The Heritage Foundation Backgrounder

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WORLD BANK SNOOKERS U.S. CONGRESS, AGAIN

INTRODUCTION

This year Congress is being asked by the Reagan Administration to approve an extra $14 billion in cash and guarantees for the World Bank. This would be the United States' contribution to the World Bank's $74.8 billion "general capital increase." This increase would nearly double the size of the Bank.[1] Congress has good reason to view unfavorably this gargantuan increase in the Bank's size. As it is, Congress already is very concerned about the failure of World Bank lending to promote economic growth in less developed countries (LDCs). In addition, Congress has questioned whether World Bank lending serves other U.S. economic, political, and ethical interests. As a result, Congress, through explicit legislation, has directed the U.S. executive director at the World Bank and other multilateral development banks to oppose loans, for example, to foreign industries that compete directly with U.S. enterprises or to countries that abuse the human rights of their citizens.[2] Yet all of Congress' efforts have failed to stop such lending.

Ignoring U.S. Views. In the most recent five years for which data have been assembled – U.S. fiscal years 1983-1987 – all 73 loans of the World Bank Group which the U.S. has opposed, through either abstention or voting "no," nonetheless were approved by the Bank (see table). These loans, which are contrary to U.S. interests, total over $5 billion in World Bank commitments; of this, the U.S. share is approximately $1 billion. Similarly, in the

1 Current capital stock of the 44-year old International Bank for Reconstruction and Development (IBRD) totals $96 billion. The capital increase would boost subscribed capital to $171 billion. The general capital increase is for the IBRD, the main body in the "World Bank" Group. The International Development Association (IDA) and the International Finance Corporation (IFC) affiliates are funded separately.

2 In addition, the U.S. executive director also frequently opposes loans out of concerns Congress has not explicitly targeted, such as the potential displacement of foreign private capital or the inappropriate macro-economic policies of the recipient.

1978 to 1982 period, another 74 loans were approved over U.S. opposition. Countless other loans that the U.S. did support with its vote, moreover, have been contrary to sustainable economic development and private sector growth in the Third World.

U.S. Treasury officials argue that more money for the World Bank serves U.S. interests since America's influence at the Bank is substantial. The evidence contradicts this. Were this true, one would expect that at least a few loans opposed by the U.S. would have been blocked. Instead, the World Bank consistently opposes U.S. interests as legislated by Congress. Until it can remedy this situation, Congress should question the wisdom of giving $14 billion more in U.S. taxpayer funds and commitments to the World Bank.

A RECORD OF ECONOMIC FAILURES

The World Bank was established in 1944 as a lender of last resort for the reconstruction of Europe after World War II. In the 1960s and 1970s, the Bank turned increasingly to LDCs in Latin America, Africa and Asia. Bank officials maintained that providing these governments with massive transfers of wealth from the industrial Western countries would produce economic growth and prosperity. In fact, World Bank loans and the policies that they supported promoted mainly wasteful, money-losing public works projects, irresponsible LDC spending policies, and a trillion-dollar debt crisis in the Third World.

Congress understandably has been concerned about the World Bank's failed policies. The Chairman of the House of Representatives Banking Subcommittee on International Development Institutions and Finance, Walter E. Fauntroy, the District of Columbia Democrat, recently observed of the Bank's policy loans that "the track record has not been brilliant thus far and the Bank has been constrained to offer various explanations as to why so many of its adjustment programs have failed."[3] A good part of this explanation lies in the fact that most Bank funds support government projects and enterprises. This is true even of the new and presumably reformist "policy-based" loans that are supposed to be made only if recipient countries alter their economic policies.

Typical bank loans have gone to a Peruvian government gold mine, the Mexican state steel sector, the Hungarian government's railroad, the Indian government's coal mines, petroleum finance for the government of Yugoslavia, and funds for rural collectives in the People's Republic of China.

