in the financial support of IDA is a sound and cost-effective investment in global economic, political and environmental security.”

IDA Investments Have Produced Real Successes

- Private investors look to IDA to set the conditions that will force African governments to operate with greater accountability, respect the rule of law, enforce contracts and property rights, and govern more consistently and less arbitrarily.
- IDA is in the forefront of the battle to promote market reforms and an end to state domination of African economies. About 25% of IDA lending for Africa supports these reforms. And these loans are beginning to show results.
- Between 1988 and 1993, 21 countries undertaking reforms in Africa had positive growth – and half of them had growth rates of 4-5%.
- In IDA-supported countries, infant mortality rates have dropped by about 50% and life expectancy has increased by eight years.
- Since 1970, with help from IDA, 47% more people have access to safe water.
- IDA school programs have helped boost primary school enrollment by 36%.
- With a billion people still living in desperate poverty, support for the World Bank and IDA helps create jobs, boost exports, build markets, promote economic reform, and improve the quality of life for the poorest people of the world. It is one of the best investments the U.S. can make.

Policy Analysis

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Routing

THE WORLD BANK'S FINANCES: AN INTERNATIONAL S&L CRISIS

by Patricia Adams

Executive Summary

The World Bank, which is celebrating its 50th anniversary this year, has long enjoyed a sound financial reputation. But its AAA credit rating is not justified. Because of the perverse incentives under which the World Bank operates, the quality of its loan portfolio has diminished significantly, and because the bank is backed by rich-country governments, its irresponsible lending exposes Western taxpayers to a possible World Bank bailout on a scale comparable to the U.S. savings-and-loan bailout. That would leave taxpayers in the industrialized countries on the hook for \$100 billion; U.S. citizens would be liable for nearly \$30 billion.

The World Bank and Western governments have used various techniques to create the appearance of a fiscally sound institution. During the debt crisis of the 1980s, for example, borrowing countries paid their old debts through more borrowing from the World Bank. That practice of "round-tripping" money helped bail out many private-sector creditors but worsened the bank's financial position. Loans from rich countries' bilateral aid agencies and from the International Development Association (the World Bank's concessionary loan window) also have helped to keep the World Bank afloat. Even though the bank is now being paid back more than it lends, its meager loan-loss provisions and confidential notes suggest that there is ample reason for concern.

Bank reform will not solve the institution's problems. It must be shut down. There are at least five ways to do that: dissolution according to the bank's articles of agreement; privatization; selling its assets; swapping bank debts for equity; and unilateral withdrawal by individual countries. Closing the World Bank now would be less damaging than waiting for its collapse.

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Introduction

The U.S. government and other Western governments that jointly own the World Bank with Third World governments have chosen to turn a blind eye to the perverse set of financial incentives and responsibilities on which the institution rests. As did the U.S. savings and loans, the World Bank--the single largest source of development finance for Third World leaders and, according to Standard and Poor's, itself "one of the world's largest borrowers"--has played financial charades to hide irresponsible lending and to appear fiscally sound.¹

Because of the industrialized countries' uncritical support, and because of its own iron-clad constitution, the bank faces little or no incentive to behave responsibly. That spells tragedy for people in the developing world affected by the bank's uneconomic "development" projects--and hardship for Western taxpayers who unwittingly hold the world's riskiest loan portfolio and \$100 billion in liabilities.² The damage of a possible collapse could be diminished were political leaders in the industrialized countries willing to face up (earlier rather than later) to the bank's shaky financial status.

Cracks in the World Bank's Financial Edifice

In 1985 two World Bank agencies, the International Bank for Reconstruction and Development (IBRD), which operates on a nearly commercial basis, and the International Development Association (IDA), the World Bank's concessionary loan wing, approved a \$450-million loan to help India finance a massive irrigation-hydroelectric scheme on the Narmada River. With over 3,000 dams and a labyrinth of canals that would forcibly displace over 1 million people, the project offended almost everyone.

Public outrage within India over the World Bank's stubborn support for the megaproject led to a "Quit India" campaign--a revival of Gandhi's campaign against British colonial rule--to expel the World Bank. International outrage over the project, meanwhile, was threatening the World Bank's bid for an \$18-billion capital fix for IDA from the Western countries that periodically refill the association's coffers. Both Finland and Canada cut their contributions, and the U.S. Congress--the World Bank's biggest benefactor--was threatening to withhold its hefty 20 percent share of IDA's budget.³ An independent project review, financed by the World Bank itself to quell critics, back-

fired: it confirmed that the project would perform poorly and impoverish some 240,000 people whose land would be swallowed up by the dam complex.⁴ The project--and especially Sardar Sarovar, the largest of the Narmada dams--had become an albatross around the World Bank's neck.

But the World Bank could not walk away from the project without offending the Indian government. Faced with a balance-of-payments crisis and public opposition to its economic reform package, the Indian government was also furious with foreign environmentalists' meddling in its sovereign affairs and with the World Bank over Sardar Sarovar. In a daring game of financial brinkmanship, India threatened to default on its World Bank debts if the bank stopped supporting the dam.⁵ As the World Bank's biggest borrower, the Indian government had it over a barrel: an Indian default would put 15 percent of the World Bank's entire portfolio in the limbo of nonaccrual status, threatening the IBRD with its first annual loss.⁶

The World Bank clumsily capitulated in March 1993. After nearly a decade of controversy, and after India had failed to satisfy the loan's requirement for a comprehensive resettlement plan, the bank canceled the remaining \$170 million in disbursements for Sardar Sarovar to appease its critics. Almost simultaneously, to please its client state, the World Bank proffered India over 10 times as much as the canceled loan, half of it not pegged to specific projects with their potential for embarrassment but for the general purposes of the Indian government.⁷ The Indians won that showdown with the bank, which could not risk the unknown world that lay beyond a major borrower's going into arrears.

The Bank from Bretton Woods

Buckling to pressure over a dam project seemed uncharacteristic of the World Bank, an institution considered the world's most unflappable financier. With a reputation for imposing discipline on its borrowers, for cool-headed, unsentimental economic analysis, and with an unshakable AAA credit rating, the World Bank, particularly the IBRD, had always seemed the most prudent of financial institutions.

Established 50 years ago at Bretton Woods, New Hampshire, by John Maynard Keynes and the world's leaders, the IBRD finances its \$16-billion annual lending operations primarily from borrowings that are 100 percent backed by its member governments. Such bond-rating institutions as Standard and Poor's, which rates IBRD bonds AAA, credit "strong

membership support" with "virtually eliminating the possibility of insolvency."⁸ The IBRD then lends money--\$103 billion is now outstanding--to developing countries at just below commercial interest rates.⁹

In contrast to the IBRD's near-commercial loans, IDA provides "soft loans"--long-term loans (35 to 40 years) at no interest (but with a 0.75 percent annual "service charge") to the bank's poorer members. Unlike those of the IBRD, IDA's lending operations--about \$6 billion annually, \$56 billion total--are funded by triennial grants from its rich-country members.¹⁰

Although the IBRD and IDA are two legally and financially distinct entities, they are known colloquially as the "World Bank": they publish one joint annual report, and the staff who prepare loans and the executive directors who approve them are identical. Over the years, 62 countries have borrowed from both IDA and the IBRD, and some projects, such as Sardar Sarovar, received financing from both. Because capital infusions to IDA are regular and more frequent than those to the IBRD, they more often attract public ire. But IBRD-created taxpayer liabilities, which are hidden from public view, exceed IDA replenishments. The U.S. Treasury's backing of the IBRD--approximately \$28 billion (compared to \$20 billion in IDA contributions since 1960)--has not been supported with appropriations since 1981, despite the sizable liability should the IBRD's borrowers, who defaulted on their commercial bank loans in the 1980s, do so with IBRD loans.¹¹

The IBRD spares no effort to dispel worry over defaults. In its Information Statement (a prospectus for potential bond purchasers), the IBRD reassures investors that it "does not make loans which, in its opinion, cannot be justified on economic grounds." It boasts of having "never written off any of its outstanding loans," nor will it reschedule loans as have other, by implication less adroit, financiers.¹² And, the IBRD is quick to point out, its "preferred-creditor" status ensures that it gets paid back first, ahead of all other creditors.

