EXPLANATION OF AUTHORIZING LEGISLATION

H.R. 1488, the "International Financial Institution Reform and Authorization Act of 1997" includes authorizations for United States contributions to the International Development Association, the Asian Development Fund, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the interest subsidy account of the successor to the Enhanced Structural Adjustment Facility of the International Monetary Fund, and the New Arrangements to Borrow. It also requires the advocacy of certain policies by the United States at the World Bank Group, promotes reform of the international financial institutions, and requires the production of several reports for Congress by the Secretary of the Treasury.

BACKGROUND

The Subcommittee on Domestic and International Monetary Policy strongly supports continued U.S. participation and leadership in the international financial institutions (IFIs) and global economy. The Subcommittee has worked together with the Administration and non-governmental organizations to help maintain the bipartisan support for these institutions that has existed for over half a century. The Subcommittee is pleased to note that the signs of fraying in that consensus that had developed in recent years appear to be ebbing. During this year's authorization process there has been solid bipartisan consensus on the precept that U.S. leadership and commitment to reform in the IFIs provides critical support for U.S. global interests in peace and stability, good governance and democracy, open markets, and sustainable development. Likewise, the Subcommittee believes that U.S. participation in the IFIs leads to increased exports, procurement opportunities for American business, and enhanced economic and national security.

Nonetheless, the Subcommittee recognizes that the Administration confronts significant policy-based and political challenges to maintaining U.S. leadership in the IFIs and the world economy. Part of that challenge arises from the enormous changes that have swept the globe since 1989 and radically changed the traditional world of development economics: the collapse of communism and the end of the cold war; the economic success of newly industrializing countries in Asia and Latin America; and the increasing globalization of capital markets and international finance. But part of the problem is also political. Changes in the world scene and limited budgets have recently emboldened critics of American engagement to demand that the U.S. withdraw from these international institutions. In this context, it is critical that senior Administration officials continue to make the effort to explain to Congress and the American people a convincing rationale for continued American leadership in the IFIs and the broader world economy.

The Subcommittee believes that the importance of the IFIs in advancing American interests should be stressed for several reasons.
First, in this era of limited fiscal resources, the Subcommittee believes it is essential that every taxpayer dollar be spent in the most cost-effective manner possible. Reliance on the IFIs to advance U.S. interests maximizes multilateral burdensharing rather than singular U.S. responsibility; our European allies, Japan, and other countries provide the majority of financial resources. As a result, the U.S. multiplies each contributed dollar at least five or six fold for optimal leverage in utilizing our resources. Overall MDB lending, for example, equals about $46 billion annually but costs the U.S. only $1.2 billion – or 2.6 percent of total lending. By contrast, U.S. bilateral aid is about $7 billion annually for which the taxpayer must shoulder the entire cost.

Second, in addition to leveraging our dollars, these institutions allow the U.S. to leverage free market principles. Few governments are prepared to bow to pressure for market-oriented reform coming from a single country. Many, however, will institute economically and politically difficult reforms as prerequisites for IMF and World Bank support. IFI supported adjustment, in turn, helps unlock the potential for developing countries to tap the enormous financial resources of the private capital market. Russia is a case in point. IMF and World Bank loans have helped Russia make significant progress toward macroeconomic stabilization, while IFI assistance will also be needed to help implement the key structural reforms—including reforming the tax system, legal reform, as well as tackling crime and corruption—that will be crucial to attracting the increased investment needed to bring about sustained growth.

Despite the IFI’s overall positive record of achievement and support for America’s international interests, the U.S. was nevertheless approximately $1.5 billion in arrears to the IFIs at the beginning of calendar 1997. The Subcommittee is strongly of the view that continued U.S. arrears to the IFIs threatens to undermine U.S. economic leadership, feeds international perceptions of U.S. drift and disengagement in world affairs, and hurts U.S. business opportunities.

