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WORLD BANK LEGISLATION BEFORE THE
99TH CONGRESS

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The 99th Congress has before it several proposals to authorize additional U.S. contributions to multilateral development banks. These include potential subscriptions or contributions to the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the African Development Fund (AFDF), and the special African aid facility of the International Development Association (IDA). There is no legislation now before Congress to authorize new contributions to the International Monetary Fund (IMF), the regular budget of the IDA, or any of the other regional development banks. These have been dealt with in previous years.

This paper provides some background on the World Bank and a summary of the pending legislation.

Background Information on the World Bank

The World Bank and the IMF were established as a result of a international conference held in 1944 in Bretton Woods, New Hampshire. Unlike the IMF, which loans money to help countries cope with their overall balance of payments problems, the World Bank lends to help finance activities and projects which promote economic development. The Bank has three "windows" through which it conducts its operations. The IBRD, the original World Bank, makes loans on near-market terms, mainly to middle-income developing countries, relending funds (at rates 1/2 of a percent over the Bank's cost) borrowed in commercial capital markets. The IDA makes concessional loans (no interest, 3/4 of a percent service charge) to the world's poorest countries using funds contributed by its donor countries. The IFC makes loans or equity investments in new private firms in developing countries, using funds borrowed from the IBRD or contributed by its donor coun-

tries, in order to promote the growth of the private sector in the developing world. In 1984, the IBRD lent nearly \$12 billion, while the IDA lent almost \$3.6 billion and the IFC made about \$700 million in new capital investments.

The World Bank is owned jointly by its member country governments, with each country's vote being proportional to its share in the total contributions. The United States currently has authority to cast 20 percent of the vote in the IBRD, 25 percent in the IDA, and 25 percent in the IFC. The United States, Japan, Canada, and the Western European countries control about 60 percent of the vote in the IBRD, 61 percent in the IDA, and 65 percent in the IFC. The Soviet Union is not a member of the World Bank, although the Peoples' Republic of China and several smaller communist countries are. Approximately 4.27 percent of the IBRD's loans had gone to countries with communist governments, as of June 30, 1984. The comparable figures for the IDA and IFC were 2.36 and 6.92 percent. All of the IFC's commitments, in this case, were to Yugoslavia.

The World Bank lends for new projects and programs. It does not lend to refinance existing facilities, to assume commercial bank debts, or to purchase the equity of foreign investors. World Bank loans are generally the product of a lengthy review process, during which the staff investigates the economic and technical feasibility of the proposed project. Once its Board of Executive Directors approves the loan, the Bank opens a line of credit for the borrower. The funds are not disbursed as a lump sum. Rather, they are generally released (often as direct payments to the contractors) as the project is implemented and the bills come in for completed work.

The World Bank requires that the national government of the borrower country guarantee the repayment of all its IBRD and IDA loans, regardless of whether the immediate borrower is a private entity or an official organization. (IFC loans

and investments do not require such government guarantees.) The World Bank has never experienced a default nor has it rescheduled payments on any of its outstanding loans. From time to time, some borrowers have been tardy with their loan payments, but the Bank has a schedule of escalating penalties which discourage serious arrearages. Such arrearages rarely run beyond 75-90 days. Nicaragua, with arrearages in the neighborhood of \$10-12 million on a total IBRD debt of about \$135 million, is more than six months overdue in its repayments -- the longest arrearage the Bank has experienced to date. As a consequence, for the first time, the IBRD has had to list the affected loan as being on a non-accrual basis.

When countries make new capital contributions to the IBRD, only about 10 percent (or less) of their subscription takes the form of paid-in capital, that is, direct payments from their treasuries. The remainder takes the form of callable capital -- pledges to provide the money later if the international agency needs the funds to cover its own financial obligations. The World Bank usually treats its paid-in capital as reserves, to strengthen its financial base. Its callable capital serves as backing for the Bank's borrowings on world capital markets, helping assure the access to funds and the preferential interest rates the Bank needs if it is to successfully conduct its relending operations.

U.S. Government Liability to the World Bank

The United States takes on a contingent liability when it subscribes IBRD callable capital and therefore it is potentially liable for the full extent of its subscription. On a case-by-case basis, however, the United States is liable only for its proportional share of any shortfall the Bank is unable to cover through its own resources.

The callable capital serves to assure the IBRD's creditors that they will

be repaid, but it does not guarantee the Bank against any losses it might sustain if its borrower countries fail to repay their loans. The Bank is responsible for this, within the limits of its income, assets, and reserves. Only if so many borrowers defaulted that the Bank no longer had the funds to repay its own creditors would the Bank be able to call upon its member countries for disbursements on their callable subscriptions.