All those factors contribute to the IBRD's blue-chip reputation. As Standard and Poor's quarterly credit report explains, "both borrowing and nonborrowing member countries have powerful incentives to support the bank. Borrowing countries treat the bank as a preferred creditor to safeguard access to financing from the World Bank Group. . . . Nonborrowing countries enhance their relationships with developing countries by supporting the bank, and they

may help develop new markets for their own exports in the process."¹³ All World Bank loans carry sovereign guarantees.

No factor contributes more to the IBRD's blue-chip status than do pledges, by the IBRD's rich-country members, to repay bondholders should the IBRD's Third World borrowers default. IBRD loans can therefore be money losers without affecting the IBRD's credit rating. Money-losing loans, as it turns out, have been the order of the day.

"Steady and Pervasive" Decline in Bank's Loan Portfolio

Evidence gathered by internal reviews, independent critiques, and an army of concerned citizens from around the world gives the lie to IBRD claims of supporting only economically viable projects.

The first outside, independent assessment of a World Bank project ever done--of India's Sardar Sarovar dam and irrigation complex--documented year after year of bureaucratic deception, incompetence, and negligence.¹⁴ Engineering studies to determine the dam's viability were never completed, and when it came to environmental matters, the review team accused the World Bank of "gross delinquency." The review team also rejected the argument that Sardar Sarovar was atypical, stating that "the problems besetting the Sardar Sarovar Projects are more the rule than the exception [for] resettlement operations supported by the Bank in India." In general, the review team concluded, "assertions have been substituted for analysis."¹⁵

A flood of more damning evidence soon followed the review team's findings. In 1992 a leaked internal report, commissioned by World Bank president Lewis Preston to investigate project quality, confirmed that the problems plaguing the Sardar Sarovar project were bank-wide.

That report, prepared by high-ranking World Bank official Willi Wapenhans, found over one-third of the World Bank's \$140 billion in projects to be failing and that deterioration of the bank's loan portfolio was "steady and pervasive."¹⁶ "The portfolio is under pressure," and "this pressure is not temporary; it is attributable to deep-rooted problems," the report explained.¹⁷ In a June 1992 presentation to members of the World Bank's Board of Executive Directors, Wapenhans declared, "There is reason to be concerned!"¹⁸

Among Wapenhans's "deep-rooted problems" were the World Bank's "systematic and growing bias towards excessively optimistic rate of return expectations at appraisal" and an "approval culture" in which "staff perceive appraisals as marketing devices for securing loan approval (and achieving personal recognition)." "Appraisal," observed Wapenhans with dismay, "becomes advocacy."¹⁹

What critics had long suspected was now confirmed at the World Bank's most senior level--the bank's investment analysis was shoddy, biased, and in some cases cooked to make unsustainable projects appear viable. Instead of detached economics' calling the shots, everything was seen through rose-colored glasses by bureaucrats and borrowers out to build empires.

Wapenhans also found that the World Bank fails to carry out projects properly; he described borrowers' noncompliance with legal loan covenants, especially financial covenants (such as failure to undertake proper financial audits), as "gross" and "overwhelming."²⁰ Between 1967 and 1989, for example, borrowers had complied with only 25 percent of the financial covenants for the bank's water-supply projects.

The World Bank's failure to live by its own creed of economic efficiency became front-page news. Bank projects might be reputed to ravage the earth's environment, but the public believed their economics justified them. For the first time, a comprehensive study of World Bank projects had been conducted, and by the bank's own analysis, here was evidence that its loans contributed, not to the wealth of nations, but to their impoverishment.²¹

Impoverished nations, Wapenhans would have understood, make poor credit risks, which renders the World Bank's portfolio suspect. The state of the World Bank's own affairs, however, could not be attributed to the impoverishment of its clientele; its financial disarray was entirely of its own making.

Structural Adjustment Loans: Ponzi Writ Large

Charles Ponzi attained immortality in the 1920s through a financing concept now known as the Ponzi scheme, by which the Boston financier attracted millions of dollars by promising investors a 50 percent profit in 90 days.

"Widows, orphans and even staid financiers rushed to press their money into his eager palm," according to Life.

Ponzi, who kept his investors' money in wastepaper baskets, paid off his investors promptly--sometimes in 45 days instead of the promised 90 days. "In a few months he took in \$15 million and became the best-known financier in the country. Then the bubble burst. It was discovered that Ponzi was not making a fortune by juggling International Postal Union reply coupons, as he said, but was simply paying off his early investors with money collected from late-comers." When arrested, Ponzi owed gullible investors approximately \$7 million but had only \$4 million in assets. No one knew the exact numbers because Ponzi never kept any books.²²

The technique of paying off old debts with new borrowings, or otherwise obfuscating puffed-up asset values, generally enjoys a limited life. But its attraction may be irresistible: as long as new money satisfies old obligations, a lender's operations will appear financially solid. The World Bank is well schooled in the technique; its tools are "adjustment loans."

When Third World countries began to default on their loans in the early 1980s, the World Bank shifted its lending to keep creditors--including itself--at bay. Instead of funding only specific projects, the World Bank began providing what are known as "adjustment loans." Third World countries receive those loans to pay for imports, even routine imports such as oil, in order to free other monies to repay debts. The adjustment money thus makes a round trip--from the World Bank in Washington to a Third World country and then back to the West, where much of it repays various creditors.

Those loans now represent approximately one-fifth of the World Bank's portfolio. In principle, they are supposed to help Third World countries make market-oriented adjustments to their economies; in practice, even the World Bank is at a loss to explain how those loans help Third World economies "adjust."

During the Brazilian debt crisis in 1986, the IBRD lent Brazil \$500 million, purportedly to adjust its electric-power sector. But according to leaked minutes of an Executive Board meeting, one executive director was distressed that the loan "oozed of balance of payments support."²³

Ponzi's spirit was alive and well and operating on a global scale. So were other techniques, all of which contributed to the deterioration of the World Bank's portfolio.

Converting Private to Public Debt:
The Baker and Brady Plans

To stem the Third World's debt crisis, the United States enlisted the World Bank and the International Monetary Fund (IMF) to administer its debt-workout plans, relieving commercial banks of the need to privately resolve their delinquent debts with Third World borrowers.²⁴

From 1985 to 1988, under Secretary of the U.S. Treasury James A. Baker's plan to replace private with public debt, commercial banks were repaid \$17 billion more per year from the Third World than they lent, while government sources (including the World Bank, the IMF, and rich governments) paid out \$700 million per year more than they received.²⁵ That "slow transfer of relative LDC [less developed country] debt exposure from the commercial banks to Western taxpayers" was accomplished "by using international institutions," says the Cato Institute's Melanie Tammen.²⁶ "As LDCs' private bankers increasingly pull the plug, the IMF and the World Bank are opening the spigot."²⁷

"While all money is fungible, this nonproject-related assistance is highly fungible. Indeed, the amount of a policy-based loan (or package of them) is determined solely by the size of a debtor nation's financing gap in a given period--a clear signal that the funds are largely used for private debt service."²⁸

To pay for the private-sector bailout, in 1988 IBRD shareholders contributed \$75 billion--the IBRD's largest ever general capital increase. Debt expert Jeffrey Sachs, an adviser to Third World governments and international financial agencies, called the increase an "explicit taxpayer contribution" to commercial bank interest payments.²⁹ Although the World Bank had not written off outstanding loans, Sachs stated that "so far, the official creditors (i.e., the taxpayers) have not suffered explicit losses, but rather losses that are implicit in new loans to uncredit-worthy borrowers."³⁰

Through those round-trip loans, Third World countries got deeper into debt; the World Bank held more of that debt, since it lent more new money than it received; and the private banks--the Chase Manhattans, Lloyds, and Deutsche Banks--were owed less, since old loans were being repaid while new loans were not extended. Round-trip loans thus transferred the Third World's debt from the private sector to the public sector.