It is in this context that the Subcommittee considered the Administration’s authorization requests for the IFIs. The Administration request entailed $1.6 billion over two years for the U.S. contribution to the 11th replenishment of the International Development Association (IDA); $400 million over four years for the U.S. contribution to the 7th replenishment of the Asian Development Fund; $285 million over eight years for the U.S. contribution to the second general capital increase for the European Bank for Reconstruction and Development (EBRD); $76.8 million for a scheduled capital subscription to the Inter-American Development Bank (IDB); $75 million over ten years for the interest subsidy account of the Enhanced Structural Adjustment Facility of the IMF (ESAF); and approximately $3.4 billion (as valued in Special Drawing Rights) for U.S. participation in a new multilateral line of credit to the IMF known as the New Arrangements to Borrow (NAB).

The Subcommittee also recognizes the Administration’s success in negotiating, on average, a 40 percent reduction in future U.S. obligations to the multilateral development banks (MDBs), as well as the success of the U.S. in promoting broad institutional
reforms. However, budgetary constraints required a 27 percent reduction in the Administration’s request in terms of outlays.

Nonetheless, H.R. 1488 reflects Subcommittee consensus and enjoyed strong bipartisan support. The bill fully authorizes over two years the U.S. contribution to the 11th replenishment of IDA, the World Bank facility that provides concessional lending to the world’s poorest countries. The Committee intends to work closely with Treasury and concerned outside groups to ensure that the World Bank Group stays on the reform path and that U.S. taxpayer resources are used effectively. But the Committee also recognizes that the U.S. cannot effectively advance reform or American policy priorities if we remain in arrears to IDA and other multilateral lending institutions. The regional development banks are all funded the FY 1998 Administration request level, not because of a lack of support for these institutions, but due to budgetary constraints.

The Subcommittee also authorizes U.S. participation in the New Arrangements to Borrow (NAB). The NAB is set of credit lines from approximately 25 potential participants amounting to about $47 billion, at current exchange rates, to be made available to the IMF. The NAB is thus intended to expand the borrowed resources available to the IMF in the event of an international financial crisis if IMF resources need to be supplemented. Its purpose matches that of the General Arrangements to Borrow (GAB), which was established by the G-10 countries in 1962. Structurally, the NAB is also closely modeled on the GAB.

The Subcommittee notes that in the wake of the Mexican financial crisis, the G-7 countries at the 1995 Halifax Summit proposed a number of reforms to strengthen the international financial system. One of these reforms was a proposal to expand the resources available to the IMF in response to the dramatic growth of the world economy generally and global capital flows specifically. The NAB will help support the IMF’s primary role promoting international monetary stability by preventing financial shocks and responding to crises that may emerge. The U.S. proposal to establish the NAB is also responsive to Congressional concerns, expressed in the wake of the Mexican peso crisis, that the U.S. should not be called upon again to be the lender of last resort in an international financial crisis.

In accordance with established Congressional budgetary procedures, U.S. participation in the NAB — as with any prospective IMF quota increase — requires Congressional authorization and appropriation. However, any transfer of dollars to the IMF under the NAB will not be scored as an outlay and will not increase the deficit, as the U.S. receives in exchange a liquid, interest-bearing claim on the IMF backed by the Fund’s strong financial position, including its substantial holdings of gold. In this context, the Committee welcomes the recent bipartisan budget agreement and the assumption in the budget resolution of a cap adjustment available for exchanges of monetary assets and for international organization arrears. The participation of the U.S. in the NAB will help ensure that a credible, multilaterally funded insurance policy is in place to address future threats to the international financial system.
The Subcommittee notes that the Administration is presently reviewing the adequacy of IMF quotas, as well as considering an amendment to the IMF’s Articles of Agreement to authorize a special “equity allocation” of SDRs designed to rectify the lack of allocation to newer members of the Fund. The Subcommittee expects Treasury to continue its close consultation with the Subcommittee and other Congressional committees, as appropriate, as its review of these matters proceed. Likewise, the Subcommittee looks forward to close consultation with Treasury regarding potential reform proposals to further increase transparency and accountability at the IMF.

HEARINGS

On March 13, 1997, the Subcommittee on Domestic and International Monetary Policy held a hearing on the President’s request for authorization for the International Development Association of the World Bank Group and the Regional Development Banks (MDBs). The witness for the hearing was William Schuerch, Acting Deputy Assistant Secretary of the Treasury for International Affairs.

