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President Wolfensohn - Briefings Books for Presidents Meetings - Briefing Material
Contacts - Hill and International Development Association [IDA] - March 1, 1995

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A. CLASSIFICATION

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B. SUBJECT: Contacts - Hill/IDA (Jane Armitage - March/April 1995)
--Letter from JDW to Henry Owen
--Memo from J. Maguire to MMB (4/3/95) - Legaslativ Report
*House Banking Committee - Hearing on MDBs
--Memo from Judith Maguire to Mark Malloch Brown (5/5/95) - Legislative Report
*Secretary Rubin's Presentatino of the FY96 MDB Request
--March 27/95 meeting on IDA on the Hill - notes from Jane Armitage

DATE: 03/01/95

C. VPU

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D. EXTERNAL PARTNER

☐	IMF
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☐	Private Sector

☐	Part I
☐	Part II
☒	Other

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

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April 18, 1995

Via Facsimile: (202) 785-9423

Mr. Henry Owen
Chairman of the Executive Committee
The Bretton Woods Committee
1990 M Street, NW
Suite 450
Washington, D.C. 20036

Dear Henry,

Thank you for your note of April 10, and for the enclosed letter to Chairman Livingston. I agree completely that we are in a very tough fight, and I know that the support of The Bretton Woods Committee will be very important to the success of our endeavors.

I have made direct contact with various people on the Hill and will continue to do what I can to encourage an awareness of the crucial need for IDA financing from the U.S. Without it, I doubt very much whether the rest of the world would give the desired support, and this would indeed be a tragedy for our country.

I look forward to the dinner, which I understand is being arranged, and I look forward to keeping in close touch with you once I get to Washington.

With all good wishes,

Sincerely yours,



James D. Wolfensohn
(Dictated by Mr. Wolfensohn
and signed in his absence)

JDW/je

cc: JAV ✓

OFFICE MEMORANDUM

DATE: May 5, 1995

TO: Mr. Mark Malloch Brown, Director, EXT

FROM: Judith Maguire, EXTDR 

EXTENSION: 31833

SUBJECT: Legislative Report

Secretary Rubin's Presentation of the FY96 MDB Request

1. Senate Appropriations. On Thursday, Secretary of the Treasury, Robert Rubin presented the Administration's FY96 funding requests for the MDBs to the Senate Appropriations Subcommittee on Foreign Operations. The FY96 request totals \$2.3 billion, of which \$1.3682 billion is for IDA (\$1.250 billion for the third payment to IDA-10 and \$118.2 million to help clear arrears from previous years). Secretary Rubin began by noting that proposals have been made this year to greatly reduce or even eliminate U.S. participation in the development banks. He stated that: "Those proposals are directly contrary to our national self-interest. It would be a grave mistake to turn our backs on the banks or walk away from our international obligations."
2. Secretary Rubin pointed out that this is not a request on a "business as usual basis"; the Administration understood there is a new budgetary environment. He pointed out that in the past two years Treasury had cut by 50 percent the cost of contributions to the IDB, and cut back on contributions to the Asian Development Bank. He said they would continue these cost-cutting measures in future negotiations, including those for IDA-11. He then presented a strong case for U.S. participation in the MDBs. He cited the importance to the U.S. of the continued stability of the international economic and financial system. He discussed the role of the MDBs in supporting U.S. foreign policy and national security, and the economic benefits they bring to the U.S. He talked particularly about the role of IDA, and spoke movingly about his visit to an IDA project in India two weeks ago.
3. The Chairman of the Subcommittee, Senator Mitch McConnell (R-KY) opened the hearing by saying that over the past few years he had been a strong supporter of the MDBs. He said that aggressive American leadership had improved the credit and lending policies of most of the banks, and cleaned-up questionable management practices. Notwithstanding this past support, he cautioned that "Congressional support for the Administration's request this year is in serious doubt". He cited several factors:
 - Concern about the budget deficit, which meant that foreign aid would have to be cut.

- Opposition to the IDA request. "I simply cannot offer you any assurance that there is enough support to fulfill this (IDA-10) obligation, which should caution you as you proceed with current negotiations on IDA-11".
- Africa - "Where are the graduates in Africa? Where are the success stories?"
- IMF loans to Russia - given the cost of the war and the uncertainty of Russia being able to meet IMF performance expectations.

In his opening statement, Senator Patrick Leahy (D-VT) offered strong support for the MDBs and the IMF. He said that: "these institutions have been the most effective instruments we have had for promoting the adoption of market-oriented economic policies around the world. Today they are more influential than ever and I believe it is more important than ever that the United States maintain its leadership role in them". At the same time, he said, "we must demand serious efforts by them to improve their performance."

4. **IDA-11.** Senator Leahy asked the Secretary what he saw as the expected outcome for IDA-11. The Secretary responded that they were working to have a reduced IDA-11, given the budget constraints of which everyone was very much aware. He then asked Susan Levine to provide additional details. Ms. Levine said that "we have made very clear our intentions on two fronts. One that the U.S. will contribute at a substantially lower level than it had in the previous replenishment." She also said that they had made it clear that with a smaller IDA, there are current recipients which should probably not be recipients of IDA-11 (e.g. China).

5. **Arrears to the MDBs.** Senator McConnell asked about the total arrears to the MDBs. Secretary Rubin replied that these are just under \$900 million, and that they had asked for roughly \$400 million of the arrears in FY96. Senator McConnell asked whether if these were not paid, American companies might be precluded from MDB contracts. Secretary Rubin said there had been some talk of that at the ADB, and he was concerned that the idea could spread.