SUBSIDIES FOR HUMAN RIGHTS ABUSERS

Many Third World and all East bloc countries abuse the human rights of their citizens as a matter of national policy. As a means to uphold the principles of justice for which the U.S. stands, Congress in 1977 mandated that the U.S. executive director at the World Bank, as well as U.S. representatives at the other multilateral development banks, oppose loans to countries that violate human rights.[4] Yet numerous World Bank loans, approved over U.S.

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3 Opening statement at the House Banking subcommittee's May 4, 1988 hearing on "A General Capital Increase for the World Bank: Policy Based Lending and the World Bank."

4 International Financial Institutions Act of 1977, sec. 701(a) and (e) ("Harkin amendment").

opposition, provide considerable assistance to regimes with notorious records of human rights violations. Example: the Marxist military government of Ethiopian dictator Mengistu Haile Mariam has received over $600 million in loans from the Bank since 1979. During that period, over 4 million villagers were uprooted forcibly from their rural homes in eastern Ethiopia and relocated on collective farms.[5] The government intends to have relocated nearly all of Ethiopia's 30 million rural dwellers by the mid-1990s. Very often villagers resist the move, and this is met with violence, beatings, rapes, and death.

Falling Teff Output. Still another Mengistu program — this one launched in 1984 — has forcibly resettled 600,000 northern Ethiopians in the south. The French relief organization, Doctors Without Borders, estimates that 100,000 Ethiopians died during resettlement.[6] After an international outcry, the program was suspended during 1986 and 1987. But Mengistu restarted the program last December and intends to resettle another 300,000 people in 1988. Last January, the World Bank approved another $70 million for Ethiopia, over U.S. objections.

Aside from their brutality, Mengistu's programs also have been an economic disaster. Production of teff, Ethiopia's main food grain, fell by 60 percent between 1975 and 1982, while reserves that might have forestalled famine evaporated.[7] Some three million residents of Eritrea and Tigre provinces now face starvation for the second time in four years.

Loans for Laos, Syria, Uganda. Similarly, in Laos, the government received a $15 million World Bank loan in 1981, despite its detention of thousands of political prisoners in "re-education" camps, where many have starved or been executed for trying to escape.[8]

In Syria, President Hafez al-Assad's February 1982 massacre of 20,000 members of the banned Muslim Brotherhood in Hama was followed two months later by a $22 million World Bank loan.

Uganda in 1985 received two World Bank loans worth $34 million despite the large-scale human rights violations under President A. Milton Obote. An Amnesty International report

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5 According to Karl Zinsmeister, a specialist on Sub-Saharan Africa and adjunct research associate at the American Enterprise Institute: "In a typical operation, government troops arrive in an agricultural hamlet, arrest the traditional chiefs, requisition all private property (crops, livestock, tools), then force the locals to break down their huts. They are then force-marched, carrying pieces of their houses on their backs, to a new central location...[which] often lacks adequate water supplies and is usually far removed from old fields. Much previously cultivated land is neglected and abandoned as a result...The old sites are bull-dozed." See "All the Hungry People," *Reason*, June 1988, p. 25.

6 Cited in *ibid.*

7 *Ibid.*

8 Reportedly, 20 camps held 15,000 prisoners in 1980. See "Country Reports on Human Rights Practices for 1983," report submitted by the U.S. Department of State to the House Foreign Affairs Committee and the Senate Foreign Relations Committee, February 1984, p. 827.

released that year charged that Ugandan government security forces had been involved in mass detentions, routine torture, widespread abductions, and frequent killings of prisoners.[9]

FINANCING SURPLUS COMMODITIES

While free trade and international competition help all countries, government subsidies to particular industries or sectors create economic distortions and unfairly harm more competitive enterprises, including American businesses. For this reason, Congress mandates that the U.S. executive director at the World Bank and other multilateral development banks oppose loans for:

♦ ♦Production of any commodity for export if the commodity is in surplus on world markets and the aid will cause substantial injury to U.S. producers of the same, similar, or competing commodities (often referred to as the "Obey amendment");[10]

♦ ♦Establishing or expanding production for export of palm oil, sugar, or citrus crops if the loans will injure U.S. producers of the same, similar, or competing agricultural commodities;[11]

♦ ♦Production of any copper commodity for export or for the expansion or improvement of any copper mining, smelting, or refining capacity.[12]

Yet World Bank funds have gone for these purposes. Example: Brazil received $155 million in April 1986 for expanded soybean production. Example: in the same month, Zaire received $110 million for its copper industry.

