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Multilateral Development Banks: Procedures for U.S. Participation

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Summary

The United States is a member of seven multilateral development institutions. This report discusses the process for U.S. involvement in each. The U.S. Treasury Department manages US. participation, in consultation with other agencies. Congress has a major role in the formulation of U.S. policy, though this differs in several important respects from the role it exercises over U.S. agencies. This report will be updated periodically.

Overview

The United States is a member of five multilateral development banks (MDBs) and two similar agencies. The World Bank is the largest MDB. It lends to developing countries in all parts of the world. Four regional banks lend to developing countries in their particular areas. These include the Asian Development Bank (ADB), African Development Bank (AFDF), European Bank for Reconstruction and Development (EBRD) and Inter-American Development Bank (IDB). The other two agencies are the International Fund for Agricultural Development (IFAD) and the North American Development Bank (NADB). IFAD lends, mainly to the poorest developing countries, to fund projects aimed at the alleviation of poverty and increased agricultural production. The NADB is a joint U.S.-Mexican agency, created as part of the NAFTA agreement, which helps fund environmental projects in the border region and provides community adjustment assistance for areas adversely affected by NAFTA.

CRS Issue Brief IB96008, *Multilateral Development Banks: Issues for the 107th Congress*, discusses several prominent issues as well as current congressional action vis-a-vis the MDBs. This report discusses how the United States manages its participation in these international agencies. A companion paper, CRS Report RS20793, *Multilateral Development Banks: Basic Background*, provides information about their organizational structure and operations. Another, CRS Report RS20792, shows how much the United States has contributed annually to each multilateral agency.

U.S. Participation in the MDBs

With the advice and consent of the Senate, the President names individuals to represent the United States on the executive boards of each MDB. Though formally the U.S. executive directors (USEDs) occupy high positions in the MDBs (paid by the banks), they also function as the eyes, ears, and voices of the United States within those organizations. Under the MDBs' Articles of Agreement, MDB executive directors have fixed terms of service, generally three to five years. Nevertheless, as a practical matter, the USEDs serve at the pleasure of the President of the United States. The President has the ultimate authority under U.S. law to direct U.S. policy and instruct the U.S. representatives at the MDBs, but delegates this responsibility to the Secretary of the Treasury. The Assistant Secretary of the Treasury for International Affairs manages U.S. participation with the help of a professional staff of 20 individuals. The Secretary serves as the U.S. Governor (member of the governing board) at each MDB. Until recently, U.S. participation in IFAD was managed by the U.S. Agency for International Development (USAID). In 1999, USAID transferred it to Treasury.

Other agencies are also involved in the formation of U.S. policy towards MDBs. The Working Group on Multilateral Assistance (WGMA) is the main forum for coordinating agency views. It reviews each loan proposal during the 2 weeks before action is scheduled by an MDB executive board to see whether the loan complies with U.S. policy and law. Based on these interagency discussions, instructions are drafted by the Treasury and sent to the U.S. Executive Directors specifying the points they should raise and the way they should vote on each MDB loan or policy proposal. Participants include representatives from the Treasury, State, Agriculture, and Commerce Departments, USAID, Federal Reserve Board (Fed), and Export-Import Bank (ExImBank).

The United States has substantial influence within the MDBs. In most cases, it is the largest single contributor and it has the largest vote. However, no country has a veto and a majority vote of an MDB's executive board is needed before it can approve a loan or adopt a new policy or operating procedure. In most of MDBs, the United States and the other major industrial countries have a near majority of the vote. In the World Bank Group and in the EBRD, this rises to a clear majority. In other regional MDBs, the borrower countries have a small voting majority. The G-7 and other industrial countries still have major influence, however, as the regional banks need the financial support of the industrial countries to underwrite their operations. The MDBs cannot assess their member countries or require contributions without their consent.