6. **Private Sector.** Senator McConnell referred to Mr. Wolfensohn's statement that he wants the Bank to steer away from financing big development projects and become more of a facilitator for private sector investment. He said to Rubin: "you talk about the shrinking resources of the MDBs - it sounds encouraging to me. What's your take on it." Mr. Rubin replied: "Oh, I think he's right." Later in answer to a question from Senator Leahy Mr. Rubin commented that as a result of U.S. influence, the World Bank has "reoriented itself from these big mega-projects"...toward programs in basic education, health, etc. Also, in answer to a question from Senator Richard Shelby (R-AL) he said that the World Bank's whole thrust is "not to do what the private sector can do, so that the whole focus is on providing the social and physical infrastructure for a private sector to develop".

7. **African Development Bank.** Senator McConnell asked first about the AfDB. He said that the GAO had reported that nearly one-third of its outstanding loans are held by countries not sufficiently creditworthy for hard loans from the World Bank. He asked whether it was wise to extend such loans, and whether the U.S. was at risk of having to bail out the bank should the loans not be repaid. Secretary Rubin agreed that there are some terrible problems in Africa, but "it is not a uniform case". He said that Treasury did not think hard loans were appropriate for such countries, that the bank had a new policy, and it would not happen in the future. Then he said that it is precisely because Africa is in such difficulty that the U.S. needed to continue to support IDA, as that is the part of the world that most needs help. Senator McConnell followed-up by saying: "We have less and less money." He noted that as a practical matter, funding for Israel and Egypt is not going to change, and what they were getting down to is choosing between Africa and the former Soviet Union. He said that the U.S. was going to have to decide where their priorities were.

8. **Environment.** Senator James Jeffords (R-VT) asked about the World Bank's environmental policies and whether the Bank was ready to give assurances that "there would be conformance with international treaties like biodiversity, climate change and the Law of the Sea". "Do you feel the World Bank is fully prepared to undertake this third generation of reforms" (see discussion in para. 23 below). Secretary Rubin replied that "we are very supportive of that", and that he had discussed this with Jim Wolfensohn, and "he certainly is very supportive". Senator Jeffords pressed him as to whether they would hear back about progress on this in the next six months, and Secretary Rubin replied they would.

9. **Russia.** Much of the discussion was on the situation in Russia. Both Senators McConnell and Leahy expressed serious concern about the current situation. Senator McConnell noted that "it is a strange relationship that is developing". He noted they had launched a war against their own citizens, killed 25,000 people. They sell nuclear material to Iran, arguably the premier pariah state in the world. "And all of that makes it harder for us to continue to provide American tax dollars for the Russians."

10. **New Bank President.** Finally, at the end of the hearing Senator McConnell raised a question about Mr. Wolfensohn's decision to keep his position at the Kennedy Center. He asked whether Secretary Rubin had a comment about the "appearance" of that decision. Secretary Rubin replied that Mr. Wolfensohn intended to devote himself full time and with enormous energy to the Bank.

IDA Authorization Hearing

Administration Testimony

11. On Tuesday, the House Banking Subcommittee on Domestic and International Monetary Policy held a hearing on the Administration's request for authorization of the third-year payment to IDA-10. Larry Summers made the initial presentation for the Treasury, and when he had to leave after about twenty minutes, Susan Levine handled the remaining questions. Mr. Summers' statement covered not only the IDA request, but also

authorization requests for an additional \$75 million for the ESAF, and for \$66.6 million for U.S. participation in the fourth capital increase of the Asian Development Bank (ADB). There was a fairly good turnout of Members for the hearing: the majority of the Republicans attended, along with three Democrats and the one Independent (Congressman Bernard Sanders (I-VT)).

12. Mr. Summers began his statement by saying; "this request is not about charity or foreign aid. It is about the way these institutions serve core United States economic and security interests". He argued that IDA: (i) provides the seed money for capitalism and free market reforms that develop important markets for U.S. exports; (ii) advances U.S. strategic and humanitarian interests; and (iii) is an extremely cost effective way for the U.S. to invest its scarce foreign aid resources.

13. Mr. Summers made a strong pitch for authorization of the remaining \$75 million of the U.S. pledge of \$100 million to the ESAF (\$25 million was authorized last year). He admitted that outlays for this contribution will not begin until FY1997, but said the U.S. needed to demonstrate its support for the poorest countries. The Administration request for the ADB was presented as "the lowest annual cost ever on payments to the Bank". Mr. Summers explained that Treasury is anxious to secure this authorization, as the deadline for subscription is December, 1995. He said that if the U.S. does not subscribe, "our shares could eventually be repurchased by others and our voting power could be cut from 16 percent to 8 percent. We expect that such a loss would be permanent."

14. Congressman Mike Castle (R-DE), Chairman of the Subcommittee, began the questioning. He first inquired about the inclusion of China and India in IDA. Mr. Summers said that these countries accounted for 25 percent of IDA in 1994, and that this percentage has declined steadily over time. He said Treasury's position was that both India and China should be graduates of IDA. China he said should graduate at the end of IDA-10. For India, which is a "more complex situation", they were looking for "eventual graduation." Mr. Castle then commented that cutting IDA and aid to Africa was "an easy political hit" for Congress, and what arguments would Mr. Summers offer to counter this. Mr. Summers first pointed out that the U.S. ranks 21st and last among OECD countries in the percentage of their budgets allocated for foreign aid. He said they had made clear that for IDA-11 there would be a reduction in nominal dollars from the previous contribution. He argued that the U.S. has actually been cutting its contributions to the bone. Second, he argued that these contributions actually save money over time, helping to prevent disasters such as Somalia, Rwanda, or further conflict in the Middle East. Third, he argued the contributions are returned several times over through direct procurement for American companies.