On March 20, 1997, the Subcommittee on Domestic and International Monetary Policy held a hearing on the President’s request for authorization for the International Monetary Fund (IMF). The witness for the hearing was Timothy F. Geithner, Senior Deputy Assistant Secretary of the Treasury for International Affairs.

On April 30, 1997, Mr. Castle, at the request of the Administration, introduced H.R. 1488, the International Financial Institution Reform and Authorization Act of 1997. On May 8, 1997, the Subcommittee on Domestic and International Monetary Policy held a markup on H.R. 1488. Pursuant to notice and with a quorum being present, the Subcommittee by voice vote favorably reported the bill, as amended, to the Full Committee.

SECTION-BY-SECTION ANALYSIS OF H.R. 1488

Sec. 1—Short title

This Act may be cited as the “International Financial Institution Reform and Authorization Act of 1997.”

TITLE 1—INTERNATIONAL DEVELOPMENT ASSOCIATION

Sec. 101.—International Development Association. This section fully authorizes the Administration’s request of $1.6 billion for the U.S. contribution to the 11th replenishment of the International Development Association (IDA). The Subcommittee is pleased to note that the Treasury Department consulted closely with Congress during
the IDA-11 negotiations that began in early 1996. The $800 million annual payment over two years reflects the authorization levels established for IDA by the Subcommittee on Domestic and International Monetary Policy during fiscal 1996. The Administration request for IDA-11, while still substantial, represents a 36% annual cut from the prior authorization. Likewise, the Subcommittee is pleased to note that China will be graduated from IDA lending at the conclusion of the 11th replenishment.

The Subcommittee remains concerned over the establishment of restrictions in the IDA Interim Trust Fund (ITF). The Subcommittee strongly believes that U.S. firms should have been allowed to participate in bidding on all IDA-related projects. While the Subcommittee is acutely aware of the budgetary constraints that have affected the international affairs budget in recent years, the Subcommittee also fears that repeated inability to meet U.S. commitments to the IFIs can only result in a diminution of U.S. leadership and leverage in the international financial institutions -- with potential negative consequences for U.S. procurement. In this context, the Subcommittee is impressed with the strenuous efforts of Treasury and the Administration to have the ITF procurement rules changed. The Committee is also appreciative of the support certain donors -- particularly Japan, Canada, and the Republic of Korea -- expressed for the U.S. position. While the U.S. did not achieve all its objectives, the recommendation by the ITF donors to set aside approximately $1 billion, or 1/3 of the trust fund, to potentially be made available for U.S. procurement is probably the best that could have been achieved under the circumstances. The Subcommittee therefore urges that every effort be made to meet past and present U.S. commitments to IDA, and that the ITF donors promptly agree to fold the set aside funds into IDA-11, thus freeing them for U.S. procurement.

Sec. 102.—Report on use of IDA Resources. Section 102 requires that by no later than December 31, 1997, the Secretary of the Treasury shall prepare and submit to the Committee on Banking and Financial Services and the Senate Foreign Relations Committee a report on the use of IDA resources to advance poverty reduction.

**TITLE II—ASIAN DEVELOPMENT FUND**

Sec. 201.—Asian Development Bank. Section 201 authorizes the U.S. to contribute $100 million to the 7th replenishment of Asian Development Fund (ADF), the concessional loan facility of the Bank. This amount is equivalent to the FY 1998 request level (not including arrears).

The Subcommittee regrets being unable to fully authorize the request for the ADF. Despite current U.S. arrears of $237 million, the ADF has been remarkably responsive to U.S. development priorities. In this context, the ADF-7 agreement represents a substantial success for the United States. The Subcommittee believes that the ADB is at the forefront of MDB development activity, particularly with respect to its emphasis on country performance and governance, environmental policy, private sector development, graduation policy, and in establishing the explicit goal of making the ADF
self-sustaining in half a generation. The ADB is also key institutional anchor of the U.S. presence in the Asia-Pacific region. The Subcommittee supports full funding of the Administration request for this cutting-edge development bank.