The United States and other major countries can be outvoted on particular issues, if their views are substantially different from those of most other advanced industrial countries. Consequently, from time to time, the MDBs have approved loans to countries which are in foreign policy disfavor with the United States. Likewise, in cases where the United States is required by law (see Table 1) to oppose particular loans, other major countries may decide not to follow the U.S. example. They may have different views as to how difficult situations should be handled. Nevertheless, in most instances, the MDBs make their decisions about loans or policies without formal reference to country voting shares. Everyone knows which countries have the largest votes. Generally, decisions on the MDB executive boards are made on a consensual basis. This helps diminish any overt clash of interest between the donor and borrower countries. It also helps promote a climate of collegiality and participation, a sense by borrowers that their views have received due consideration in the formulation of MDB policy.

Congress and the MDBs

Congressional Procedure

Congress has a major role in the formation of U.S. policy towards the MDBs, though less direct influence than it has over U.S. Government programs. For instance, it cannot earmark funds or direct the MDBs to approve or disapprove loans for certain countries or purposes. However, unless it authorizes U.S. involvement and appropriates funds, the United States cannot make new contributions. Congress can also pass legislation controlling what U.S. policy in the MDBs shall be. Congress has enacted a large body of law governing U.S. policy towards the MDBs. Some laws control the U.S. "voice and vote." These may direct the Secretary of the Treasury to instruct the USEDs to advocate certain policies or seek particular action by the MDBs. For instance, Congress has adopted numerous laws requiring the Administration to seek specified improvements in the banks' treatment of environmental issues. Other provisions may require the Secretary to instruct USEDs to oppose or vote against MDB loans for certain kinds of activities or for certain types of countries. For example, the USEDs must vote against loans to countries which fail to cooperate in suppressing illegal drug trafficking or commit gross violations of human rights. The 1989 Pelosi Amendment (International Financial Institutions Act §1307) persuaded the IFIs to adopt new procedures making their documents and operations more transparent to the public.[1] An illustrative list of these "voice and vote" requirements is shown in Table 1.[2] Not all the directives enacted in the past several decades are shown.

Congress has also used the "power of the purse" on occasion to promote change within the MDBs. Generally, these laws specify that some or all of the money appropriated will be available for contribution to an MDB only if the Secretary of the Treasury certifies that it has taken (or ceased taking) certain specified actions or it has adopted particular policy norms. For example, in the mid-1990s, some U.S. contributions to the IDB were withheld pending action by the IDB to require all borrowers to stop discriminating against procurement bids from potential suppliers in the United States and other countries. In 2000, Congress said that some of the U.S. payment to IDA must be withheld until the Secretary tells the World Bank that future IDA aid to Heavily Indebted Poor Countries (HIPC) getting debt relief should be grant aid. An illustrative list of these "power of the purse" directives is shown in Table 2. Again, it does not include all such

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[1] For a discussion, see CRS Report 98-180, *Multilateral Development Banks' Environmental Assessment and Information Policies: Impact of the Pelosi Amendment*, February 12, 1998.

[2] In Tables 1 and 2, the following abbreviations are used. International Financial Institutions Act of 1977(IFIA); Bretton Woods Agreements Act (BWAA); Inter-American Development Bank Act (IDBA); International Development Association Act (IDAA); Multilateral Investment Guarantee Agency Act (MIGAA); Foreign Operations Appropriations Act, 1987 (FO87); Foreign Operations Appropriations Act, 1988 (FO88); Foreign Operations Appropriations Act, 1989 (FO89); Foreign Operations Appropriations Act, 1990 (FO90); Foreign Operations Appropriations Act, 1992 (FO92), Foreign Operations Appropriations Act, 1993 (FO93); Foreign Operations Appropriations Act, 2001 (FO2001); Foreign Assistance Act of 1961 (FAA).

measures that Congress has enacted. Many of these one-year provisions have been renewed annually. The table generally shows the first year of enactment.

The Senate Foreign Relations Committee and the House Committee on Financial Services have jurisdiction over MDB authorization legislation, while the House and Senate Foreign Operations Appropriations Subcommittees handle MDB appropriations. The House International Relations Committee has authorizing jurisdiction for IFAD.