Treasury Secretary Baker's successor, Nicholas Brady, continued the strategy of strengthening private banks at the expense of the portfolios of international institutions. Since March 1989 the IBRD has lent \$3.3 billion under the "Brady plan" to help restructure over half the developing countries' total commercial bank debt.³¹ Under the Brady plan, commercial banks reduce either the outstanding principal or the amount of interest payable on their sovereign loans. The discounted principal and interest payments (converted into "Brady bonds") are then secured by U.S. Treasury bonds purchased with money borrowed from the IBRD, the IMF, and some bilateral contributors, such as Japan. The Brady plan has also provided IBRD loans to enable Third World countries to buy back their now-discounted commercial debt on secondary markets.³²

The conversion of private bank debts to debts owed to multilateral institutions is only building up to a new debt crisis, which could force World Bank asset write-downs. One senior bank official, concerned about its risky portfolio, privately conceded to the International Economy in 1989 that, given increased overall lending to the highly indebted countries and the emphasis on adjustment loans, "there's little doubt that the overall risk to the Bank and Fund has gone up. Anyone who says otherwise is a liar or a fool or maybe both."³³

World Bank management is prepared to go still further in shifting private-sector risk to the public sector. During recent 50th anniversary celebrations, Preston indicated that the bank might guarantee commercial bank loans against losses caused by regulatory changes in borrowing Third World nations.³⁴

Despite the rash of bad news about the World Bank's mismanaged projects and its increasing vulnerability to high-risk debtors, the IBRD's AAA credit rating remains unscathed. (IDA, which does not raise funds in capital markets, has no credit rating.) Any other bank with such a disastrous portfolio would soon see its credit rating slashed and its investors flee. But the World Bank is unlike any other bank.

A Quiet World Bank Bailout

Rather than a financial powerhouse governed by market discipline and exercising investment prowess, the World Bank is a financial cripple propped up by state guarantees and disguised government bailouts.

Because all World Bank loans have sovereign guarantees from borrowing governments, the World Bank does not depend on the viability of the projects being financed. "With such a setup," says long-time bank critic Bruce Rich in his recent book Mortgaging the Earth, "it makes no difference whether the projects the Bank lends for are well managed or mismanaged, or whether some or all of the money disappears."³⁵

The sovereign guarantees, in turn, are bolstered by routine transfers from the rich countries, disguising the fact that the World Bank, with the riskiest loan portfolio in the world, is a financial house of cards that could crumble at the slightest tremor.

Having seen to the bailout of the private banks, and to maintain the disguise, the World Bank's members now need to bail out the World Bank itself--a situation that sends all concerned into denial.

Taxpayers Pay for the Bank's Preferred-Creditor Status

A 1992 investigation by the Canadian auditor general (a parliamentary watchdog over government expenditures) of the World Bank and four smaller regional development banks concluded that taxpayers have indeed been paying for the World Bank's ineptitude. Maintaining the preferred-creditor status of the development banks--the linchpin of their AAA credit ratings--said the auditor general, "is not cost free to countries like Canada."³⁶

Not only has the IBRD maintained its status by round-tripping loans, but as the Canadian auditor general observed, the donor countries have been offering debt relief indirectly through the Paris Club.

The Paris Club, IDA, and Other Friends of the Bank

The Paris Club is a regular rendezvous of lending and borrowing nations, hosted by the French finance ministry, to renegotiate Third World debts to government lenders. While the World Bank does not participate in those negotiations, its rich-country members protect it by directing their own lending institutions (aid agencies such as the U.S. Agency for International Development and export credit agencies such as the Export-Import Bank of the United States) to reschedule or forgive the debts of Third World countries in danger of defaulting on World Bank debts. The hundreds of

billions in rescheduled debts and the \$12.5 billion in bilateral debts actually forgiven by the rich countries since 1982 have thus become important safety valves protecting the IBRD from loan defaults.³⁷

Another IBRD rescuer--one even more inbred than the Paris Club--is the IDA, its sister organization at the World Bank. That rich-country-financed foreign aid agency helps to keep the IBRD solvent by keeping borrowers flush in foreign exchange, enabling them to service their IBRD debts. In 1989 that practice was formalized under the whimsically named "Fifth Dimension" program, through which IDA has lent \$625.4 million interest free to "ease the debt service burden" of its borrowers' outstanding IBRD debts. According to the World Bank's World Debt Tables, "This has amounted to over 90 percent of the interest due on loans contracted by these countries from the IBRD."³⁸

Since the World Bank--to protect its blue-chip reputation--forbids round-trip loans to pull chronic debtors out of arrears, its rich members do the job instead. In 1990 a "support group" of creditor countries, worried that the mounting arrears of various small borrowers would weaken the credibility of the World Bank and the IMF, pooled millions of dollars to pay off Guyana's World Bank and IMF arrears, thus restoring Guyana's good standing with both institutions.³⁹ Similar packages have been marshaled since: France recently paid Cameroon's debt service arrears to the World Bank, and in 1993, for the same purpose, the United States and Japan gave Peru a bridging loan.⁴⁰

Third World debtors have "often been supported through bilateral and multilateral programs to enable them to service their debts with the World Bank," said Canada's auditor general, suggesting that a taxpayer bailout has been quietly operating to keep a financial crisis from the World Bank's doorstep. But, he added, "one must ask whether these flows can be maintained indefinitely."⁴¹

The Bank's Net Transfer Trap

In the real world of international finance, banks lend money to borrowers, who are then expected to repay the principal, with interest; if borrowers fail to repay more than they borrow, or if lenders suspect such intentions, there is great cause for concern.

The World Bank understands that banking truism and tirelessly explains it to the foreign aid lobby, development

groups, and the press, who often do not understand. The following exchange at a press conference, which took place during the World Bank's 1988 annual meeting in Berlin, between a reporter and Ernest Stern, the man who many believe runs the IBRD, summarizes the debate.

REPORTER: For the last couple of years or so, the Bank has been getting back more from past and present borrowers in interest and repayments than it has actually been relending. I know there are lots of complicated reasons for this, but can you say when, on present lending schedules, and repayment schedules, net transfers back to the Bank will come to an end?

STERN: The people who argue that there should always be positive net transfers not just net positive disbursements are, in my view, saying something very peculiar. To maintain positive net transfers means that you have to refinance the repayments of principal plus the interest payments. Since interest runs around 8 percent a year, it means that a country's debt will grow by 8 percent a year.

The reason I think this is peculiar is because if you do that, a country is destined for quick bankruptcy.⁴²

That, explained another financial officer recently, is what happened to the American savings and loans.⁴³

But the World Bank does not belong to the real world of international finance, and neither do its Third World clients. Despite the bank's official recognition of the way banking should work, and its claim to conform to those norms, the bank itself panics when its transfers turn negative (that is, when borrowers are repaying more than they are borrowing).⁴⁴

Borrowers Balk

After 43 years of transferring more to its borrowers than its borrowers were paying back in principal and interest, the IBRD moved into uncharted territory in 1987 when net transfers turned negative. Because of the borrowing binge of the early 1980s, when positive net transfers reached all-time highs, very high debt repayments became due by the late 1980s. Debt forgiveness and reschedulings of

various kinds, through various institutions, were then required to facilitate the IBRD's debt repayments, which by 1992 had increased sixfold over 1980 levels.⁴⁵

Although those negative net transfers fit Stern's stated view of how the World Bank's operations should unfold, they nevertheless provoked fear. According to one senior financial officer, the "disturbing" day will come when borrowers may have a "diminished incentive to pay."⁴⁶ Indeed, many in charge at the IBRD share that fear. Confidential notes from a 1992 presentation to its Board of Executive Directors warned that "since 1980, there has been a significant deterioration in the quality of the portfolio," and "almost half of the projected increase in Bank exposure is to countries that are currently considered to be high risk."⁴⁷

It is possible that a few of today's high risk countries could slide into nonaccrual over the next few years. . . .