POLITICAL GROUNDS FOR OPPOSITION

Congress requires the U.S. executive director to oppose World Bank loans for a variety of other reasons. Loans are to be opposed to countries that:

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9 See "Country Reports on Human Rights Practices for 1985," pp. 358-361.

10 Foreign Assistance Appropriation Act of 1979, secs. 609-610, introduced by Representative David R. Obey, the Wisconsin Democrat.

11 International Financial Institutions Act of 1977, sec. 901(a), introduced by Representative Dawson Mathis, the Georgia Democrat.

12 Supplemental Appropriations Act, 1985, sec. 501 and 502(c), introduced by Senator Jake Garn, the Utah Republican.

♦♦ Provide refuge to individuals committing acts of international aircraft hijacking;[13]

♦♦ Expropriate investments owned by U.S. citizens, repudiate contracts with U.S. citizens or impose discriminatory taxes which have a similar confiscatory effect, unless arrangements for prompt, adequate, and effective compensation have been made or good faith negotiations are underway;[14]

♦♦ Failed, in the view of the President, to take adequate steps to prevent the illegal sale of narcotics or other controlled substances to U.S. government personnel stationed in that country or to prevent the illegal entry of such drugs from that country into the U.S.[15]

Yet Ethiopia, despite repeated expropriation of property, continues to receive loans. In addition, Syria has received over $145 million in Bank funds and South Yemen over $130 million since the State Department in 1979 listed them as supporting terrorism.

SEEKING EFFECTIVE LEGISLATION

Senator Robert W. Kasten, the Wisconsin Republican, has sponsored recent legislation which requires that the Agency for International Development enhance its "early warning system" to anticipate the potential environmental impact of World Bank and other multilateral development bank (MDB) loans well in advance of their approval. When adverse environmental impact is found likely, the U.S. executive director at the appropriate MDB is to seek project changes to eliminate the problem.[16] This legislation attempts to head off environmentally destructive projects, rather than specifying grounds for U.S. opposition at the time of votes on proposed loans.

Senator Steve Symms, the Idaho Republican, has attempted to bring some accountability to the World Bank and other MDBs with his Foreign Agricultural Investment Reform (FAIR) bill. Similar to — but stronger than — the 1979 Obey amendment, FAIR would

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13 International Financial Institutions Act of 1977, sec. 701(a) and (e), introduced by then Representative Tom Harkin, the Iowa Democrat.

14 IDA III Act of 1972, adding sec. 12 to the 1960 IDA Act introduced by Representative Henry B. Gonzalez, the Texas Democrat; acceptance of a non-germane amendment mandated application to the IBRD as well.

15 IDA III Act of 1972, adding sec. 13 to the 1960 IDA Act, introduced by Representative Charles B. Rangel, the New York Democrat; acceptance of a non-germane amendment mandated application to the IBRD as well. (If the House now votes to reject Ronald Reagan's certification of Mexico, as the Senate did last April, it will have only a symbolic effect. Since all loans opposed by the U.S. at the World Bank are nevertheless approved, there is no reason to believe that Mexico will be penalized in any way as a result of this action.)

16 Sec. 537 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, of 1988; as included in the fiscal 1988 omnibus spending bill and replicated in authorizing legislation as well.

require the U.S. executive director at all MDBs to oppose loans for the production of commodities that are already in world over-supply, otherwise economically unviable, or subsidized, as defined by the General Agreement on Tariffs and Trade (GATT). But if the World Bank or other MDB approves such assistance over U.S. opposition, the U.S. Treasury is to request a statement of policy from the MDB and may not agree to any capital increase or replenishment until this is forthcoming.[17]

FAIR also would mandate that U.S. paid-in contributions under any subsequent capital increase or replenishment for the World Bank or other MDBs would be that level to which the U.S. originally agreed minus a penalty for every commodity loan, as defined in the bill, approved over U.S. opposition.[18] There is a danger that the contribution requested from the U.S. would be inflated, anticipating such an automatic cut. Still, FAIR is an important attempt to hold the World Bank accountable. The bill has passed the Senate four times in recent years, but has yet to pass the House.