The Subcommittee also deplores the violence that broke out in the Cambodian capitol of Phnom Penh during late June, 1997. While the IFIs have generally been pleased with Cambodia's recent macroeconomic performance, it should be self-evident to all parties that serious civil instability, let alone a return to anarchy or civil war, can only have the effect of thwarting the country's nascent economic recovery—and rolling back the real, though uneven, progress that has been made toward respect for human rights and democratic governance since the May 1993 UN-sponsored elections. The Subcommittee intends to work with the Departments of State, Treasury, the IFIs, and concerned NGOs to monitor developments in Cambodia closely.

TITLE III—EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Sec. 301.—European Bank for Reconstruction and Development. Section 301 authorizes the FY 1998 Administration request for appropriations of $35.8 million in paid-in capital for the first payment of the new general capital increase of the European Bank for Reconstruction and Development (EBRD).

The Subcommittee strongly supports the work of the EBRD in developing free market economies in the former Eastern Bloc, Russia, and the Newly Independent States. The Subcommittee concurs with Treasury that the success of economic reforms in Central Europe, and the ready access of former communist countries with strong macroeconomic fundamentals to international capital markets, makes it important that the Bank shift its focus further to the East where its role in facilitating market reforms and helping to attract private capital is in more critical demand. The Subcommittee also expects that the Bank will achieve financial self-sufficiency after the current capital increase.

TITLE IV—INTER-AMERICAN DEVELOPMENT BANK

Sec. 401.—Inter-American Development Bank. Section 401 authorizes the FY 1998 Administration request for appropriations of $25.6 million for a scheduled capital subscription to the Inter-American Development Bank's (IDB) Ordinary Capital Window. The Subcommittee recognizes that the IDB plays an important role in supporting U.S. policy interests in economic growth and integration in Latin America, as well as supporting basic human needs. The Subcommittee continues to support this important institution.

TITLE V—INTERNATIONAL MONETARY FUND

Sec. 501.—International Monetary Fund. Section 501 authorizes the FY 1998 Administration request for appropriations of $7 million for the interest subsidy account of
the successor to the Enhanced Structural Adjustment Facility (ESAF) of the International Monetary Fund (IMF). Section 501(b) requires that the Secretary of the Treasury shall make every effort, including instructing the U.S. Executive Director of the Fund to use the voice and vote of the United States, to induce the IMF to publish, upon completion, an independent external review of the successor to the ESAF.

The Subcommittee notes that despite the relatively modest dollar amounts involved for FY 1998, funding for ESAF was perhaps the most controversial element of the Administration's request. Some critics suggest that through ESAF the Fund has become involved in development finance, a mission unrelated to the IMF's purported mandate of addressing short-term balance of payments problems. In this regard, a frequent criticism of ESAF is that the IMF has had an excessively short-term time horizon in its "structural adjustment" lending to the developing world. It is frequently claimed that the Fund concentrates too heavily on tight monetary and fiscal policies while neglecting to promote overall economic growth or protect social safety nets. Indeed, during the 104th Congress the Subcommittee did not authorize additional U.S. contributions to the ESAF. The Treasury Department, on the other hand, contends the IMF's role in developing countries is based on the widely accepted premise that a precursor to any successful development program is a stable macroeconomic environment. According to Treasury, the IMF's mandate for addressing macroeconomic and balance-of-payments issues gives it a clear comparative advantage in providing advice and assistance in macroeconomic policy coordination. Treasury also stated that ESAF programs are closely coordinated with the World Bank and other MDBs' sectoral programs.

The Subcommittee has attempted to strike a balance between the concerns of those who believe the ESAF to be fundamentally flawed and the position of the Administration. Section 501(b) expresses the strong expectation of the Subcommittee that the ongoing external evaluation of the ESAF will be released to the Congress and the broader public. Failure to release the report will seriously affect the willingness of the Subcommittee to authorize future ESAF funding requests.