As of June 30, 1984, the World Bank had over \$3.74 billion available in its general and special reserves, as well as \$4.97 billion in paid-in capital stock. In each year for the remainder of the decade, the IBRD's expected income from principal repayments on past loans is scheduled to be greater than its medium and long-term debts which mature during the year. The top six IBRD borrowers paid the World Bank \$1.2 billion in principal on their existing loans during the Bank's fiscal 1985. If, on a worst case basis, all six were to suspend their loan repayments at the same time, the World Bank would still have the funds to cover its obligations for several years without any calls on callable capital. Defaults of this magnitude would, of course, be symptoms of major distress in the world financial system. Whether the World Bank, the IMF, the commercial banks, and the major lender and debtor countries could work out their larger difficulties before the IBRD depleted its reserves would depend on the situation and the will of the parties concerned.

Current Legislative Proposals

IBRD legislation. The Administration has requested that Congress authorize U.S. participation in the upcoming selective capital increase (SCI) of the IBRD. The total size of the SCI is \$8.4 billion, of which the U.S. share would be \$1.5 billion. Some 91.25 percent of this would be callable capital and the remain-

ing 8.75 percent would be paid in, entailing a payment from the Treasury of about \$131 million. The Administration anticipates that the paid in portion would be appropriated over two years, beginning in fiscal 1986.

The main purpose of the SCI is to adjust membership shares in the IBRD. Raising funds is a secondary purpose. The SCI will provide for less than one year's regular lending by the IBRD.

The United States will be taking a somewhat less than proportional share in the SCI, thus bringing about a small reduction in its overall share in the Bank. Japan is scheduled to subscribe \$750 million, on the other hand, raising it from the fifth to the second largest stockholder in the institution. If the United States chooses not to participate in the SCI, its voting share in the IBRD would shrink further and it would no longer be able to stop charter amendments from becoming effective without its permission.

The House Banking Committee and Senate Foreign Relations Committee have both voted to approve the authorization (H.R. 2253 and S. 684), but as yet no action has been taken by the full House or Senate.

IFC legislation. Also before Congress is legislation requested by the Administration which would authorize U.S. participation in a plan for raising the IFC's capital base from \$650 million to \$1.3 billion. The United States would subscribe 27 percent of the \$650 million increase, providing \$175 million in five annual payments of \$35 million each beginning in fiscal 1986. The capital increase would help fund a major expansion of IFC activity during the next five years, with a special emphasis on private enterprise in Africa and Latin America. Insomuch as countries with 75 percent of the voting stock must approve the IFC increase, it cannot go into effect without U.S. participation.

The Senate Foreign Relations Committee endorsed the Administration plan on April 25, 1985, when it reported the omnibus bill (S. 684) which also contains the IBRD authorization. The House Banking Committee's version of the plan, reported on May 15, 1985, also as a part of its omnibus legislation, would allow the United States to vote for the entire IFC increase, but would authorize only \$144 million for U.S. participation in the plan. In effect, this would amount to a reduced U.S. share in the IFC replenishment.

IDA legislation. There is no authorization legislation before Congress this year for regular replenishments of the International Development Association. The House Banking Committee has approved legislation, however, authorizing a \$225 million U.S. contribution to the IDA's special facility for Africa. The contribution would be made over three years, beginning in fiscal 1986. The House Appropriations Committee has also voted that \$75 million from its fiscal 1986 appropriation for the U.S. bilateral Economic Support Fund should be used as a payment towards this contribution. The legislation approved by the Senate Foreign Relations Committee includes no such authorizations for U.S. contributions to the IDA special facility for Africa.

The special facility is intended to help supplement the IDA's regular lending program and thereby increase its overall emphasis on Africa. The special IDA facility would put special emphasis on projects which encourage economic policy reform and improved national economic policy in the African countries. The special IDA African facility has currently received commitments totalling \$1.2 billion from 15 countries.

The Administration has said that it supports the idea of a special facility for Africa and it believes that special attention needs to be paid to improving

the economic policy environment in Africa. The Administration has not proposed that the United States contribute to the new IDA facility, however. Instead, the Administration says that a new U.S. bilateral program, the Economic Policy Initiative for Africa (also called the African Economic Policy Reform Program) is a sufficient U.S. response to the problem. It encourages others to contribute, however, to the special IDA facility.

African Development Fund. The Administration has recommended, and the House Banking and the Senate Foreign Relations Committees have endorsed, a plan for U.S. participation in the fourth replenishment of the African Development Fund. (The authorization is included in the omnibus legislation cited above.) The AFDF is the concessional loan affiliate to the African Development Bank. Operationally, it is very similar -- in the terms and types of its loans -- to the IDA. The AFDF is a separate organization, however, not affiliated with the World Bank. Under terms of the plan, the AFDF's resources would increase by \$1.46 billion. The United States would provide a total of \$225 million (15.4 percent) in three annual payments beginning in fiscal 1986.