renewed disbursements. Indeed, on November 16, the IDB wired Nicaragua $11 million and credited an additional $3 million against back interest charges. The very next day the IDB received the bulk of the $11 million which Nicaragua supposedly had deposited six days before.

The trouble was that Nicaragua had defrauded the IDB. The Sandinistas had lied on November 11 and never deposited any money in IDB accounts. But the IDB did not bother to verify whether these deposits had been made before sending Nicaragua the $11 million in new funds on November 16. It was these new IDB funds that Nicaragua then used to "repay" the IDB on November 17. What Nicaragua gained by this was restoration of its status as a borrower in good standing, eligible for IDB payments on loans approved before 1983.

IDB officials admit off the record that the money was "round-tripped." Officially, in a January 11 letter to *The Washington Times*, Joseph Hinshaw, Associate Deputy Advisor of External Relations at the IDB, writes:

> The bank has not deviated from its normal practices...the IDB considers such notification by a borrowing member country's central bank that payment has been authorized as adequate proof of payment. This practice, which applies to all member countries, reflects the record of trust and confidence that exists between the IDB and its member countries. Thus, the IDB followed its normal procedures....

Shoddy Normal Procedures. In recent years the IDB has demonstrated that politically motivated lending, shoddy banking practices, and funding of highly questionable enterprises indeed are part of the bank's normal procedures. Example: IDB policy was to hold up disbursements when official and market rates diverge substantially. Yet when the IDB gave Nicaragua its funds, the official exchange rate was 70 *cordobas* to the dollar, while the market rate was 30,000 *cordobas* per dollar. Example: The IDB lends almost entirely to governments, often supporting money-losing state-run enterprises, strengthening state participation in Latin economies, and displacing potential private sector producers.

The $25 billion capital increase being sought by the IDB would allow the bank to double its rate of lending from the $2.4 billion in 1987 to about $5 billion annually. The U.S. is refusing to participate in the capital increase until the bank's voting structure is amended. Currently, 51 percent is required for approval of loans; the Latin countries effectively use their 54 percent to vote *en bloc*. The U.S. proposes that 65 percent be required, thus allowing it, together with any other member, to "veto" unsound loans favored by the Latin bloc.

While the U.S. Treasury should be applauded for holding out for the effective "veto," it would be a mistake for the U.S. to trade the voting issue for the capital increase. The bank's corrupt, politicized practices clearly have failed to promote sustained development in Latin America. The Reagan Administration therefore should cut off current appropriations to the bank. At a time when every item on the U.S. budget is being scrutinized for potential savings, the IDB is one easy omission.

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UPDATE

Backgrounder

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THE INTER-AMERICAN DEVELOPMENT BANK: DEFRAUDED BY THE SANDINISTAS

(Updating *Backgrounder* 586, " The Inter-American Development Bank: Rethinking America's Role," June 15, 1987.)

Two key elements of the Reagan Administration's policy to foster democracy in Central America are opposition to communist repression and expansion and promotion of growth-oriented free market policies. The Inter-American Development Bank (IDB), to which the United States contributed $34 million last year, has undermined these efforts by giving the Sandinista regime in Nicaragua millions of dollars in loans in recent years. In fact, *The Washington Times* calculates that the U.S. share of these loans, together with its share of assistance from other international organizations, is greater than all U.S. aid to the Democratic Resistance forces fighting the Sandinistas. The IDB has been accused in the past of highly politicized loans, unsound banking practices, and failure to promote free-market policies in Latin America. These charges are confirmed by the bank's recent dealings with the Sandinistas. In light of this, the U.S. should stop contributing to the IDB, which is seeking a $25 billion capital increase in lending authority and loan guarantees--$9 billion from the U.S.

Delinquent Managua. The IDB was established in 1959 to "contribute to the acceleration of the process of economic and social development" in the region. The IDB is owned by its 44 member countries, whose subscriptions to the bank provide its capital and determine each member's voting power on loan approvals. The U.S. contributes the largest share, 34.5 percent; Canada contributes 4.5 percent; the non-regional members, including Japan and West European nations, together give 7 percent; and the remaining 54 percent is contributed by virtually every Latin American country.

Under pressure from the U.S. State Department, the IDB has not approved any new loans for Nicaragua since 1983. Disbursements have continued on previously approved loans. Because Managua had failed since late 1986 to make payments on past IDB loans, the IDB cut off disbursements of previously approved funds last July. Then on November 11, the government of Nicaragua cabled IDB headquarters in Washington that Nicaragua was transferring over $11 million in back payments to IDB bank accounts in various countries. So doing, Nicaragua became eligible for