Sec. 502.—New Arrangements to Borrow. Section 502 authorizes the Administration request for the dollar equivalent of SDR 2.462 billion (approximately $3.4 billion) of appropriations to be made available to the IMF for U.S. participation in the New Arrangements to Borrow (NAB). It would also permit the dollar equivalent of 4,250 SDRs already authorized by Section 17 for the General Arrangements to Borrow (GAB) to be made available to the IMF under the NAB. The amount previously authorized for the GAB would continue to be available under the GAB. However, funds from the U.S. under the GAB and NAB combined may not exceed the dollar equivalent of 6.712 billion SDRs.
TITLE VI—POLICY PROVISIONS

Sec. 601.—Section 601 adds section 1623 to the International Financial Institutions Act to require the Secretary of the Treasury to instruct the U.S. executive director of the International Bank for Reconstruction and Development (IBRD) and of the IDA to use his/her voice and vote to encourage the respective institutions to: (1) clearly define the scope of the Bank Group's mission; (2) promote greater selectivity in lending; (3) develop an integrated Bank Group strategy for promoting the growth of the private sector in recipient countries; (4) improve project quality and success rates; (5) urge the multilateral development institutions to work collaboratively to establish uniform procurement policies and rules; (6) give greater emphasis to improving the sustainability of policies and projects funded by the IBRD and IDA, including systematically conducting community consultations as part of the normal lending process; (7) promote good governance and the rule of law in borrowing countries; (8) increase the share of investment lending devoted to human resources and social sector development; (9) complete National Environmental Action Plans for all borrowers from the institutions; (10) extend the inspection panel mechanism of the IBRD and IDA to the International Finance Corporation and Multilateral Investment Guarantee Agency; (11) make public Country Assistance Strategies and supporting documents where appropriate and with due respect to confidentiality; (12) support deep debt reduction at the earliest possible date and with the greatest amount of available relief for eligible poorest countries which are undertaking strong reform programs under the "Heavily Indebted Poor Countries" (HIPC) debt initiative; and (13) encourage international financial institutions to develop enhanced mechanisms to further private sector growth, expand trade, and support countries committed to broad-based reforms and poverty reduction in sub-Saharan Africa. The section also requires the Secretary of the Treasury to submit a report to the Committee on Banking and Financial Services, and the Senate Foreign Relations Committee, no later than September 30, 1998, regarding the efforts made pursuant to this section.

As the Subcommittee contemplates the developmental mission of the Bank Group for the 21st century, the focus should be on strengthening the Bank's comparative advantages, applying increased selectivity in lending and an insistence on strong policy performance by borrowing countries. The Bank cannot maintain its relevance and utility in the next century by attempting to be all things to all people, or by claiming to have a comparative advantage in all aspects of economic development. The changed landscape of development finance plainly dictates that the Bank begin to "do less."

The Subcommittee recognizes that many of the policy provisions contained in section 601 reflect priorities contained in the World Bank's plan for further institutional reform and revitalization, known as the Strategic Compact. The Committee regards the Strategic Compact as a credible reform document. The Committee is pleased that the Administration, after consultations with Congress, worked to establish an intensive monitoring system for Board oversight of the Compact and reduce the cost of the plan—particularly the costs associated with trimming headquarters staff. More broadly, the Subcommittee would point to a recent study by the U.S. General Accounting Office,
which concluded, in part, that the Bank has implemented a reform program aimed at improving its portfolio performance. Key components of the program include greater emphasis on country performance, improvement of project design or “quality at entry,” identifying flaws during project implementation, and greater emphasis on policy and market reform objectives. According to GAO, many of these reform efforts are in their early stages, and their final impact may not be seen for several years. In this regard, the Subcommittee expects to continue close consultations with Treasury as it monitors measurable indicators of progress in World Bank reforms.

The Subcommittee also addressed the issue of extending the Inspection Panel mechanism of the World Bank to the IFC and MIGA. The three-member World Bank Inspection Panel was created in April 1994 to investigate complaints from the public about the Bank’s failure to act in conformity with its operating rules and procedures. The creation of the Inspection Panel was hailed as an historic breakthrough that could be used by those most directly affected by the World Bank’s operations to make the Bank more respectful of their rights and interests and more responsive to their needs.