MDB funding plans are, in effect, multi-year international agreements. Generally, the United States plays a major role in their negotiations. Major changes in MDB policy or procedure are often embodied in these plans. Most analysts believe that relations with allies and other major donor countries might be seriously strained if the United States fails to ratify the agreements (through passage of the appropriate legislation) once they have been negotiated. The MDB program has been quite controversial. Many leading Members of Congress have thought that prospective MDB legislation might be defeated if it was brought out of committee by regular order. Thus, during the past 20 years, much of the debate about U.S. policy in the MDBs has occurred behind the scenes. All but one of the MDB authorizing measures enacted during this period were passed as riders to the annual foreign operations appropriation bills. The House and Senate have frequently made major cuts in MDB funding. Often, funds have been restored following negotiations between the House and Senate conferees or strong requests by the President.

U.S. contributions to the MDBs is funded through the International Affairs (Function 150) portion of the Federal budget. This also includes the operating expenses and program costs for the foreign affairs agencies, U.S. foreign economic and military aid, participation in international organizations, and export promotion programs. In fiscal 2000, total International Affairs expenditures of the U.S. Government comprised about 4% of all Federal discretionary spending. Budget authority to fund U.S. participation in MDBs amounted to about 5.5% of the Function 150 total.[3]

In the Bretton Woods Agreements Act (1945), which authorized U.S. participation in the IMF and World Bank, Congress required the Administration to submit an annual report on the operations and policies of the international financial institutions (IFIs.) It was to be prepared by an interagency body called the National Advisory Council on International Monetary and Financial Policies. Over time, Congress expanded greatly the number of issues to be discussed in the NAC report. Successive Administration have had difficulty preparing these reports while also managing U.S. policy in the IFIs. The last, for FY1992, was submitted in 1996. In 1998, Congress simplified the reporting requirement, dropping many of the detailed reports that were previously mandated. The Administration said at the time that this would enable it to present more timely and useful reports to Congress, but no subsequent NAC reports have been submitted.

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[3] For a discussion of the budget and appropriations process, see the following two reports by Larry Nowels: CRS Report RL30515, *International Affairs Budget Trends, FY1980*-FY2000, September 29, 2000, and CRS Report RL30511, *Appropriations for FY2001: Foreign Operations, Export Financing, and Related Programs*, October 26, 2000.

Table 1: Legislation Directing the U.S. "Voice and Vote" in MDBs

United States Shall Seek (Use Voice):	
More attention to environmental issues, to meeting benchmarks adopted by Congress for sustainable energy, forest conservation, forced displacement of people, and environmental impact assessments.	FO88 §537, IFIA §1301-2, 1305-7, FO92 §533, FO93 §532
More emphasis on renewable energy, biodiversity, conservation, debt-for-conservation swaps, more emphasis on energy conservation in the design and implementation of projects.	BWAA §49, FO87 §539, FO89 §535
Adoption of rules limiting adjustment lending to 25% of an MDB's annual lending and 50% of a 3 year average for any one country, studies on effects of adjustment lending on environment, public health, poverty, standards to limit negative impact on the poor.	FO89 §555, FO88 §537, IFIA §1501, 1601, 1611
International standards for meeting basic human needs and protecting human rights, establishing human rights standards for MDB loans. More assistance from MDBs for basic human needs.	IFIA §701, 703, 705, FO79 §611.
More MDB emphasis on rural growth, poverty alleviation, crop diversification away from monoculture to sustainable crop systems.	IFIA §1402
Adoption of autonomous post-hoc project evaluation procedures.	IDBA §14, FAA §301
More effort to promote integration of women into national economies of borrower countries and into staff of MDBs.	IFIA §1501, 1604, FAA §305
More participation by non-governmental organizations (NGOs) in project planning, implementation, and assessment and more cooperation on environmental issues. More staff assigned to borrower countries and more staff coordinating directly with NGOs. Expansion of IMF emphasis on environment, public health, poverty and sustainable management of natural resources in staff work and loans.	IFIA §1306, 1602, 1613, FO90 §594
Standards promoting MDB consultation with and protection of rights of indigenous peoples during project preparation and implementation.	IFIA § 1605
Stop MDBs from lending for projects producing goods or commodities in oversupply in world markets if this would hurt U.S. producers	IFIA §901, 1403, FO79 §610
Guidelines in MIGA barring investment guarantees in countries that do not recognize internationally recognized labor rights or require investors to take steps likely to cost U.S. jobs or trade benefits.	MIGAA §22
Creation of international debt facility to reduce external debt of heavily indebted low-income countries owed to private and public creditors. World Bank should help finance debt reduction. Get voluntary debt reduction plans that preserve viable economic reform.	Omnibus Trade & Competitiveness Act of 1988 § 3111-3, FO89 §555, IFIA §1608
Use of MDB programs to reduce obstacles to international trade and investment and discourage unfair trade and investment practices.	BWAA §49
Adoption of specific reforms in World Bank and IMF to prevent or reduce corruption in borrower countries and among their staff.	FO2001 §801, 804
Agreement that one-third of MIF funds shall be used for human resource development and that only democratic countries which do not commit human rights violations or tolerate drug trafficking or terrorism may receive MIF assistance.	FO93 Title I