15. At this point Susan Levine replaced Larry Summers in the witness chair. This question period extended over two hours and covered a wide range of topics. One of the most important exchanges was between Congressmen Joe Kennedy (D-MA) and Mike Castle. Mr. Kennedy said that he wanted to make sure that these "very important lending institutions" get the support they need. He said that in the past he had worked with Republican Administrations (he particularly referenced former Treasury Secretary James

Baker) to build support for the programs. He mentioned that one good example of the Bank's effectiveness is its work in countries such as Armenia. Mr. Kennedy said "it's easy to run against foreign aid". But the fact is, with the current situation, Democrats would be looking to Republicans for leadership on this issue. Mike Castle responded that "this is a difficult year to put the burden on us". He said Republican Members were working hard to understand the issues, and that they must provide leadership, but then "let the chips fall where they may". Mr. Kennedy interjected that it was not good enough to let the chips fall; Secretary Baker worked hard to build support among the Democrats, and a similar effort needed to be made with Republicans today. Mr. Kennedy said he was willing to help bring along the Democrats.

16. **India and China.** Both Congressman Jon Fox (R-PA) and Bernard Sanders asked about IDA lending to India and China. Mr. Fox wanted to know why these countries continued to get IDA money when they had access to foreign capital markets and were able to attract direct foreign investment. Susan Levine responded along the lines of Larry Summers' reply: that together the countries received about 25 percent of IDA, but that this percentage was coming down. She said that China would be receiving less than 10 percent of the total by the end of IDA-10. Looking toward IDA-11, she said, China has a BBB rating, so it probably could graduate from IDA. India, she said, is less creditworthy, so the context is different; but, she added, the trend is coming down, the trend should come down. Mr. Sanders later asked Ms. Levine what she thought the taxpayers would say if they knew their dollars were used to provide almost grant money to China - which clearly did not need it. Ms. Levine replied that most of the IDA funds were used in support of basic human needs, but "we believe the time has come for China to graduate."

17. **Business/Exports** J. C. Watts (R-OK) referred to a publication Treasury had circulated showing the companies which had received contracts from the MDBs. He asked what the banks were doing to assist small businesses to win these contracts. Ms. Levine responded that the Commerce Department had programs to help small businesses across the country compete for these contracts. She also noted that the World Bank's Public Information Center had over 17,000 requests for information on projects from various companies; the PIC was, she said, an invaluable source of information about upcoming projects. Congressman Bob Barr (R-GA) asked how the Bank was creating incentives for U.S. companies to expand their exports. Ms. Levine cited a project in India designed to support tariff reductions. "Where there is a level playing field, she said, U.S. companies do better than their competitors".

18. **Proliferation of Banks.** Congressman Bob Ney (R-OH) asked whether there should not be some consolidation among the various banks. Ms. Levine replied that Treasury believed in healthy competition between banks. However, she said they were looking at areas of overlap and possibilities for better coordination. She said there was an international Task Force looking at this issue, which would be submitting an interim report this fall - with a final report due a year later.

19. **Military Spending**. Congressman Kennedy asked what had been done to follow up on legislative language in last year's bill designed to push better collection and reporting of information on military spending by developing countries. Ms. Levine responded that "through the policy dialogue" the Bank was getting some information on military spending. Mr. Kennedy responded that "your Administration" had not been very responsive in getting the information he and Congressman Bereuter had asked for. Ms. Levine responded that they were working very hard on this, and that some success had been achieved (e.g. in Argentina and Uganda). Mr. Kennedy came back again saying that a request for the provision of information on military spending should be included as a condition of all loans. Mr. Kennedy said he thought he had a commitment from the Administration that there would be a study. Ms. Levine answered again that they had continued to raise the issue (most recently at the IDA Deputies meeting), but that they had not gotten "all they could get". She said she would follow up with Bank management.

20. **IDA and Africa**. Congressman Melvin Watt (D-NC) asked about the impact of the House Budget Committee cuts on Africa. Ms. Levine responded that the "Kasich" plan would eliminate IDA funding. She said if the U.S. cuts back, others would follow suit. If the U.S. pulled out, other countries would transfer their funds to bilateral, tied-aid programs. The result would be diminished opportunities for U.S. exports and a loss of U.S. involvement. We can't replicate \$20 billion in lending she said, and the bilateral programs would be more commercial and less policy oriented, thus losing IDA's influence in helping to open markets. Mr. Watt asked Treasury to provide "a complete analysis of the impact of the budget cuts". He said that Congress was about to make short-sighted decisions with negative consequences in both the short and long term for U.S. corporations. Congressman Castle then reminded everyone that while the Budget Committee makes recommendations, the authorizers (e.g. House Banking) would ultimately decide whether the programs would be funded. Congressman Watt agreed, but said they needed "weapons and information" to make sure they came to appropriate decisions.

21. **IMF and ADB**. Congressman Sanders took several opportunities to criticize the IMF for the harsh consequences of its structural adjustment operations. Congressman Castle asked why they should be funding the ADB, when these Asian countries have the highest rate of growth in the world. Ms. Levine pointed out that Asia still has 67 percent of the world's poor and that special help was still needed. She noted that the ADB will increase its social sector lending significantly, and they would be catalyzing longer term private sector lending.

Outside Witnesses

22. The Committee invited representatives of the World Wildlife Fund (WWF) and Caterpillar Inc. to testify at the hearing. Both presented statements that were strongly supportive of IDA. Frances Seymour of WWF went first. Her thoughtful and extremely effective presentation began with a statement that the WWF comes to the debate about IDA

as a conservation organization that believes that the future of biological diversity is inextricably linked to social and economic development. She made several general points.

- U.S. participation in IDA is a sound and cost-effective investment in global economic, political and environmental security.
- Economic prosperity and political stability in the developing world (both of which are dependent on environmental health) are in the national interest of the U.S.
- U.S. abandonment of IDA could cripple the single most important source of concessional finance available to the world's poorest countries, undermine U.S. leadership in Halifax and at the IDA-11 negotiations, and cast a shadow over what should be an exciting moment in the Bank's history with the inauguration of a new President.