CONCLUSION

Congressional requirements that the U.S. vote against proposed World Bank loans that harm U.S. economic, political, or ethical interests have yielded nothing. Every U.S.-opposed loan since 1977 has been approved by the World Bank, annually sending hundreds of millions of dollars in scarce resources to governments that abuse human rights, export terrorism, and pursue accelerated production of commodities already in world over-supply. In addition, billions of dollars in U.S.-supported World Bank loans annually flood the treasuries of developing countries either to finance or bail out countless state-run enterprises that private capital for good reason would not touch.

Using U.S. Leverage. Now the World Bank is coming hat-in-hand to Congress for $14 billion in new cash and guarantees to expand further its questionable activities. The only real leverage U.S. lawmakers seem to have over the Bank is to deny such new resources. In light of past congressional impotence to influence Bank policy, a denial of new funds seems to be the only way for Congress to reassert its authority.

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17 The Treasury also may not allow the letting of any instrument or note of credit by the institution either in the United States or denominated in U.S. dollars.

18 The aggregate penalty is calculated by projecting the U.S. share of the funding increase — for example, 18.75 percent for the current general capital increase — into the total amount of such commodity assistance the Bank approved during the previous funding period. For example, had the legislation been in place at the time of the recently negotiated general capital increase and the approved commodity loans, as defined by FAIR, in the previous period totaled $2 billion, the U.S. would have to subtract 18.75 percent of $2 billion — or $375 million — from its paid-in contributions.

U.S. NEGATIVE VOTES AND ABSTENTIONS IN THE WORLD BANK GROUP: 1983-1987[1]

Institution[2]	Date	Borrower	Amount ($ millions)	Project	U.S. Vote	Reason	Final Disposition of Loan
IBRD	Oct. 1982	India	165.5	Krishna-Godavari Petroleum Exp.	No	Potential displacement of foreign private capital and inappropriate sector policies	Approved
IBRD	Jan. 1983	China	162.4	Daging Oilfield Secondary Recovery	No	Potential displacement of foreign private capital and inappropriate sector policies	Approved
IBRD	Feb. 1983	India	222.3	South Bassein Offshore Gas Dev't	No	Potential displacement of foreign private capital and inappropriate sector policies	Approved
IBRD	Mar. 1983	China	100.8	Zhongyuan-Wenliu Petroleum Exp. and Development	No	Potential displacement of foreign private capital and inappropriate sector policies	Approved
IBRD	May 1983	Egypt	203.7	El Dikheila Reinforcing Bar	Abstain	Not a developmental priority	Approved

1 U.S. fiscal years are used. Source: "International Finance: The National Advisory Council on International Monetary and Financial Policies, Annual Report to the President and to the Congress," various annuals for fiscal years 1983 through 1986, and fiscal 1987 in draft form.

2 The World Bank Group is composed of the International Bank for Reconstruction and Development (IBRD), its main body, in addition to the International Development Association (IDA) and International Finance Corporation (IFC) affiliates.