The Subcommittee notes that Treasury has strongly encouraged the creation of an inspection panel or its functional equivalent at the IFC. However, the U.S. business community -- while supportive of appropriate project reviews for environmental impact and other possible adverse effects -- has raised concerns that there is no feasible means to precisely apply the current Inspection Panel mechanism to the IFC or MIGA consistent with the potential risks of loss to private sector project sponsors, lenders and suppliers. The Subcommittee does not support the rigid application of the existing World Bank Inspection Panel mechanism to the IFC and MIGA. Rather, the Subcommittee urges Treasury, the business community, the staffs of the IFC and MIGA, and the NGO community to utilize the inspection panel precedent as a basis for designing a clear, legitimate, and expedited appeals process that protects the interests of individuals directly affected by IFC-financed and MIGA-insured projects in a manner consistent with the potential financial risks, confidentiality needs and reasonable business expectations of private sector sponsors.

Sec. 602.—Provision of State Department Human Rights Reports to the International Financial Institutions. Section 706 requires the Secretary of the Treasury to instruct the U.S. Executive Directors of the IFIs to transmit to each other member of the Board of Executive Directors of the respective institution the annual report to Congress by the State Department entitled, “Country Reports on Human Rights Practices.”

Sec. 603.—Provision of Reports on Extent to which Borrower Countries Guarantee Worker Rights. Section 603 requires the Secretary of the Treasury to instruct the U.S. Executive Directors of the IFIs transmit to each other member of the Board of Directors of the respective institution a copy of the annual report to Congress on Labor Issues and the International Financial Institutions.
Sec. 604.—Consideration of Environmental Impact of International Finance Corporation Loans. Section 604 extends the provisions of the so-called “Pelosi Amendment,” to the International Finance Corporation. The Pelosi Amendment was enacted in 1989 and became effective in December 1991. The legislation requires that the Secretary of the Treasury instruct the U.S. Executive Director to each MDB not to vote in favor of an action which would have a significant impact on the human environment unless, for at least 120 days before the Board vote, an environmental assessment (or a comprehensive summary) has been made available to the Board and affected groups.

Prior to the effective date of the Pelosi Amendment, Treasury determined that the Amendment could be interpreted to apply only to MDB public sector lending. As a consequence, the amendment has not been applied to MDR private sector projects (e.g., IFC projects, MIGA guarantees, EBRD commercial banking, and private sector projects at the IDB and ADB). The Subcommittee would nevertheless note that Treasury now supports the reform policy reflected in the legislation and has pushed the IFC and the other private sector windows to be responsive to the concerns of the Pelosi Amendment. Section 604 is intended to further support the efforts of Treasury in this regard.

Sec. 605.—Report on Multilateral Development Bank Procurement from United States Small Businesses. Section 605 requires the Secretary of the Treasury to submit a report to the Committee on Banking and Financial Services, not later than one year after the enactment of this act, regarding the extent of U.S. small business procurement from the MDBs. The report shall also make recommendations for ways to increase the awarding of MDB procurement contracts to U.S. small businesses. The Subcommittee would note that increasing the participation of U.S. small business in MDB procurement would help broaden the base of Congressional and public support for these institutions.

Sec. 606.—Reform of the Heavily Indebted Poor Countries Debt Initiative. Section 606 states that as a matter of policy, the Secretary of the Treasury should instruct the U.S. Executive Directors to the World Bank and IMF, and other MDBs the Secretary deems appropriate, to use their voice and vote to urge their respective institutions to: (1) provide countries which qualify for the HIPC debt initiative relief on outstanding debts owed to their respective institutions, primarily through grants rather than through extended-term debt; and (2) to provide interim relief or interim financing for the countries in advance of the completion point. Section 606 shall not be construed to require the U.S. Executive Director to any IFI to support any application for debt relief under the HIPC initiative from any country which the U.S. Executive Director is otherwise prohibited from supporting.