Ms. Seymour discussed the impact of environmental degradation in developing countries, not only on those directly concerned, but also on the health and economic welfare of average Americans. She talked about the future impact of the loss of biological diversity and the growing threats associated with global climate change. She discussed the importance of IDA's relationship to the World Bank, which she described as "perhaps the world's most significant repository of developmental expertise and analytical capacity, which can be harnessed and applied to the particular challenges faced by IDA borrower countries."

23. Toward the end of her statement she described the reforms which had already taken place within the Bank, and offered suggestions for a "third generation of reforms" of the institution. The next generation of reforms, she explained, should be those promoting environmental sustainability. These might include: pro-environment conditionality in reform packages; support for global environmental programs; support for environmental cost accounting; etc. In the discussion period Ms. Seymour also suggested that the Bank be urged to increase participation of beneficiaries, expand its in-country presence, change staff incentives to reward operational skills, and release more information about projects at an earlier stage in the process.

24. Douglas Oberhelman of Caterpillar offered a strong testimonial to the importance of U.S. participation in the MDBs (and IDA in particular) in helping to build markets for U.S. companies. Overall, he estimated that MDB projects generated work for 2,200 Caterpillar jobs in the U.S. He discussed the importance of IDA-mandated reforms in the poorest countries, reforms which are helping to lower trade barriers, privatize enterprises and support democratic reforms, thus developing markets for companies such as his in countries where they otherwise never would have ventured. He observed that as countries develop, U.S. exports to them increase dramatically. He pointed out that three of Caterpillar's biggest export markets - Indonesia, Thailand and Chile - are IDA graduates. And, in the

future, he predicted that 75 percent of their sales will be outside the U.S., a sure sign of the growing importance of the developing world to the U.S.

cc: Messrs./Mmes. R. Frank, G. Kaji, S. Sandstrom, M. McHugh, J. Armitage,
O. Kalantzopoulos, I. Mas, G. Rice (EXC)

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U.S. HOUSE OF REPRESENTATIVES
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OFFICE MEMORANDUM

Armitage

DATE: April 3, 1995

TO: Mr. Mark Malloch Brown, Director, EXTDR

FROM: Judith Maguire, Advisor, EXTDR *JM*

EXTENSION: 31833

SUBJECT: Legislative Report

file IDA /
BBS
Hill
B.B.

A. House Banking Committee – Hearing on the MDBs

1. On March 27, the House Banking Subcommittee on Domestic and International Monetary Policy held its opening hearing on the World Bank. The hearing was chaired by Congressman Mike Castle (R-DE). Congressman Barney Frank (D-MA) was there the entire time; Congressmen Bob Barr (R-GA) and Frank LoBiondo (R-NJ) dropped by for brief periods. There were two panels of witnesses. Larry Summers, Under Secretary of the Treasury, and Barber Conable were on the first panel. Nancy Alexander (Bread for the World) and Bruce Rich (Environmental Defense Fund) were on the second panel.

Larry Summers' Testimony

2. Larry Summers discussed three topics in his opening statement: The way MDBs serve U.S. interests; the cost effectiveness of the banks and how they reduce U.S. expenses; and the changes the U.S. is promoting to make them more effective.

3. Serving U.S. Interests. Mr. Summers noted that the MDBs serve U.S. interests in several ways: promoting market reforms and opening markets; promoting security and stability overseas; and addressing global challenges such as AIDS and environmental problems. With regard to market reform, he particularly singled out the work of IDA in fostering economic and market reforms, thus laying the groundwork for enormous U.S. business and commercial opportunities. He said that IDA's "chief mission" has become support for the painful economic reforms which the world's poorest countries must undertake if they are to begin the climb to prosperity. He noted that almost all of the major emerging market success stories – Korea, Indonesia, Thailand, Turkey – were once IDA recipients. "All graduated to become important buyers of U.S. exports and services." He said that this pattern, IDA-supported reforms accompanied by sharp increases in U.S. exports, repeats itself even in the poorest nations now receiving IDA funds.

4. Mr. Summers discussed the World Bank's role in promoting security and stability around the world. He talked about its work in Eastern Europe and the former Soviet Union, and the fact that it has taken the lead in providing financial support for the Middle East (peace) process. He pointed out that in Haiti, in Rwanda and Burundi, IDA is

providing emergency assistance to reopen primary schools and fund emergency health care, so these nations can return to stability. He talked about the Bank's role in meeting global challenges such as AIDS and environmental threats. He pointed out that the Bank has become the largest single source of external financing for AIDS programs in the developing world, and he discussed the Bank's environmental lending and achievements.

5. **Cost Effectiveness.** Mr. Summers argued strongly that the banks are a better investment for the U.S. than is bilateral aid. First, he pointed out the MDBs have greater access in dealing with sovereign nations – greater even than the U.S. Second, the banks support programs far larger than the U.S. could support alone. He noted the banks leverage funds from other governments; they raise money on private capital markets; and they make a profit, so they can finance new projects through retained earnings and the flow of repayments on outstanding loans. For example, he said, for every dollar the U.S. has provided in paid-in capital to the World Bank, it has lent \$131. Mr. Summers also explained that lowering the U.S. contributions to the MDBs is a priority. He mentioned that Treasury had negotiated a 50 percent reduction in the cost of the contributions to the IDB, and said that they would continue to lower these costs in the future, including those for IDA-11.

6. **Reforming the MDBs.** Mr. Summers discussed U.S. efforts to streamline the institutions, make them more creative in catalyzing the private sector, and ensure they increase the proportion of resources devoted to social investment. He cited the “ground-breaking” reforms which have been achieved at the World Bank:

- Cuts in the administrative budget, with real budget reductions over the next two years.
- An end to first-class travel and other perks.
- Major reforms of project development and portfolio management processes.
- Establishment of an Inspection Panel.
- Adoption of a new information and transparency policy to allow increased outside monitoring of Bank activities.