The implications are clear. . . . The Bank should thus be prepared to support adjustment strongly and quickly, but also be ready to curtail support if the conditions for effective use of our resources are not met. There are clear risks to the Bank in implementing such a strategy. Where countries encounter difficulties in implementing reform, external financing pressures can quickly reach crisis proportions, and the Bank's preferred creditor status could come under stress. For the foreseeable future, the Bank's financial position will therefore continue to require an adequate capacity to withstand situations of temporary nonaccrual. . . .

. . . It is not possible to predict whether or where such a situation might trigger an arrears problem for the Bank. . . . But there is always a likelihood of new countries falling into nonaccrual. This likelihood, while difficult to measure, must be taken into account in our loan loss provisions.⁴⁸

The IBRD's loan-loss provisions would not go far in protecting the institution. At 3 percent of disbursed and outstanding loans (plus the present value of guarantees), they are meager compared to the 100 percent provisions set aside in 1989 by J. P. Morgan & Company when Preston was chairman.⁴⁹ The IBRD's loan-loss provisions exceed by rough-

ly \$500 million the arrears portion of its portfolio.⁵⁰ But that portion is artificially low--a fiction of round-trip loans and other state bailouts that keep more debtors from going into arrears.

Indeed, it would take only one large debtor, such as India (which continues to receive positive net transfers from the IBRD and IDA combined), and a handful of smaller debtors defaulting on their loan repayments, and the unthinkable could happen: the IBRD would have to start calling on the capital of its member countries to meet its obligations to its bondholders.⁵¹ Should taxpayers in member countries resist bailing out boondoggles, the bank's credit rating would be lowered, the cost to it of borrowing money would increase, and its Third World borrowers would begin to question the wisdom of more World Bank borrowing--and the wisdom of repaying their IBRD loans. The IBRD's financial stability would be put at risk.

That doomsday scenario is not remote but a constant worry. As Canada's auditor general explained, the World Bank's authority--as embodied in its preferred-creditor status--is fragile and not "based on a formal or legal subordination of the debts owed other creditors to the debts owed to the banks." Rather, the auditor general explained, its preferred-creditor status stems from "informal factors, like the willingness of the development banks to maintain a positive cash flow to their borrowing countries."⁵² Absent that incentive, the World Bank worries that its most vulnerable--or most belligerent--borrowers will fall into arrears. In 1991, when the bank projected continuing negative flows (by roughly \$3 billion a year) for the first half of the 1990s, borrowers demanded a "comprehensive review" to find new ideas for viable investment projects.⁵³ A decade earlier, at the peak of the Third World's debt crisis, the planning director for the Haitian ministry of finance, Claude Grand-Pierre, said, "If we're not receiving fresh money, we can't pay," adding that his government felt no obligation to pay lending agencies that had cut Haiti off.⁵⁴

Similarly, in explaining his government's September 1989 decision to miss a \$1.6-billion interest installment to private banks, Brazilian finance minister Mailson da Nobrega said, "Normal relations with creditors are our desire." Referring to some \$3 billion to \$4 billion in loans that had failed to materialize that year, he added, "This is a two-way street, in which debt payments should open the way for new resources."⁵⁵

Over the World Bank's history, positive net cash flows have bolstered borrowing governments' willingness and ability to meet their debt service obligations; without a "positive cash flow"--to allow delinquent Third World debtors to receive more in new loans than they must pay back--many Third World countries simply would be unable to repay the World Bank. Without the promise of new and often larger loans, strapped debtor nations might renege on their promise to repay the World Bank first.

To steer as far from that cliff as possible, the World Bank provides adjustment loans and donor countries provide other refinancing vehicles, and uncreditworthy Third World countries get deeper into debt. Ironically, deepening Third World debt can alleviate the IBRD's woes: countries that slip into the basket-case category ("reverse graduates," in World Bank lingo) now become eligible for IDA support. In his 1988 press conference, Stern confirmed that although the IBRD may collect more than it lends when IBRD borrowers become reverse graduates, "this does not mean that these countries are net payors to the Bank Group." No. While the reverse graduates repaid the World Bank a little over \$300 million in principal and interest, they received over \$900 million in disbursements from IDA.⁵⁶

In addition to the risk that debtor nations might go into arrears, negative net transfers also impose a heavy public relations penalty: when the world's largest aid agency draws in more capital than it doles out, press coverage sours. In a recent story marking the World Bank's golden anniversary, Time ran the caption "Bank 'Profiteering'?" over a chart that showed Third World repayments to the bank exceeding its disbursements to the Third World.⁵⁷

The Lender of Last Resort: The Bank Keeps the Lemons

Negative net transfers also signify the bank's growing irrelevance. "Once the chief doctors to the world's ailing economies," a recent column in the Wall Street Journal began, the World Bank and IMF are being surpassed by a surge in private financial activity that offers emerging Third World nations "a different--and often more efficient--funding option."⁵⁸ Last year foreign direct investment in developing countries climbed to more than \$56 billion--greater than the \$51 billion in official development assistance, and far greater than disbursements by the World Bank and the IMF--threatening to reduce the World Bank and the IMF to "high-priced extras." Even more significant, most of

the private investment involves private Third World borrowers, signaling a shift away from lending to sovereigns.⁵⁹

Preston concedes that the IBRD should not be lending money to the 20-odd countries in Latin America and East Asia to which the ballooning private capital flows have gone. But as the relatively "safe-bet economies" go elsewhere for their funds, the bank gets drawn deeper into the "financially precarious territory of African countries inching their way back from collapse and former Soviet states stranded somewhere between Communism and free enterprise."⁶⁰ That shift, the Journal columnist warns, would produce a riskier loan portfolio, "which the bank's member countries and bondholders should gird for."

An International Savings-and-Loan Debacle

U.S. taxpayers, already hit with the bailout of savings-and-loan deposit insurance, may also be stuck with a bailout of World Bank bonds. Federal guarantees give a cabal of government and IBRD officials the power to influence-peddle and gamble away taxpayers' money without fear of financial or legal reproach. If their loans to the Marcoses and Mobutus of the world end up in default, the governments of the IBRD's most creditworthy shareholders (of which the United States is the largest) will pay the bondholders back.

The IBRD's loose lending was disguised by good motives: cheap loans to poor countries for presumably worthwhile development projects. But in the case of both the S&Ls and the World Bank, says Paul Craig Roberts, former assistant secretary of the U.S. Treasury for economic policy, "the guarantees meant that no one had to behave responsibly because, in the end, it was only taxpayers' money."⁶¹

The IBRD's liabilities for its members' taxpayers now approach those of the S&Ls.⁶² If the IBRD went belly-up, the U.S. Treasury would be on the hook for nearly \$30 billion, the G-7 countries for \$77 billion, and the industrialized countries for \$102 billion, which, not coincidentally, just about matches the bonds issued by the IBRD.⁶³

"It is lucky for the World Bank officers that they are immune from prosecution," says Roberts. "If the same standards were applied to them as were applied to S&L executives and directors, they would be facing liability suits, shareholder outrage and possible criminal prosecution."⁶⁴

Public Relations: The World Bank's Response to
Unaccountable Lending

On September 21, 1992, over 600 citizen groups from 37 countries ran an ad in London's Financial Times condemning the World Bank for supporting India's Sardar Sarovar dam project. "If you do not [withdraw from Sardar Sarovar] we will call upon NGOs [nongovernmental organizations] and activists to put their weight behind a campaign to cut off funding to the Bank," the ad said.⁶⁵ The first target: the \$18-billion replenishment of IDA funds, the 10th replenishment, scheduled to be approved later that year.

The World Bank's public relations team went to work. Preston appealed to the bank's own group of nongovernmental organizations (known as the NGO-World Bank Committee) for support, while World Bank staff fanned out to lobby parliaments sympathetic to the citizen groups' charges.