The HIPC initiative is a framework supported by the United States, and developed jointly by the World Bank and IMF, to address the external debt problems of heavily indebted poor countries (HIPC). Most of the HICPs are in Sub-Saharan Africa. The HIPC initiative recognizes that simply providing new financing to help pay for old financing was not an effective means for helping debtor countries with unsustainable debt
burdens. The HIPC debt initiative seeks to reduce the debt burden of poor countries to sustainable levels and thereby increase the resources available for private sector economic activity, infrastructure development, and poverty reduction.

The IMF and World Bank have agreed that eligibility will be limited to IDA-only and ESAF-eligible countries that have established a strong track record of economic reform and are not expected to achieve a sustainable external debt situation; eligibility will be based on a debt sustainability analysis; at the "decision point" (after the three years of reform), the IMF and World Bank will jointly recommend targets for the "completion point" (after the second three years of reform); the country would need to meet the performance criteria during the second stage in order to receive support under the initiative, these criteria would include economic and social policy reform, including improving basic health care and education. All relevant creditors would be expected to participate. For its part, the Paris Club of creditor nations has agreed to go beyond its current action of 67% debt reduction to reduce eligible debt by up to 80% for qualifying poor countries, in concert with relief by multilateral creditors. The hope is that this combination of strong reforms and debt relief will provide an exit for candidates from further debt reschedulings. Uganda has been recognized as an exceptional case, based on its strong track record of reforms. A completion point has therefore been set for Uganda in April 1998, one year after its April 1997 decision point. Uganda is the first country to be eligible for relief under the HIPC initiative.

The Subcommittee understands that the framework of the HIPC debt initiative provides that debt sustainability would be indicated by a target set in the range of 200 to 250 percent for the net present value (NPV) of debt in relation to exports and 20 to 25 percent for the ratio of debt service to exports. However, in order to gain the necessary consensus for the plan, a target of below 200 percent can be considered in countries where exports are more than 40 percent of GDP and where government revenues are already 20 percent or more of GDP. In those cases, the target will be set low enough so that the debt to fiscal revenue target does not exceed 280 percent. Some 15-20 countries might eventually benefit, receiving NPV debt reduction of as much as $8.4 billion under current estimates. Decisions are expected soon on the cases of Bolivia, Burkina Faso, and Ivory Coast – probably to be followed by Mozambique and Guyana.

The Subcommittee notes that the U.S. has pressed for interim relief for eligible countries with a strong track record of reform between the decision and completion points – to demonstrate early benefits under the initiative, to support difficult reform efforts, and to free up additional resources for social programs. In this regard, the Subcommittee welcomes the fact that the World Bank will provide a portion of its relief in advance of that date by making grants of $75 million to Uganda over the next year. The Subcommittee urges the Administration to continue press for interim relief by multilateral creditors for all countries which qualify for debt relief under the HIPC initiative. Here the Subcommittee remains concerned over the source of IMF funding for HIPC and that the Fund may not provide similar interim relief. The Subcommittee expects to continue its close consultations with Treasury on this matter.
Despite the potential benefits of HIPC, the Subcommittee recognizes the initiative is not a panacea for heavily indebted developing countries. The Subcommittee concurs with Treasury that there can be no enduring economic progress in the face of war and civil strife, that macroeconomic instability jeopardizes economic growth, and that financial mismanagement and egregious public resource misallocations stifle private sector initiative. With particular reference to sub-Saharan Africa, the Subcommittee looks forward to working with the Administration and other Congressional Committees in supporting a new level of economic engagement that the builds on the principle of helping those who help themselves.
Additional View

by Ron Paul

"Bretton Woods is dead. Long live Bretton Woods!" cheer the supporters of H.R. 1488. Created in the postwar era as an institution to manage the global fixed exchange rate system, the International Monetary Fund (IMF) lost any remaining justification for United States' continued involvement when President Richard Nixon closed the gold window in 1971. The IMF's charge of maintaining "pegged but adjustable exchange rates" no longer suits the current global financial system. Although the IMF has tried to "reinvent" itself to adapt to changing international systems, other institutions are better equipped to promote multinational development assistance, if one even accepts that that is a goal that we should pursue. H.R. 1488 should be rejected.