7. The discussion period was brief and – with one exception – unremarkable. However, when Congressman Castle asked Mr. Summers whether India and China, which have access to market resources, should continue to get IDA funds, Summers responded he “would be surprised if China were to get assistance from the next IDA.” Congressman Frank then said if that were true, he hoped the decision would be announced as soon as it was made.

Barber Conable's Testimony

8. Barber Conable did not have a prepared, formal statement, but spoke extemporaneously for some ten minutes. He noted that he had been out of the Bank for four years, and that he remembered his tenure "with nostalgia but not with precision." Mr. Conable described the four main elements of the Bank Group and the history of their formation, as well as their principal functions. He spent the remainder of his opening statement discussing how the Bank had evolved and will continue to evolve, how it was a human organization and had made some mistakes along the way, but that it was a unique organization performing a unique and important function.

9. In answer to a question from Congressman Castle about the many criticisms of the Bank, Conable replied that there is simply no other institution comparable to the Bank, and therefore there is no easy gauge for performance. "It's easy for the critics to say the Bank doesn't do this or that right - there is no basis for comparison." Mr. Conable also took issue with the U.S. (and G-7) emphasis on cost-cutting at the Bank. He said the Bank was diverting resources and staffing to meet the priorities of the G-7 (e.g., in the FSU) and that other priorities suffered in the process. Larry Summers, in turn, argued that this last point simply wasn't true. He said that they had tried to be very, very careful that "anything we encouraged the World Bank to do for Russia ... doesn't come at the expense of the poor." Summers said that the budget cuts envisioned over the next two years are likely to make the Bank more, rather than less, effective.

Nancy Alexander and Bruce Rich

10. **Nancy Alexander** testified on behalf of the Bread for the World Institute's project on the World Bank. She described Bread for the World as a nationwide Christian citizens' movement with 44,000 members and 3,500 contributing churches, which urge Congress to support programs which reduce hunger both in the U.S. and overseas. Ms. Alexander began by saying that they support full funding for IDA on the condition that the institution "makes progress toward better development results." She also expressed concern about the use of IDA money to pay interest on IBRD debt. But, Ms. Alexander said, it was dismaying that some in Congress are considering terminating U.S. participation in IDA. This, she said, would be a "penny-wise but pound-foolish" action. The fact that the institution is flawed is not good reason to abandon it - especially as a new U.S. president takes the helm. Ms. Alexander cited several structural problems which she suggested need fixing. She said that the Central Vice Presidencies have too little power relative to the Regional VPs, and that there is still too much emphasis on "pushing money out of the door relative to the quality of lending operations." She suggested that OED be made independent of the Bank, along with the research arm of the Bank. In arguing for improved quality of Bank operations, Ms. Alexander urged the Bank to greatly improve the level of participation by affected people.

11. **Bruce Rich** testified on behalf of the Environmental Defense Fund, the National Wildlife Federation, the Sierra Club and Greenpeace. The essence of his statement was that, "although extremely flawed, the World Bank is an international institution that can and should play an important, positive role in certain areas, but perhaps less than was envisioned in the past." He said that currently not just the focus, but the management is not right. "The Bank continues to suffer from poor project quality from a social, environmental and economic standpoint; as a result too many Bank loans have only increased the debt burden of many borrowing nations without contributing to sustainable economic development. It has a lot of good policies on paper, but often it still doesn't carry them out."

12. But, he said, certain proposals to simply "zero out" U.S. contributions for parts of the World Bank such as IDA are irresponsible. The World Bank is too important, and too influential for us to leave it on autopilot. Funding cuts can be an important spur to reform, but only if the U.S. continues to be the main player. He pointed out that "a number of our organizations would urge that if and when cuts ... are made, they should first target the parts of the Bank that lend or invest in richer developing countries, the IBRD and IFC." (He clarified an important point here for the record. He explained that the "50 Years is Enough" coalition did not call for cuts in IDA or in the GEF, although it does call for a moratorium on future capital requests for the IBRD.) Mr. Rich called on Congress to use its funding power to promote continued reforms in the Bank. Among the reforms he recommended:

- An outside Commission should be established with representatives of the G-7 to institute administrative reforms and new performance criteria for the evaluation and promotion of staff.
- Technical Departments should be empowered to have a greater impact on project quality.
- The personnel system should be reformed to create incentives for "whistleblowers."
- The information policy and Inspection Panel should be strengthened.

B. Senate Foreign Relations Committee – Hearing on the Reorganization of Foreign Assistance Programs

13. On March 30, the Senate Foreign Relations Committee held hearings on proposals for the reorganization of U.S. foreign assistance agencies; there were three panels: one from the Administration, and two with private witnesses. The Administration panel included representatives from State, AID, Commerce, USIA, and ACDA. This panel strongly

opposed proposals put forward by the Committee's Chairman, Jesse Helms (R-NC) to consolidate AID, ACDA and USIA into the State Department, along with OPIC, the Ex-Im Bank and Commerce's TDA. Brian Atwood mounted a vigorous defense of AID, with a strong plea for continued independence. He began with a review of the changes being made in the agency as part of Vice President Gore's Reinventing government effort. He noted they were:

- Closing 27 missions, thus eliminating 585 positions and saving \$15 million annually.
- Re-engineering project design and implementation systems to reduce the time from "project idea" to implementation from 27 months to six months.
- Reorganizing and streamlining headquarters staff, cutting another 600 staff positions (thus eliminating 90 units, or 25 percent of AID's organizational structure).
- Focusing on obtaining measurable results, not just on input of money.