The World Bank could see the writing on the wall. Angered citizens in both the borrowing and the lending countries were demanding that donor countries stop financing the institution. While scuttling IDA's 10th replenishment would not incapacitate the IBRD, it would indirectly harm the IBRD's financial standing by blocking large grants to distressed borrowers, such as India, with both IBRD and IDA debts. When the U.S. Congress--the World Bank's largest contributor and one of the few legislatures to attempt to curtail the World Bank's destructive forces--demanded specific reforms before handing over a \$3.75-billion contribution, the World Bank cobbled together a plan.

First, the bank feigned openness by introducing a new information policy to "significantly" increase available information.⁶⁶ But disclosure of virtually all bank documents will be left to the discretion of project proponents--the staff of the World Bank, its Board of Executive Directors, or borrowing governments--and be done according to arbitrary and legally unchallengeable procedures. The public cannot scrutinize appraisal reports until after a project's approval, making a mockery of the fundamental requirement for an informed debate about proposed projects. Other documents will be entirely off-limits; the clause in the World Bank's articles of agreement that makes bank archives "inviolable" remains intact, shielding its documents from scrutiny. The bank, not the public, continues to control ultimate disclosure decisions. U.S. taxpayers, as a result, have no right to know how their billions are being spent but are fully liable should the bank's spending decisions result in a \$30-billion bill.

To answer charges that Third World victims of World Bank projects have no recourse to justice, the Board of Executive Directors appointed a permanent "independent" inspection panel to receive complaints from parties claiming to be "materially affected" by the bank's failure to follow its own policies and procedures. But complainants will have no right to a hearing, no right to examine or cross-examine the evidence presented by World Bank management and the borrowing government, and no right to know the reasons for or to appeal a decision to reject their complaint, while World Bank management will have numerous, lengthy, and sometimes indefinite periods of time in which to respond in secret to complaints. The independent panel, in fact, is anything but--it is financed, staffed, and run entirely by the bank and "shall be subject to the requirements of the Bank's Articles of Agreement concerning their exclusive loyalty to the Bank."⁶⁷ Incredibly, that process has been lauded by most member governments. Only the United States withheld unrestrained endorsement; Congress approved the process on a wait-and-see basis. Though the inspection panel will not be governed by basic principles of due process, the World Bank will now be able to dress up its conclusions in the garb of "fair process."

In response to the damaging revelations of the Wapenhans report, the World Bank promises to root out the systematic obstacles in a country's economy that handicap World Bank projects and to design economic policies with country authorities to make bank projects work.⁶⁸ But the things that facilitate World Bank projects--monopoly structures, subsidies, and market distortions--are bad for the rest of the economy.

Over its history, the World Bank has demonstrated an uncanny ability to restore faltering public confidence. The bank reset the clock: it admitted its mistakes, introduced new policies, rewrote the rhetoric, and carried on until critics accumulated new evidence that the latest round of promises remain unfulfilled. Today, however, with the evidence against the World Bank so overwhelming, new techniques are needed. Rising to the challenge, the bank regrouped its public relations team in the President's Office; hired Mobil Oil media adviser Herb Schmertz to manage the press for its 50th anniversary celebrations; and to oversee public relations, hired Matt McHugh, a former representative from New York and member of the congressional subcommittee that appropriates U.S. funds for the World Bank. The strategy, according to a leaked bank memo reporting on a meeting between Preston and his vice presidents, is to "adopt a proactive approach to external communications."⁶⁹

To accomplish their goal, they will assign individual senior managers as spokespeople to specific donor countries; "actively reac[h] out to under-exploited constituencies in developed countries, such as private sector industrialists or major academic centers"; use modern communications techniques such as mass media advertising; and identify 15 to 20 projects that show the bank in the best light, especially those with a "strong emphasis on poverty reduction, gender issues, and popular participation."⁷⁰

As promised, with a burst of publicity to mark its 50th anniversary this past July, Preston launched a "vision" statement promising the bank would put more money into protecting the environment and helping people--everything from family planning to education--and less into the giant construction projects that had blackened the bank's reputation.⁷¹ As the public relations plan prescribed, favorable projects were published in a brochure entitled "Making a Difference in People's Lives." One fairy-tale-like story describes how the bank reunited a Honduran street child with her abusive mother and encouraged them "to forgive each other for what had happened and to try and remember the good things about their relationship."⁷²

While the fairy tales and fanfare will be intense during the 50th-year celebrations, the fundamental facts remain unchanged. Chief among them, the World Bank is above the law: the legal immunity of staff; the inviolable nature of its documents; the unenforceability of its guidelines; the bizarre voting structure of its Board of Executive Directors (in which borrowers and lenders alike vote on loans, with some executive directors representing both yet being allowed to cast only one vote); the multilateral structure of the World Bank and the resultant demands of diplomacy; and the coinciding pork-barrel interests of member governments make democratization of the World Bank impossible.

Real reform is possible only in theory. For example, amending the World Bank's articles of agreement--its constitution--requires three-fifths of the members representing 85 percent of the total voting power. But roughly four-fifths of the members are borrowers, so the articles give them an iron grip on the bank's affairs and leave the lending countries emasculated.

In the final analysis, the process by which development decisions are made matters most, and in that regard, the World Bank has failed spectacularly. Because the bank's decisionmaking process is constitutionally unaccountable to,

and unamendable by, those it is supposed to serve, the bank continues to approve large projects that rearrange nations' resources for the benefit of elites and to set economic policy without accountability to the citizens of the nations affected.

The World Bank's single most destructive accomplishment has perhaps been to free Third World governments from the need to deal with their own people, thereby undermining the growth of democratic institutions and legitimate tax regimes throughout the Third World. As Chinese dissident Fang Lizhi said in arguing for the withdrawal of World Bank loans and credits from China, "We must make our government realize that it is economically dependent on its citizens."⁷³ Two months after making that statement, Fang was forced to seek asylum in the U.S. Embassy for his part in the democracy movement. China has since become the World Bank's biggest annual borrower.

Ending the World Bank Legacy

For 50 years World Bank investments have destroyed environments, distorted economies, broken lives, and built up \$100 billion in contingent liabilities for the world's taxpayers. For almost as long citizens have attempted and failed to reform the bank, confirming that it is constitutionally unaccountable and incapable, however good its intentions, of contributing to the development of nations. On its 50th anniversary shareholders should take stock, assume responsibility, and end the World Bank's operations. There are many ways to do that.

Dissolution According to the World Bank's Articles of Agreement

In 1944 the founding fathers of the Bretton Woods institutions spelled out how the IBRD would be created and how it should be dissolved. According to the articles of agreement, a majority of the governors, exercising a majority of the total voting power, can shut down the IBRD's operations.⁷⁴ But it would be nearly impossible to convince a majority of the member countries to agree to do so because borrowers, each with one vote, outnumber lenders six to one.

Borrowing countries will resist dismantling the IBRD as long as they can refinance and service old bank loans with new ones at the financial risk of the rich countries. Rich-country members, meanwhile, have an incentive to prop up the

IBRD to avoid taxing their citizens an additional \$100 billion to cover the liabilities incurred in their names.

Privatizing the World Bank

Before the World Bank could be privatized, its house would need to be put in order. Its assets--the portfolio of often worthless loans carried on its books at full value--would need to be written down to market value. Its payroll--which at an average of \$123,300 per person is the world's most expensive--would need to be put on a commercial footing (employees are also pampered with perks, including tax-free income).

The slimmed-down bank would then need to find a market niche--a commercially needed service that commercial banks have somehow missed. Perhaps its well-connected staff would provide that niche, or perhaps the world truly needs a bank in the business of servicing deadbeat nations. More likely, however, without a political agenda, the World Bank has no *raison d'être*.

Shutting Down the World Bank

The World Bank's shareholders could shut down the IBRD by selling its assets on the secondary market for sovereign Third World loans and retiring some of its obligations to bondholders with the proceeds. The balance of its liabilities would have to be met by calling in the capital, or guarantees, of shareholder governments.