Since the IMF no longer uses gold as a reserve currency to aid countries with temporary balance-of-payments problems, the gold from the original donors should be returned to the respective member nations. Any corresponding corrections in quota allotments should be made in "paper gold" or Special Drawing Rights (SDRs). Original quota subscriptions were paid 25% in gold and 75% in the local currency. So-called "hard currencies" now play that role.

The huge growth of the private international capital markets makes it necessary for a doubling of our "quota" or contribution, argue the supporters of the IMF. It is exactly such growth of private international capital markets that renders the IMF an anachronism. The technologically-driven increases in both the size and speed of private global capital transfers severely limits the IMF's ability to "manage" or control these markets. In other words, private market regulation will naturally discipline the governments of countries that manage their fiscal affairs irresponsibly.

It is this irrational fear of the private international capital markets--and the discipline they instill--that drives the IMF to wax apocalyptic of the dangers of the free market. If a country follows irresponsible policies that discourage savings and investment--policies that impoverish their citizens, the IMF no longer has the same capability to counteract the discipline of the working private markets that it used to have. Under the previous international financial regime under the IMF, the Fund allowed a country to manipulate its economic policies, often for politically-expedient reasons, without the same fear of the discipline of the private international capital markets.

The IMF, by subverting the market, encourages countries to "skate on thinner ice" than they would otherwise have been permitted if properly disciplined by the private international capital markets. This moral hazard, with its easy credit scheme, pushes countries to follow policies that would not have been possible without IMF-style lack of discipline. Set up to allow member countries to finance short-term balance of payments
difficulties, the IMF has strayed into aid over the long-term to countries that flout fiscal common sense.

According to Doug Bandow of the Cato Institute, eleven nations had relied on IMF aid for more than 30 years through 1993; 32 countries borrowed from the Fund for between 20 and 29 years; and 41 nations, nearly one-fourth of the world's total, had been borrowers for between 10 and 19 years. Clearly, the IMF is in a business of long-term development assistance through its General Arrangements to Borrow (GAB). The supporters of the GAB are not only content to subvert market discipline in a short-term, limited way, but they now claim to need the New Arrangements to Borrow (NAB) capability to extend their waning influence.

The development institution mission that the IMF now claims to have converted itself into merely duplicates the efforts of other institutions that have the authority and expertise to act as one. Groups as diverse as the libertarian Cato Institute and the Friends of the Earth, a worldwide network of environmental organizations, point out that the IMF is not a development organization and should get out of the development business. The Enhanced Structural Adjustment Facility (ESAF) should be opposed.

The U.S. Treasury request for the IFIs totals $1.557 billion. This request for taxpayer dollars takes money from the productive sectors of the U.S. economy to redistribute it to the less productive (read corrupt foreign government) sectors. The higher taxes imposed to fund this irresponsibility causes higher unemployment, an increase in the cost of credit, higher inflation with deficit spending, and higher interest rates. This result makes it harder for the recipients of IMF assistance to follow a more fiscally-responsible path to economic development, thus, creating a vicious circle of the need for more IMF aid.

Reflecting its feeble attempt to change its spots, the IMF has spawned several regional International Financial Institutions (IFIs). It is yet unexplained why an institution whose role is to promote global monetary cooperation and fiscal and monetary responsibility needs to overlap regional organizations to duplicate their activities. Perhaps the IFIs are coming to the conclusion that financial decisions are best decided at the lowest level possible since local agents have better information with which to make appropriate decisions--though it must be said that they could never claim to operate with perfect information.

"The IMF's role in the global economy," according to a report by the Friends of the Earth, "is to promote monetary cooperation and fiscal and monetary responsibility. The IMF could do this by publicly releasing more of the country[s]' economic information that it collects. By providing accurate information to the market, the IMF could reduce the rampant speculation that can bring about an international fiscal crisis like Mexico's." The report adds, "In fact, it is the secretive policies and lack of information disclosure [by the IMF] that can make volatile capital flows so disruptive." In fact, the IMF actually promotes fiscal and monetary irresponsibility.