Atwood noted it was hard to respond to the reorganization proposal, as they had seen only a press release; but in his view such a change would promote fragmentation of efforts, increase the potential for misallocation of funds, and reduce American leadership on the ground. Other Administration witnesses likewise stressed the important changes now underway in their agencies, and stressed the great benefits of their remaining independent.

14. Two witnesses from the private sector supported the reorganization plan: Robert Kimmitt and William Schneider, both former State Department officials. Mr. Schneider and Mr. Kimmitt strongly supported the integration of AID, USIA and ACDA into the State Department. Mr. Schneider particularly stressed that AID's present autonomy has substantially (in his view) diminished the agency's ability to respond to the American international agenda.

15. A second panel which included John Sewell of ODC and Linda Powers of Enron testified in the afternoon. Mr. Sewell argued against the merger of AID into State, saying that Brian Atwood has instituted a series of reforms which are just now taking hold, and which should make AID into a more efficient and targeted agency. He urged the Committee to give the reforms a chance. He also presented the Committee with a prospective analysis of the impact of future cuts in the foreign aid budget, which had been prepared by one of their staff. The bottom-line conclusion of that analysis was that as an Administration prepares the FY2000 (and beyond) foreign aid budget, they will need to choose between a bilateral or a multilateral foreign assistance program, as there is unlikely to be sufficient resources available to continue effective programs in both areas.

16. Linda Powers of Enron testified about their experience with energy projects in developing countries. She had two main messages. First, that the U.S. should harness the private sector to achieve the results it is seeking (and pay the cost involved), primarily through private sector development of infrastructure projects. She noted that Enron and two other companies with whom they cooperate "will bring to closure emerging market infrastructure projects totaling nearly \$15 billion per year for the next three years." She saw the most essential role for the U.S. government as providing export and investment financing. Ms. Powers strongly urged Senator Helms not to consolidate OPIC, Ex-Im and TDA and not to place them under the control of "a non-bank, bureaucratic agency – even an improved one."

cc: Messrs./Mmes. L. T. Preston, R. Frank, G. Kaji, S. Sandstrom, M. McHugh,
J. Armitage, O. Kalantzopoulos, I. Mas, G. Rice (EXC)

Messrs./Ms. M. Bruno (DECVP), S. J. Burki (LACVP), R. J. Cheetham (EAPVP),
A. Choksi (HROVP), J. P. Einhorn (TREV), S. Husain (MPSSVP),
E. V. K. Jaycox (AFRVP), C. K. Koch-Weser (MNAV), J. Linn (FPRVP),
J. W. Muis (CTRVP), J. F. Rischard (PSDVP), I. Serageldin (ESDVP),
I. Shihata (LEGSVP), T. Thahane (SECV), W. Thalwitz (ECAVP),
D. J. Wood (SASVP)

Wednesday March 28

MARCH 27 MEETING ON IDA ON HILL
any immediate action required highlighted.

I. THIS IS A WAR. NEED TO PLAN A MILITARY CAMPAIGN

Get Tyler on board to work with Donaldson. More EXT/FRM help for Matt? Discuss strategy with MMB, MM and JDW.

II. Prepare Black books on the key Committee members and staff.

(JDW to see the relevant BB prior to each meeting.

Include photo, biography, interests etc. (presumably can use readily available material from a publication like "Politics in America"). Supplement with any material from Kennedy Center on JDW past contacts.

Notes on what they have said on Bank/IDA in the past (get from EXT and Treasury).

Maintain BBs with notes on meetings and any follow up required. Recommendations for JDW lunch/dinners, invite to KC, etc. Courtesy note sent immediately after each meeting

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Leach suggested that JDW should announce "new initiative" - focus on upgrading/stabilizing banking systems in ldc's. Key for Eastern Europe, and LAC after Mexico. Need to change image of institution - more focus on Bank and less on aid/development.

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Note US Alternate ED Merrick used to work for Obey.

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Lunch with Dyer/Flickner

Suggested we help organize education campaign, seminars/briefings for key Committee members. (Banking, Appropriations, International Relations, Black Caucus, Republican Policy Committee (?)).

Bring in outside speakers like Conable or Jack Kemp. Emphasize consistency of WB activities with key aspects of US bipartisan foreign policy e.g. in Former Soviet Union republics; Africa especially South Africa; Central America; strong partnership with InterAmerican Development Bank.

Identify "internationalists" on Budget Committee and "lobby" them. (Names were suggested, Matt to check).

JDW wants us to prepare talking points/bullets on role of Bank Group for key Congressmen and staff.

Need to get to Gingrich and Dole. Matt to try to set up meeting/lunch with Gingrich soon. Dyer said he would help. He is especially interested in Russia and Africa, particularly South Africa. JDW to call Scocroft and ask him to talk to Dole. JDW to get Brady to talk to Dole.

IV. JDW asked for contingency plan under different scenarios of US support for third year of IDA 10 and IDA 11.

The Kennedy Center

THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS



WASHINGTON, D.C. 20566-0001
202 416-8000
FAX 202 416-8205

Memorandum

March 23, 1995

TO: James D. Wolfensohn
FROM: Shelley Feist
SUBJECT: Discussion with Matt McHugh

WB
Jane

As I mentioned to you last evening, I spoke with Matt McHugh at the World Bank, and will make sure that he has information regarding both your prior contact with Members, and notes specific to KC issues before particular Members.

I thought you might be interested in a bio on Matt McHugh who is a former Member of Congress. It is attached.