Swapping World Bank Debts for Equity

In 1989 Roberts proposed that the World Bank swap its outstanding loans for equity in enterprises in the borrower nations, then resell those equity holdings to private investors, domestic or foreign.⁷⁵ The bank would use the proceeds to redeem its outstanding bonds. If the bank could not fully retire its outstanding bonds, the rich donor countries would assume the liability by taking the residual bonds and exchanging them for their own government bonds.

But Third World governments would have good political reasons to avoid turning over their industrial enterprises to Western capitalists: the citizenry would often vigorously resist such takeovers with cries of loss of sovereignty and fears of corrupt giveaways.

Third World governments would also resist a World Bank debt-for-equity swap for economic reasons: knowing that their World Bank debts would fetch a fraction of their face value on the open market without the rich countries' guarantees, Third World governments would rather sell their assets for full value, use the proceeds to buy back their devalued World Bank debts, and keep the difference. (Many Third World countries are actively buying back their private-sector debt at a discount, often with World Bank loans designed for that very purpose.)⁷⁶

Recommendation

All of those methods for suspending the World Bank's operations are theoretically possible, even desirable, as a way of minimizing taxpayers' liability. But each would be practically impossible, since a majority of the bank's governors, exercising a majority of the total voting power, would have to agree.

The most plausible scenario for the World Bank's demise would involve a unilateral withdrawal by a major country, the United States being the most likely candidate. Should the United States become tired of endlessly pledging more money to the IBRD's Third World debtors to induce them to honor old debts, it could cap its liability by withdrawing its membership. According to the articles of agreement, when a government withdraws its membership it remains liable for its "contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the Bank."⁷⁷

The government of the United States and other governments should bail out now because the IBRD represents a growing taxpayer liability. As they did for the savings-and-loan institutions, taxpayer guarantees for failing bank investments grow by the day: in a typical year, the IBRD saddles unwitting taxpayers with another \$4 billion to \$5 billion in contingent liabilities. Over the next decade, the IBRD and IDA together plan to lend an additional \$200 billion.⁷⁸

One country's withdrawal could start a stampede: other countries might decide to bail out, too, since they would otherwise be forced to assume a greater share of the liability for the IBRD's ongoing operations and since, over time, they would be taking over the liabilities of departing

members. For example, if the United States withdrew its membership, U.S. taxpayers would, at the first instance, be liable for the \$30 billion in liabilities incurred before its withdrawal. But as new loans replaced old ones, and new bonds were issued to finance them, U.S. taxpayers would shed their bank liabilities and the remaining shareholders would assume them.

A U.S. withdrawal might well cause the remaining shareholders to demand a realistic asset valuation and write-downs to determine the value at which to redeem U.S. shares, instead of trying to maintain a financial fiction at their taxpayers' expense. Then negotiations over how to dispose of the World Bank, its assets, and its liabilities, would become productive.

Notes

1. Quote from Standard and Poor's Credit Analysis Service, "Supranational: International Bank for Reconstruction and Development," New York, November 1993.
2. As of March 1994 the International Bank for Reconstruction and Development's borrowings were \$95 billion. Information Statement (Washington: World Bank, Financial Operations Department, March 23, 1994), p. 2. According to the Financial Operations Department (telephone interview in August 1994), the IBRD's borrowings had risen to \$100.1 billion by the end of July 1994.
3. The contribution was for the International Development Association, the soft loan window of the World Bank, which makes interest-free loans to countries with per capita incomes below \$1,305 (1992 dollars). The World Bank managed to secure the \$18 billion it sought, \$3.75 billion of which would come from the United States. But the U.S. Congress took the unusual step of making its third-year appropriation conditional on the World Bank's becoming more accountable and making information more accessible to the public. See "U.S. Congress Puts World Bank on Short Leash," press release, Environmental Defense Fund, Washington, October 1993.
4. Bradford Morse and Thomas Berger, Sardar Sarovar: The Report of the Independent Review (Ottawa: Resource Futures International, 1992).

5. Bruce Rich, Mortgaging the Earth: The World Bank, Environment, Impoverishment, and the Crisis of Development (Boston: Beacon Press, 1994), p. 254.
6. The World Bank Annual Report 1993 (Washington: World Bank, 1993), pp. 194-95, 214-15. India has almost \$10 billion in outstanding loans from the IBRD, or about 9 percent of the bank's total outstanding loans. It also has \$15.4 billion in outstanding development credits from IDA, or about 27.5 percent of all IDA credits. According to Information Statement, "It is the policy of the Bank to place in nonaccrual status all loans made to or guaranteed by a member of the Bank, if principal, interest or other charges with respect to any such loan is overdue by more than six months, unless the Bank's management determines that the overdue amount will be collected in the immediate future" (p. 16). According to The World Bank Annual Report 1993, "It is the policy of IDA to place in nonaccrual status all development credits made to a member government or to the government of a territory of a member if principal or charges with respect to any such development credit are overdue by more than six months, unless IDA management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA" (p. 221).
7. Deputy Secretary, "Monthly Operational Summary of Bank and IDA Proposed Projects (as of May 15, 1993)," SecM93-527, International Bank for Reconstruction and Development, International Development Association, Washington, June 1, 1993, pp. 128-29.
8. Standard and Poor's Credit Analysis Service.
9. Information Statement, p. 2.
10. The World Bank Annual Report 1993, pp. 214-15.
11. U.S. backing for the IBRD from Information Statement, p. 6. When countries purchase shares in the IBRD, they pay in approximately 7 percent of the cost of those shares, with the remaining 93 percent of the capital being "callable" as a guarantee. Those guarantees--especially those from the IBRD's AAA-rated members--enable it to raise money by borrowing in international capital markets.

IDA contribution figure from Congressional Research Service, "World Bank: Answers to 26 Frequent Questions," CRS

Report 91-847F, Washington, November 25, 1991, p. 58. This report lists U.S. subscriptions to the IBRD since 1944 and U.S. subscriptions and contributions to IDA since 1960 (the year IDA was created). The United States also made a \$3.75-billion subscription to the 10th replenishment of IDA in 1993.

On lack of U.S. appropriations since 1981, see Rich, p. 78. According to Congressional Research Service, "Multilateral Development Banks: U.S. Contributions FY 1984-95," CRS Report for Congress 94-571F, Washington, July 18, 1994, "Since 1981, the United States no longer appropriates money to back its callable capital subscriptions to the MDBs [multilateral development banks]" (p. 2).

The extent of the liability for Canadian taxpayers is also obfuscated. According to Report of the Auditor General of Canada to the House of Commons 1992 (Ottawa: Minister of Supply and Services, 1992), "We are concerned that the vote wording in the Appropriation Act, with respect to the 1988 World Bank general capital increase, does not clearly disclose that payments to the World Bank are for purchase of shares and represent only the paid-in capital portion, or about 3 percent of the capital subscriptions for those shares. There is no mention of the callable capital portion, which represents about 97 percent of the total subscriptions. As a subscriber to the shares, Canada is committed to the callable portion. Therefore, we are concerned that Parliament is not made fully aware that it is approving a potential financial commitment when it approves the payments to the World Bank. Since 1988, the callable capital portion of shares purchased by Canada has been almost \$1.5 billion" (p. 314).

12. Information Statement, pp. 10, 17.

13. Standard and Poor's Credit Analysis Service. The World Bank Group includes the IBRD, IDA, and the IBRD's two affiliates, the International Finance Corporation (which promotes private-sector growth in developing countries by mobilizing foreign and domestic capital to invest alongside its own funds in commercial enterprises) and the Multilateral Investment Guarantee Agency (which encourages foreign direct investment in developing countries by protecting investors from noncommercial risk). The World Bank Annual Report 1993, p. 4.

14. Morse and Berger.

15. Ibid., pp. xxiv, 53, 234.

16. Portfolio Management Task Force, Effective Implementation: Key to Development Impact, report of the World Bank's Portfolio Management Task Force (Washington: World Bank, October 2, 1992), p. 4. Wapenhans's review included both the IBRD's and IDA's portfolios.