The United States Vote shall be Cast (Vote):	
Vote “no” to any loans to countries that expropriate U.S.-owned investments without adequate compensation or fail to take adequate steps to prevent the entry of illegal drugs into the U.S.	IDBA §15, 21-22, IDAA §12-13, ADBA §18-19, AFDBA §210
Oppose lending to any country that is a major producer or transit site for illegal drugs unless it cooperates with U.S. in suppression of traffic in same–especially Bolivia, Colombia, Ecuador, and Peru.	Anti-Drug Abuse Act of 1988 §4407; FO89 §578
Oppose all loans to countries evidencing a pattern of human rights violations or giving refuge to aircraft hijackers (unless the loan meets basic human needs). Oppose lending to Chile, Panama, and Yugoslavia until they have democratic civilian governments and cease human rights violations and lending to any country on Sec. of State’s terrorism list.	IFIA §701, FO88 §551 and 575, FO89 §564, FO90 §599
Oppose loans for any projects producing palm oil, sugar, citrus, copper, or other metals for export if this would have a negative impact on U.S. producers. Oppose projects producing goods that will be subsidized in violation of GATT (WTO) rules if U.S. producers would be hurt.	IFIA §1403, FO78 §609, Supplemental Appropriations Act, 1985 §502
Oppose any MIGA guarantees to countries not recognizing internationally recognized labor rights or imposing conditions likely to cost U.S. jobs.	MIGA §290
Oppose any MDB loans for projects that would impact the environment unless the MDBs require environmental impact assessments whose results are available to the U.S. Government and the public at least 120 days in advance of consideration by the MDB executive board.	IFIA §1307
Oppose any MIF aid going to countries with non-democratic governments or if the MIF does not set aside 1/3 of its funds for human development.	FO93 Title I
Vote against any loans to countries that discriminate on procurement.	FO90 Title I

Table 2: Legislation Using the “Power of the Purse” on MDBs

Fiscal 1990 contributions to the IDB shall be withheld until the IDB adopts policies to ensure that borrowers do not discriminate against certain countries in procurement policies. No contributions to IDA for fiscal 1998 will be available until procurement restrictions on the Interim Trust Fund have been lifted	FO90 Title I, FO98 Title IV
U.S. cannot contribute to any IFI if the USED cannot get information on the names and amounts of loans to staff and on staff salaries or access to documents held by or created by the IFI or where the US representatives are paid more than levels IV and V of the U.S. executive schedule.	FO79 §605, FO80 §521, FO91 § 578
The fiscal 1993 contribution to the GEF will be available only if it establishes procedures for public access to documents, for consultation with affected people in recipient countries, and contributor country and NGO oversight of project implementation.	FO93 Title I
The fiscal 2001 contribution to IDA will be available only if the Sec. of the Treasury urges that all future IDA aid to HIPC countries be grant aid.	FO2001 Title I
No contribution can be made to MIGA in fiscal 1998 if it fails to adopt U.S. proposed standards on workers rights and limits on projects that would produce output competing with U.S. production.	FO88 Title I