TWENTY-EIGHTH DISTRICT

Across the southern edge of Upstate New York, from the Hudson west over the Catskills to the hills along the Susquehanna River and the ridges and deep crevices of the Finger Lakes, runs the 28th Congressional District of New York. This is diverse territory. Kingston, settled by Dutchmen on the Hudson, is an ancient little city; in the 18th Century it was Rip van Winkle country, in the 19th Century the place where coal was shipped on the Delaware and Hudson Canal for boats on the Hudson. The Catskills, looming darkly over the river, became a vacation area, with Borscht Belt kosher resorts for 100 years and Woodstock, the eponymous non-site of the much-remembered 1969 music festival. Since the 19th Century, much of New York City's excellent water supply has come over these mountains from the Delaware River; though narrow crevices between the hills came the Erie Railroad as long ago as 1848, and later the Delaware Lackawanna and Delaware Hudson Railways, opening the southern tier of New York along the Pennsylvania border to industry and commerce. Today there is also high tech in these hills: around Binghamton are IBM facilities, and by the shores of Lake Cayuga is Ithaca, home of Cornell University.

Politically, the heritage here is Republican, as is most of Upstate. Ithaca, like many university towns, is liberal and Binghamton is pro-Cuomo territory. But any move toward the Democrats has been balanced by concern about high taxes. Ulster County along the Hudson, hit by state medicaid mandates, more than doubled its property tax rates in 1989-90; in Binghamton, the county executive proposed a 42% increase. But none of this has dented the popularity of Democratic Congressman Matthew McHugh.

A former Ithaca district attorney first elected in 1974, McHugh is part of the Watergate class of Democrats. With an accent that shows traces of his upbringing in Philadelphia and Brooklyn, McHugh is earnest, careful, hard-working and slow (perhaps impossible) to anger. He has served quietly but effectively on the Appropriations Committee since 1978. Most of his time seems devoted to the Foreign Operations Subcommittee, which often handles some of the most controversial issues in Congress. In most of these controversies, McHugh is an emollient rather than an abrasive. He tends to support aid to Israel and Egypt more heartily than subcommittee chairman David Obey, but not uncritically. He opposes linking foreign economic aid with export

credits designed to sell U.S. goods and services because he is concerned that corporate interest will be the ultimate beneficiary of that aid. He has spent much time on the seemingly intractable problems of Africa, but he was instrumental in increasing Africa's share of U.S. aid in the 101st Congress, despite all the attention given to the more publicized, and perhaps more politically advantageous, developments in Eastern Europe and requests for increased aid there. He authored an Appropriations' amendment which allowed the President to forgive debts owed by the most impoverished countries, and saw it implemented in the cases of Poland and Egypt. McHugh was on the Intelligence Committee for three terms and worked on crafting less restrictive language on covert operations; he was quite miffed when President Bush vetoed the 1991 intelligence bill, particularly since language regarding restrictions was less stringent than that passed by the Senate two years earlier. He also has worked to craft legislation designed to prevent Iran-contra-type abuses from happening again.

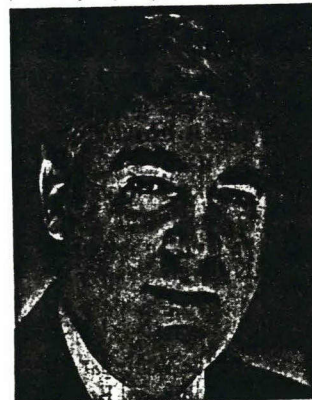
McHugh's other Appropriations subcommittee is Rural Development and Agriculture, where he is a booster of the WIC child nutrition program. Widely respected, he was appointed in 1990 to the House Ethics Committee; he had been one of three congressmen to ask for an investigation of Gus Savage, who was charged by a Peace Corps worker of sexual harassment while on a trip to Africa.

In this historically Republican territory, McHugh has sometimes drawn strong opponents. But his conscientiousness and earnestness helped him thrive in anti-incumbent 1990. With the district consisting of quite disparate parts, he is one incumbent who could be seriously affected by redistricting, although it doesn't seem likely his district will be eliminated.

The People: Pop. 1990: 529,574; Pop. 1980: 516,402; up 2.6% 1980-1990. 93.5% White, 3.4% Black, 2.0% Asian, 2.6% Hispanic origin. Voting age pop.: 408,302.

1988 Presidential Vote: Bush (R) 118,542 (52%)
Dukakis (D) 108,155 (47%)

Rep. Matthew F. (Matt) McHugh (D)



Elected 1974; b. Dec. 6, 1938, Philadelphia, PA; home, Ithaca; N.Y. St. Mary's Col., B.S. 1960, Villanova U., J.D. 1963; Roman Catholic; married (Alanna).

Career: Practicing atty., 1964-68, 1972-74; Ithaca City Prosecutor, 1968; Tompkins Cnty. Dist. Atty., 1969-72.

Offices: 2335 RHOB 20515, 202-225-6335. Also 100A F.Bldg., Binghamton 13902, 607-773-2768; Terrace Hill-Carria House, Ithaca 14850, 607-273-1388; and 291 Wall St., Kingston 12401, 914-331-4466.

Committees: Appropriations (15th of 37 D): Foreign Operations Export Financing and Related Programs; Rural Development Agriculture and Related Agencies. Select Committee on Children Youth and Families (4th of 22 D). Standards of Official Conduct (2d of 7 D).

Group Ratings

	ADA	ACLU	COPE	CFA	LCV	ACU	NTLC	NSI	COC	CEI
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1989	85		82	88	90	0			30	12

Gary
Inver

CEO agreement Barrie

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June 11 McCormick
9:30 1. Jim Leach / McCormick

8/1/30
8/1/30

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one of Bank / IMF trustee, Court, US trustee

the
World
Court

⊗ Primary new initiative is upgrading banking
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Eastern Europe

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+ fits TDW)

(TDW - long term industrial investment)

⊗ Lash
Wayne Schibel.
Star / hole us
↓ Lued.

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- Send Lead Papers.

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BW Commission
John Donaldson

breakfast for Mike
John Hope 2 Breakfast

Bob Livingston

(Trip?)