17. Portfolio Management Task Force, Effective Implementation: Key to Development Impact, confidential discussion draft (Washington: World Bank, July 24, 1992), p. 4.

18. W. A. Wapenhans, "Oral Briefing of the JAC [Joint Audit Committee] at Its Meeting on June 22, 1992 on the Portfolio Management Task Force, Notes," speaking notes, Washington, June 6, 1992.

19. Portfolio Management Task Force, Effective Implementation: Key to Development Impact, confidential discussion draft, pp. iii, 4, 12.

20. Ibid., p. 8.

21. Earlier internal project reviews had signaled a deterioration in project quality. See, for example, World Bank, "Twelfth Annual Review of Project Performance Results," 1987; "Development Finance Companies, State and Privately Owned," World Bank Staff Working Paper no. 578, 1983; World Bank, Operations Evaluation Department, Evaluation Results for 1991 (Washington: World Bank, 1993); World Bank, Operations Evaluation Department, Evaluation Results for 1988: Issues in World Bank Lending over Two Decades (Washington: World Bank, 1990); and World Bank, Operations Evaluation Department, Evaluation Results for 1990 (Washington: World Bank, 1992).

22. "Ponzi Dies in Brazil," Life, January 31, 1949, cited in Patricia Adams, Odious Debts: Loose Lending, Corruption, and the Third World's Environmental Legacy (London and Toronto: Earthscan, 1991), pp. 104-5.

23. Vice President and Secretary, "Summary of Discussions at the Meeting of the Executive Directors of the Bank and IDA, and the Board of Directors of IFC, June 19, 1986," International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, SD86-35, World Bank, Washington, July 9, 1986, p. 13.

24. For an excellent review of that phenomenon, see Melanie S. Tammen, "The Precarious Nature of Sovereign Lending: Implications for the Brady Plan," Cato Journal 10, no. 1 (Spring-Summer 1990): 239-63.
25. According to the World Bank, World Debt Tables: External Finance for Developing Countries (Washington: World Bank, 1993-94), net transfers on debt equal new loan disbursements minus old loan amortizations minus interest on old loans (vol. 1, p. x).
26. Tammen, p. 248.
27. Ibid., p. 250.
28. Ibid., p. 249n. 10.
29. Jeffrey D. Sachs, New Approaches to the Latin American Debt Crisis, Essays in International Finance no. 174 (Princeton, N.J.: International Finance Section, Department of Economics, Princeton University, July 1989), p. 14.
30. Ibid.
31. World Bank, World Debt Tables, vol. 1, p. 36.
32. "Loan Agreement (Debt and Debt Service Reduction Project) between Republica Oriental del Uruguay and International Bank for Reconstruction and Development," loan no. 3323UR, World Bank, Washington, June 25, 1992; and "Loan Agreement (Debt Management Program) between Republic of the Philippines and International Bank for Reconstruction and Development," loan no. 3149-PH, World Bank, Washington, December 22, 1989.
33. Barry M. Hager, "The World Bank Underwater," International Economy, September-October, 1989, p. 55.
34. Rich Miller, "World Bank Shifts Focus of Multi-Billion-Dollar Loans," Reuter, Washington, July 19, 1994. According to Bill Brannigan in the President's Office, August 23, 1994 (telephone interview), the World Bank could extend those guarantees through either the Multilateral Insurance Guarantee Agency, which insures foreign private investors against noncommercial risks in the Third World, or through its cofinancing operations, which guarantee interest and principal on commercial bank loans with late maturities.
35. Rich, p. 256.

36. Report of the Auditor General of Canada to the House of Commons 1992, p. 286.
37. Christina Cobourn, "Multilateral Debt: A Growing Crisis," Bankcheck Quarterly, no. 8, June 1994, p. 25. Also see World Bank, World Debt Tables, vol. 1, p. 173.
38. Ibid., vol. 1, p. 40.
39. Paul Melly, "Canada Stage-manages Rescue Package for Guyana," Globe and Mail (Toronto), May 18, 1989, p. B8.
40. Reuter, "Cameroon: France Bails Cameroon Out of World Bank Debt," July 7, 1993. Inter Press Service, "Multilateral Lenders Claim Larger Share of Debt," Third World Economics, November 16-30, 1993, p. 10; and Maria Esperanza Lasagabaster, "Peru: Back from the Brink," The IDB, August 1994.
41. Report of the Auditor General of Canada to the House of Commons 1992, p. 286.
42. "Edited Excerpts on the Question of Net Transfers from Mr. Stern's Press Conference, Berlin, September 25, 1988," World Bank transcript.
43. Interview with Kenichi Ohashi, chief officer, Replenishment Policy Division, Resource Mobilization Department, World Bank, August 1994.
44. World Bank, External Affairs Department, "Debt, Net Transfers, and Forgiveness of World Bank Loans," no. 7, "Setting the Record Straight . . .," Washington, March 1994. Material prepared in response to Bruce Rich, Mortgaging the Earth.
45. See World Bank, World Debt Tables, vol. 1, p. 172. Debt repayments include loan amortizations and loan interest.
46. Interview with Kenichi Ohashi.
47. "Informal Board Seminar on the Status of the IBRD Portfolio," briefing notes, World Bank, March 6, 1992, pp. 1, 2, 4, 6.
48. "Informal Board Seminar on the Status of the IBRD Portfolio," pp. 4-6. The IBRD raised its loan-loss provisions in 1993 from 2.5 percent to 3 percent of total loans disbursed and outstanding plus the present value of guarantees. According to Information Statement, "Until June 1991, the

Bank maintained loan loss provisions only for Bank loans which were in nonaccrual status. The provisioning policy was broadened by the Bank's Executive Directors at that time to cover general collectability risks in the loan portfolio as a whole in addition to the specific risks for loans in nonaccrual status. On May 20, 1993, the bank's executive directors approved an increase in the provisioning rate from 2.5 percent to 3.0 percent of the overall portfolio" (p. 16).

49. Robert Guenther, "Morgan Adds \$2 Billion to Reserve for Loans to Developing Nations," Wall Street Journal, September 22, 1989; and Anatole Kaletsky, "The Debt Owed to Lewis Preston," Financial Times, September 25, 1989.

50. Information Statement, pp. 16-17.

51. For transfers to India, see World Bank, World Debt Tables, vol. 2, p. 208.

52. Report of the Auditor General of Canada to the House of Commons 1992, p. 286. Also, according to Hugh N. Scott, associate general counsel at the World Bank, "The Bank's preferred creditor status is reflected in the arrangements between the borrower and its rescheduling creditors. There is no specific commitment to preferred creditor treatment in our Articles of Agreement or loan agreements." Correspondence with author, June 27, 1991.

53. Melvyn Westlake, "Negative Transfers to Zoom in 90s," Annual Meeting News, October 15, 1991.

54. Ellen Hampton, "Haiti Retrenches as International Aid Cut Off," Globe and Mail (Toronto), January 12, 1988.

55. Rosemary Werret, "Nobrega Explains Arrears and Seeks IMF Accord," Annual Meeting News, September 25, 1989.

56. "Edited Excerpts on the Question of Net Transfers from Mr. Stern's Press Conference."

