



CRS Report for Congress

The World Bank and Iran

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Summary

Several laws restrict U.S. support for World Bank lending to Iran. Despite U.S. opposition, the World Bank has provided loans to Iran on several occasions over the past five years, and disbursements on these loans appears to be increasing. Several pieces of legislation: H.R. 1400, *Iran Counter-Proliferation Act* and S. 970, *Iran Counter-Proliferation Act of 2007* would cut future U.S. funding to the World Bank if the Bank makes new loans to Iran. This report will be updated as events warrant.

World Bank and Iran. Before the 1979 Iranian revolution, Iran was an active borrower from the World Bank. After the revolution, lending stopped and did not resume until 1991. Between 1991 and 1993, seven World Bank projects were approved despite the United States voting against these projects. The United States has a 16.5% share of the World Bank's vote, a majority vote is needed to approve loans. Unless it is joined by other like-minded countries, the United States is unable to block the approval of World Bank loans to Iran. The current portfolio of approved loans for Iran, which total approximately \$847.4 million, are for projects such as primary health, earthquake recovery assistance, drainage and irrigation projects, and power sector improvements.

Between 1993 and 2000, the United States was able to sustain a coalition of G-7 countries that voted against World Bank lending to Iran. In May 2000, however, the United States proved unsuccessful in keeping the coalition together and lending resumed as the other G-7 countries voted to approve \$232 million in loans for health and sewerage projects. Twenty-one of the Bank's twenty-four executive directors voted in favor of the loan. France and Canada abstained. Reportedly, the other G-7 countries decided, in changing their position in 2000, that more progress might be possible in dissuading Iran from continuing its nuclear program through partial normalization of economic relations than through economic pressure.¹

Iran borrows solely from the World Bank's market-rate lending facility, the International Bank for Reconstruction and Development (IBRD). Iran's per-capita GDP (\$2,300 in 2006) makes Iran ineligible to borrow from the World Bank's concessional

¹ Interview between Jonathan Sanford and a Treasury Department official in 2003.

lending and grant-making facility, the International Development Agency (IDA). There are currently nine active World Bank projects in Iran, worth a total of \$1.36 billion (**Table 1**). In accordance with U.S. law, the U.S. Executive Director voted against each of these loans, including emergency assistance to Iran following the 2003 earthquake in Bam, Iran. The U.S. Agency for International Development (USAID), however, provided \$3.7 million in emergency assistance to help earthquake victims.²

Table. 1 World Bank (IBRD) Projects in Iran
(\$ in millions, as of June 30, 2007)

Project	Approval Date	Loan Amount	Undisbursed Amount	Closing Date
Second Primary Health Care and Nutrition	May-00	87.0	11.0	Dec-07
Tehran Sewerage	May-00	145.0	20.7	Jun-08
Environmental Management Support Program Project	Apr-03	20.0	14.2	Dec-08
Earthquake Emergency Recovery	Jun-03	180.0	83.7	Jun-07
Ahwaz and Shiraz Water and Sanitation Project	May-04	279.0	218.6	Sep-09
Urban Upgrading and Housing Reform	May-04	80.0	72.0	Dec-09
Bam Earthquake Emergency Reconstruction	Oct-04	220.0	122.8	May-09
Northern Cities Water and Sanitation	May-05	224.0	192.6	Dec-10
Alborz Integrated Land and Water Management	May-05	120.0	112.8	Oct-12
Total		1355.0	848.4	

Source: World Bank

Between 2000 and 2003, disbursements on IBRD Iran loans dropped sharply. At 2003 hearings on World Bank lending to Iran, then-Deputy Assistant Secretary William Schuerch testified that, while the United States had been unable to prevent the passage of new loans, it has been successful in delaying disbursements to Iran. He said:

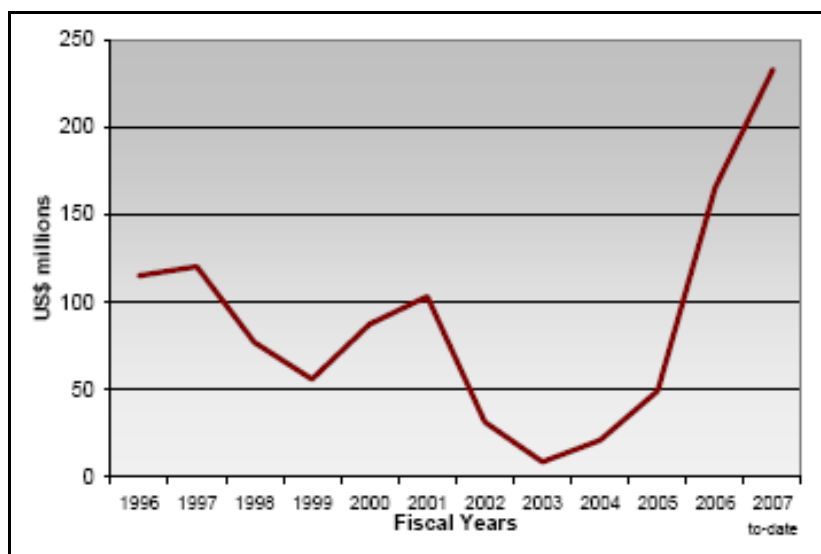
If I were going to be aggressive, I could try to assert that the United States has been successful behind the scenes in order to stop the disbursement or slow it down substantially. There are \$390 million or so of undisbursed resources out of the (then) \$432 million that has been approved. ... I think if you were to ask that question of bank management, they would tell you that Iran is a particularly difficult place to do business in, and they are having trouble getting started and starting up programs.³

² See *Assistance for Iranian Earthquake Victims*. Available from [<http://www.usaid.gov/iran>].