~~Frankenberg~~

need to demonstrate that is efficient.

Balanced Budget /

Concern with budget, / corr. / imbalance in ~~Africa~~

WP - Sunday
America -

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IDA

on illustrative
list

including
IDA

strengthen ~~Africa~~ Barb

Paul Craig Roberts

interf. Washington Times

editorial
WSJ etc

- efficient use of \$
- limit Xperts to US.
- global stability.
- power

note to
all
meeting

Altern ED Martinik worked for ~~Bay~~

[Obey], Terry Real, Walter Rayo, Joe ~~Krapa~~
Admin Assoc

Talk to ~~Rep~~ Members of Committee

Bruce Rich supported IDA authorization at
Hearings?

new Republican members, don't know much, GRIM
no hope for IDA
budget cut

basically dangerous -
populist
Kinnear 2 years ago
law on budget
cuts

FDW / start with leadership

remake case from
ground-up -
pre-1945

no political
support

(2)

Obeey

we ~~do~~ build political support for ground up
no infrastructure in place

spouse Jim Baker to help with Republicans -

Cato Institution Report on WB

Heritage Foundation, Index of Economic Freedom

Bullets for Charlie

Sonny Callahan

+ Charlie Kuchner

Sid Yates
or
Ken C
WB
Sub Committee

CEOs - preparer ^{company} ~~calling~~ → TUGA

IFC

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1%

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Black Caucus

(freshman)

③ Policy Committee

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Budget Committee

on 10 Nov
Sen/Hane, D/R

Mary Sabo?

Walker

Susan Roz

David Hodson -

Chris?

Planning
→ Africa -

SABO -

Central America
building blocks where
concurrent
with bipartisan
foreign policy -

WB is

support for IDPS

③ ~~Ditch~~ get to Guyana note

MP

Policy
Issue

Guyana - interested in persons

+ Africa

- 5 Africa

17

up here

Brady ~~to~~ Dale

Brew Scott #11

putted
children

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have 50w call Scott #11

support for

OMC, XPT Baal

Positive Consequences of Actions -

not being not effective
or failures

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B/ Onake

Lans Eagleberg -
Jack Kemp

Emergency Plan -

May 3 - 3 days Australia

Need

Mr Waples /

get order
" The Green Book "

\$110

Gary Walker June

March 29, 1995

Dear Mark,

Attached are my notes from the Hill meetings and a letter from the Bretton Woods Committee offering to do a lunch or dinner for JDW to meet key representatives of US private constituents with influence on the Hill.

It should be a very useful affair.

Jane

Wednesday March 28

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03/29/95

14:06

212 446 1303

JAMES WOLFENSOHN

FOU1/002

001

13-15-95 11:29AM

FROM CONSULTANTS INT'L

TO 12124461303

RECEIVED

ANSWERED

3/15 CC:MSM

THE BRETTON WOODS COMMITTEE

1990 M STREET, N.W., SUITE 450
WASHINGTON, D.C. 20036

TELEPHONE (202) 331-1616
FAX (202) 785-9423

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ROBERT S. STRAUSS
ALEXANDER B. TROWBRIDGE, JR.
PAUL A. VOLCKER
CHARLES E. WALKER
ANNE WEXLER

Please refer to Jane (per JW)

March 15, 1995

TO: Jim Wolfensohn
c/o James D. Wolfensohn, Inc.

FAX: 1/212-446-1303

FROM: Henry Owen

TOTAL NUMBER OF PAGES (INCLUDING THIS COVER PAGE): 2

Dear Jim:

This fax follows up the phone conversation we had yesterday.

It has been the *habit* of the Bretton Woods Committee to *arrange a reception* about the time he takes office. We would like this year to welcome you, instead, by arranging a very small lunch or dinner at which you would meet leaders from the U.S. private constituencies that have the most direct interest in the World Bank and the greatest influence on attitudes toward the Bank on the Hill. This format seems to us more useful, given the current situation on the Hill, than a purely social event. Here are examples of attendees we have in mind:

1. Heads of U.S. companies that build or develop infrastructure, which is the largest single field of Bank activity in emerging market countries, e.g., the heads of Enron, Bechtel, and GE, some of whom have strong views as to how to make the Bank more effective.
2. Heads of organizations concerned with the Bank's programs re population and the environment, e.g., Jessica Matthews, Adele Simmons from the MacArthur Foundation, and the head of Population Action International - all good people who are interested and who can be helpful.

to welcome each new President of the W.B.

15-95 11:29AM

FROM CONSULTANTS INT'L

TO 12124461303

P002/002

Page -2-

3. Heads of financial institutions concerned with increasing private loans and investment for emerging market countries, e.g., John Read, Douglas Warner, Deryck Maughan, and Andrew Young (who is involved in private business activity in Africa and other emerging market countries).

These people will all feel better if they have a chance to meet you, and to make their views known to you directly. They won't expect any more than an open-minded reception from you. They will talk more favorably about the Bank, to Congressmen and otherwise, after such a meeting.

If the Bretton Woods Committee sets up this meeting, we'll be playing our traditional role of intermediary - as in the previous dinners we have set up with bankers and with environmental organizations, giving them each a chance to speak their mind to and about the Bank. It will not appear to be lobbying. When I mentioned this idea to Richard Frank, who attended one of our previous dinners (with bankers) and whom I saw Tuesday on other matters, he liked it.

If you prefer for us to host a social reception instead, please let me know.

We will be giving a small goodbye lunch for Lew Preston at the appropriate time. In a few weeks we will ask his office to give us a date (probably about two months hence, we're told) and you will be invited, along with past IBRD Presidents and a few other suitable guests.

Best regards,



Henry Owen

If you have not received this FAX correctly, please contact any of the above numbers.
Thank you.

\Wolfensohn.BWC

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