IDA	Mar. 1983	Ghana	13.0	Water Supply Rehabilitation	Abstain	Inappropriate macro-economic policies	Approved
IDA	Apr. 1983	Yemen, PDR	9.0	Second Ag'l Dev't Project	Abstain	Human Rights	Approved
IDA	May 1983	Ethiopia	20.0	Urban Development	No	Expropriation	Approved
IDA	May 1983	Ghana	11.0	Energy Project	Abstain	Inappropriate macro-economic policies	Approved
IDA	May 1983	Yemen, PDR	7.6	Health Development	Abstain	Human Rights	Approved
IDA	Jun. 1983	Ethiopia	7.0	Petroleum Exp. Promotion and Geothermal Study	No	Expropriation	Approved
IDA	Jun. 1983	Laos, PDR	6.2	Ag'l Production Support Project	Abstain	Human Rights	Approved
IDA	Jul. 1983	Ethiopia	70.0	Roads	No	Expropriation	Approved
IDA	Jul. 1983	Tanzania	35.0	Mtera Hydropower	Abstain	Inappropriate macro-economic policies	Approved
IBRD	Mar. 1984	Hungary	90.0	Petroleum Project	No	Potential displace-ment of foreign private capital	Approved
IBRD	Mar. 1984	India	242.5	Cambay Basin Petroleum Project	No	Potential displace-ment of foreign private capital and inappropriate sector policies	Approved
IBRD	Mar. 1984	Nigeria	25.0	Gas Technical Assistance	No	Potential displace-ment of foreign private capital	Approved

IBRD	Mar. 1984	Zambia	75.0	Copper Industry Rehabilitation	No	Doubtful financial viability	Approved
IBRD	May 1984	China	100.3	Karamay Petroleum Project	No	Potential displace-ment of foreign private capital and inappropriate sector policies	Approved
IBRD	May 1984	Hungary	24.3	Petroleum Project	Abstain	Potential displace-ment of foreign private capital	Approved
IBRD	May 1984	Syria	30.0	Homs and Hama Sewerage Project	Abstain	Human Rights	Approved
IBRD	Sep. 1984	Philippines	150.0	Agricultural Sector Inputs	No	Inadequate sector reform conditionality	Approved
IDA	Dec. 1983	Ethiopia	35.0	Second Coffee Processing and Marketing	No	Expropriation	Approved
IDA	May. 1984	Yemen, PDR	10.4	Fourth Education	Abstain	Human Rights	Approved
IDA	Jun. 1984	Benin	18.0	Seme Oilfield Development II	Abstain	Human Rights	Approved
IDA	Jun. 1984	Benin	5.4	Forestry Project	Abstain	Human Rights	Approved
IDA	Jun. 1984	India	220.0	National Cooperative Dev't	No	Inadequate sector reform conditionality	Approved
IDA	Jul. 1984	Ethiopia	40.0	Telecommunications	No	Expropriation	Approved
IDA	Sep. 1984	Ethiopia	70.0	Sixth Education Project	No	Expropriation	Approved
IDA	Sep. 1984	Ethiopia	4.0	Tech. Assist. for Econ. Mgmt.	No	Expropriation	Approved

IDA	Sep. 1984	Ethiopia	22.0	Ag'l Research	No	Expropriation	Approved
IBRD	Nov. 1984	Colombia	130.0	Petroleum Dev't	No	Potential displacement of foreign private capital	Approved
IBRD	Mar. 1985	Chile	11.0	Public Sector Management	Abstain	Human Rights	Approved
IBRD	Aug. 1985	Mexico	150.0	Low Income Housing	Abstain	Negative real interest rates and budget subsidy	Approved
IBRD	Sep. 1985	Syria	7.5	Ag'l Extension	Abstain	Human Rights	Approved
IDA	Dec. 1985	Benin	5.0	Technical Assist.	Abstain	Human Rights	Approved
IDA	Mar. 1985	Uganda	5.1	Petroleum Tech. Assistance	Abstain	Human Rights	Approved
IDA	Mar. 1985	Uganda	28.8	Power Rehabilitation II	Abstain	Human Rights	Approved
IDA	Mar. 1985	Yemen, PDR	5.0	Ag'l Research and Extension	Abstain	Human Rights	Approved
IDA	Apr. 1985	Ethiopia	30.0	Drought Recovery Program	No	Expropriation	Approved
IDA	Jun. 1985	Yemen, PDR	14.4	Highways IV	Abstain	Human Rights	Approved
IFC	Feb. 1985	Brazil	3.0	COSIGUA Steel Modernization	No	Additional IFC equity investment not necessary, and so could displace local private capital	Approved
IFC	Jun. 1985	Chile	18.7	COCAR Coal	Abstain	Human Rights	Approved
IBRD	Dec. 1985	Mauritania	20.0	SNIM Iron Ore	Abstain	Potentially premature	Approved