57. Adam Zagorin, "Damning the World Bank," Time, July 25, 1994, pp. 32-34.

58. Tim Carrington, "It's Time to Redefine World Bank and IMF," Wall Street Journal, July 25, 1994, p. 1.

59. World Bank, World Debt Tables, vol. 1, p. 3.

60. Carrington.

61. Paul Craig Roberts, "Costly World Bank Bailout on the Horizon?" Washington Times, January 14, 1993.
62. Original estimates of the cost of the S&L crisis to the American taxpayer were almost \$500 billion. The latest estimate is \$150 billion. "Riegle's Last Harangue," Wall Street Journal, June 24, 1994.
63. Information Statement, p. 6.
64. Roberts.
65. "The World Bank Must Withdraw Immediately from Sardar Sarovar: An Open Letter to Mr. Lewis T. Preston, President of the World Bank," Financial Times, September 21, 1992.
66. "World Bank Expands Access to Information," bank news release no. 94/89, World Bank, Washington, August 26, 1993.
67. World Bank, The Inspection Panel: Operating Procedures (Washington: World Bank, August 1994), Annex 1, IBRD Resolution no. 93-10, Resolution no. IDA 93-6, September 22, 1993, sec. 10.
68. Getting Results: The World Bank's Agenda for Improving Development Effectiveness (Washington: World Bank, 1993).
69. Natalie Avery and Ross Hammond, "Bank Hires PR Maestro," Bankcheck Quarterly, January 1994, pp. 1, 22.
70. Ibid.
71. Miller.
72. "Daysi: A Honduran Street Child Returns Home" in "Making a Difference in People's Lives," pp. 3-5, in "The World Bank: A Global Partnership for Development," public relations kit, World Bank, Washington, 1994.
73. Joe Cuomo, "Chinese Dissident Advocates Divestment," Wall Street Journal. April 26, 1989. Fang made one exception to his appeal for foreign divestment from China: he thought World Bank and other loans should continue for education projects.
74. International Bank for Reconstruction and Development, Articles of Agreement, as amended effective February 16, 1989 (Washington: IBRD, 1989), art. VI, sec. 5, pp. 14-15.

75. Melanie Tammen, "Privatize the World Bank," Wall Street Journal, May 17, 1991.

76. For example, under the IDA Debt Reduction Facility, created in August 1989 and initially funded with a US\$100-million transfer from IBRD net income, IDA provides grants on a case-by-case basis to IDA-only countries (with appropriate adjustment programs and debt management strategies) for the reduction of their debt to commercial banks through buy-backs or discounted exchanges. See World Bank, World Debt Tables, vol. 1, p. 38. In addition, IBRD loans to Uruguay and the Philippines under the Brady plan are to be used to buy back those countries' commercial bank debts. For more information, see "Loan Agreement (Debt and Debt Service Reduction Project) between Republica Oriental del Uruguay and International Bank for Reconstruction and Development" and "Loan Agreement (Debt Management Program) between Republic of the Philippines and International Bank for Reconstruction and Development."

77. International Bank for Reconstruction and Development, Articles of Agreement, art. VI, sec. 4, pp. 13-14.

78. Miller.

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COMMENTS ON: THE WORLD BANK AND THE IMPOVERISHMENT OF NATIONS**By James Bovard (from Cato Institute book of essays)****(A) OVERALL:**

- The World Bank (IBRD + IDA) has almost 250 lending operations in over 85 countries each year.
- Bovard uses specific (generally old) projects and/or country situations, to make sweeping and over-simplified generalizations on World Bank failures. If the Bank is lending in a country, and the country has economic, political or social problems, Bovard automatically attributes or links these to the Bank.
- The World Bank has clearly had its share of problem loans. It has also made mistakes, e.g., by inadequate attention to private sector development or to the environmental implications of Bank projects.
- However, the extent of internal self criticism generated by the Bank to improve its operations is unique among any foreign assistance institution. Many of Bovard's citations actually come from Bank reports. While we must regret the failures and work aggressively to prevent future mistakes, we must also encourage such honest self-criticism. The benefits a strong internal evaluation system was demonstrated by the "Wapenhans Report" and the resulting action program to improve project performance.
- Also, the focus of current Bank operations, with their emphasis on market forces, poverty reduction, good governance and private sector development accord well with U.S. (and Congressional) development priorities.
- That being said, we need to acknowledge that development is risky, particularly in the poor countries. In addition, there will always be country situations or conditions which are beyond the control of the World Bank or any external party.
- A country's development prospects depend on many complex factors, not the least being the extent of government commitment to sound and equitable domestic policies. Trade, for example, generally has a far greater impact on an economy than foreign assistance. Just as aid is not a panacea for success, it should also not be viewed as the reason for failure.

-2-

(B) REBUTTAL POINTS:

Assertion - The Bank has a long and dismal record of underwriting human rights atrocities, e.g., Tanzania, Vietnam, Indonesia and Ethiopia; also India and Brazil resettlement.

- o Bank efforts to promote economic and social progress also advance respect for human rights.
- o Indonesia has an impressive record of economic growth, accompanied by a major drop in the number of people living in poverty and a dramatic improvement in social indicators.
- o Tanzania, Vietnam and Ethiopia are now engaged in Bank supported adjustment efforts to establish free market economies which encourage private initiative.
- o The Bank is actively promoting good governance -- transparency, accountability, the rule of law, and public participation -- in its dialogue with borrowers.
- o A number of countries with human rights abuses (e.g., Burma, Iraq, Sudan, Syria, Zaire) now receive no Bank funding. There has been no Bank lending to Iran since March 1993.
- o The Bank has completed a review of resettlement of populations displaced by Bank projects, has begun to take remedial action where needed, and is preparing an action plan to improve performance in this area.

Assertion - The Bank's project performance is characterized by consistent incompetence, e.g., failures in African agriculture, DFC lending, SOE's.

- o The Bank has a major program to improve project performance. As is the case with our own domestic efforts to improve social conditions, development is difficult and risky.
- o Agricultural reform is high on the Bank's adjustment agenda for Africa. It is encouraging the incentives necessary to meet food needs and raise farmer incomes, e.g., by greater reliance on market forces, reduced direct and indirect taxes on farmers, and liberalized crop marketing. Reduced government intervention in marketing is an key Bank goal.
- farmers are now being taxed less in two-thirds of African countries supported by Bank adjustment efforts.

-3-

- of the 15 governments that had major restrictions on the private purchase, distribution and sale of major food crops before adjustment, thirteen have almost completely withdrawn from marketing.
- o These are, in many respects, the kind of market-oriented reforms one would expect the CATO Institute to favor.

Assertion: In order to maximize its lending, the Bank has showered funds on relatively wealthy nations, e.g., Chile and Korea.

- o Twenty-four countries have "graduated" from Bank lending.
- o Korea is in the process of graduating from Bank lending.
- o In FY 93, lending to Chile and Korea accounted for less than two percent of new World Bank (IBRD + IDA) commitments.
- o Despite impressive economic progress, Chile remains a country of moderate per capita income (\$2510), vulnerable to external shocks, and with substantial social needs. To complement Chile's sound economic policies, the Bank is now concentrating on human resource development, poverty alleviation and environmental protection.

Assertion: The Bank no longer needs donor country money. It could support itself by selling bonds.

- o The poorest and least creditworthy countries -- such as those in Sub-Saharan Africa -- would be deprived access to Bank resources. They rely heavily on donor contributions to the Bank's concessional IDA resources.

Assertion: Loan levels "have continued soaring" as Bank projects suffer from an "unseemly pressure" to lend money.

- o While there has been a significant increase in the number of new borrowers from the World Bank, the level of new IBRD lending has actually been relatively steady over the last six years; this year's level is expected to be below that of recent years.

-4-

- o Moreover, it is essential to look also at the repayments that are flowing into the Bank. Accounting for repayments, net annual lending by the Bank will average only about \$6 billion over the period FY93-97.
- o Nevertheless, there clearly have been occasions where the Bank has overemphasize lending quantity as opposed to lending quality.
- o Following up on the Wapenhans Report, the Bank has already instituted a comprehensive action plan to strengthen project quality by increasing the emphasis placed on project implementation.

Assertion: The Bank promotes expansion of government control as opposed to private enterprise.

- o Over the next few years, the Bank will lend over \$4 billion annually (over fifteen percent of Bank lending) for private sector development.
- o The Bank's efforts to foster an environment conducive to private enterprise -- through financial sector reform, privatization and restructuring of SOEs, and legal and regulatory environments -- are playing a major role in Eastern Europe and elsewhere.

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

☐	Part I
☐	Part II
☒	Other

E. COMMENTS: File from Josie's office on her departure to MNA, CO for West Bank & Gaza 10/21/96

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