				Mining Rehab.		due to global over-capacity, and unsound sector tax policy	
IBRD	Mar. 1986	China	75.0	Third Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements	Approved
IBRD	Apr. 1986	Brazil	155.0	Ag'l Extension II	Abstain	Obey Amendment	Approved
IBRD	Apr. 1986	Zaire	110.0	GECAMINES copper	No	Garn Amendment	Approved
IBRD	May 1986	Hungary	64.0	Electric Power	Abstain	Inadequate tariff levels	Approved
IBRD	May 1986	Syria	70.0	Aleppo Sewerage II	Abstain	Human Rights	Approved
IBRD	Jun. 1986	Brazil	500.0	Electric Power Sector Loan	No	Inadequate tariff levels and potential environmental problems	Approved
IBRD	Jul. 1986	Malaysia	55.0	Second Western Johor Ag. Dev. (Palm Oil)	No	No institution building role for IBRD	Approved
IDA	Mar. 1986	China	25.0	Third Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements	Approved
IDA	Apr. 1986	Ethiopia	5.5	Port Project	Abstain	Human Rights	Approved
IDA	May 1986	Burma	30.0	Grain Storage and Processing (Rice)	Abstain	Inadequate sector reform and private sector role	Approved
IDA	May 1986	Ethiopia	62.0	Energy	Abstain	Human Rights	Approved
IDA	Jul. 1986	Ethiopia	45.0	Forestry	Abstain	Human Rights	Approved

IDA	Aug. 1986	Guyana	7.0	Bauxite Industry Tech. Assistance Project	Abstain	Premature pending resolution of inappropriate country macro-economic poicies	Approved
IFC	Sep. 1986	India	8.6	Carbon Black	No	Excessive level of protection from imports	Approved
IBRD	Nov. 1986	Chile	250.0	Structural Adjustment II	Abstain	Human Rights	Approved
IBRD	Jan. 1987	Indonesia	226.0	Power Transmission and Distribution	No	Inadequate tariffs	Approved
IBRD	Mar. 1987	China	250.0	Fourth Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements	Approved
IBRD	Jun. 1987	Chile	95.0	Pehuenche Hydro-power	Abstain	Human Rights	Approved
IBRD	Jun. 1987	Chile	21.5	Power Transmission	Abstain	Human Rights	Approved
IBRD	Jun. 1987	Mexico	400.0	Agricultural Credit	Abstain	Negative sub-loan interest rates	Approved
IDA	Oct. 1986	Yemen, PDR	5.6	Water Supply II	Abstain	Human Rights	Approved
IDA	Mar. 1987	China	50.0	Fourth Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements	Approved
IDA	Mar. 1987	Ethiopia	7.0	Small Scale Irrigation	Abstain	Human Rights	Approved
IDA	Apr. 1987	Ethiopia	39.0	Livestock Project	Abstain	Human Rights	Approved

IDA	Jun. 1987	Yemen, PDR	16.8	Highways V	Abstain	Human Rights	Approved
IFC	Feb. 1987	Chile	15.0	Arauco Pulp Mill Modernization and Expansion	Abstain	Human Rights	Approved
IFC	May 1987	Venezuela	37.6	VENCEMOS Cement Mill Expansion	Abstain	Significant export subsidy relevant to U.S. market	Approved
IFC	Jun. 1987	Brazil	20.0	MBR Iron Ore Mine Expansion	No	IFC funding not really needed	Approved
IFC	Aug. 1987	Brazil	80.0	Three Banks Ind. Modernization Financing	No	Unconditional balance of payments support, debt moratorium, and no IFC institution-building role	Approved

TOTAL Approved over U.S. opposition: $5.3 billion