³ Testimony by William E. Schuerch, Deputy Assistant Secretary of the Treasury, October 29, 2003, in U.S. Congress. House. Committee on Financial Services. *World Bank Assistance to Iran* (hearings), 108th Cong., 1st sess., pp. 6-16.

It appears, however, that disbursements have increased since 2003 (**Figure 1**). In 2007, the World Bank has already disbursed close to \$200 million to Iran, the largest disbursement over the past ten years. The World Bank disbursed \$49 million to Iran in 2005 and \$166 million in 2006.

Figure 1. World Bank Disbursements to Iran
(as of June 30, 2007)



Source: World Bank

U.S. Policy on World Bank Lending to Iran. Several laws restrict U.S. support for World Bank lending to Iran. The most relevant legislation is the *Anti-Terrorism and Effective Death Penalty Act of 1996* (P.L. 104-132, Title III B, sec. 327). This act instructs the Treasury Department to oppose any loan to or other use of international financial institution (IFI) funds for a country that the Secretary of State has identified as supporting international terrorism (under the provisions of Section 6(j) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(j)) or section 620A of the Foreign Assistance Act of 1961 (22 U.S.C. 2371)). The terrorism determination does not apply to voting at the International Finance Corporation (IFC), the private sector arm of the World Bank, since it lends to private sector firms, not foreign governments. Nonetheless, the Treasury Department opposed recent IFC investments in Iran.

In addition to the terrorism determination, the *International Financial Institutions Act of 1977* (P.L. 95-118, sec. 701) requires the Treasury Department to oppose loans to countries whose governments engage in a pattern of gross violations of internationally recognized human rights. There is no official State Department list of countries that violate or do not violate human rights; rather, this information is derived from the Department's annual human rights country reports.

Current Legislation

Two current pieces of legislation may impact World Bank lending to Iran: H.R. 1400, *Iran Counter-Proliferation Act* and S. 970, *Iran Counter-Proliferation Act of 2007*, which includes similar language.

As originally introduced, the language of H.R. 1400 (Sec. 404) reads as follows.

Sec. 404. Reducing Contributions to the World Bank.

The President of the United States shall reduce the total amount otherwise payable on behalf of the United States to the International Bank for Reconstruction and Development for each fiscal year by the percentage represented by —

- (1) the total of the amounts provided by the Bank to entities in Iran, or for projects and activities in Iran, in the then preceding fiscal year; divided by
- (2) the total of the amounts provided by the Bank to all entities, or for all projects and activities, in the then preceding fiscal year.

Under Sec. 404, if the IBRD were to lend \$150 million to Iran in one fiscal year and if the IBRD lent \$15 billion to all borrowers that year, the U.S. payment to the IBRD would be reduced by 1% from the level it would have been otherwise.

S. 970, the *Iran Counter Proliferation Act of 2007*, is more comprehensive. It applies to all World Bank entities, not only the IBRD. The relevant sections of S. 970 is as follows.

SEC. 10. World Bank Loans to Iran.

(a) Report - Not later than 180 days after the date of the enactment of this Act, and every 180 days thereafter, the Secretary of the Treasury shall submit to the appropriate congressional committees a report on —

- (1) the number of loans provided by the World Bank to Iran;
- (2) the dollar amount of such loans; and
- (3) the voting record of each member of the World Bank on such loans.

(b) Reduction of Contribution of the United States- The President shall reduce the total amount otherwise payable on behalf of the United States to the World Bank for fiscal year 2008 and each fiscal year thereafter by an amount that bears the same ratio to the total amount otherwise payable as —

- (1) the total of the amounts provided by the Bank to entities in Iran, and for projects and activities in Iran, in the preceding fiscal year, bears to
- (2) the total of the amounts provided by the Bank to all entities, and for all projects and activities, in the preceding fiscal year.

(c) Allocation of Amounts Not Contributed to the World Bank- There is authorized to be appropriated to the United States Agency for International Development for fiscal year 2008 and each fiscal year thereafter an amount equal to the revenues made available as a result of the application of subsection (b). Funds appropriated pursuant to this subsection shall be made available for the Child Survival and Health Programs Fund to carry out programs relating to maternal and child health, vulnerable children, and infectious diseases other than HIV/AIDS.

Under the provisions of Sec. 10, if the IBRD lent Iran \$150 million in one year and if the World Bank provided \$30 billion in aid from the IBRD, IDA, and the International

Finance Corporation (IFC) to all countries, U.S. payments to the World Bank Group would be cut by 0.5% (one-half percent) from the level they be otherwise.

Analysis

Effects on World Bank Lending to Iran. Sec. 404 of H.R. 1400 and Sec. 10 of S. 970 resemble legislation proposed by Representative Brad Sherman in 2003 (H.R. 2466), which sought to reduce U.S. payments to the World Bank's concessional aid facility, IDA, in proportion to the amount the World Bank's market loan window, the IBRD, lent to Iran. Others have made similar proposals from time to time.

Fungibility (or the interchangeability of various financial assets) appears to be the underlying concept behind these proposals to cut off World Bank assistance to Iran.⁴ In this context, if the IBRD lends money to help finance a primary health program or an irrigation project, according to the concept of fungibility, the Government of Iran can use the money it would have otherwise spent on these activities to fund other activities, such as nuclear development or terrorist groups that Iran is known to sponsor. The concept assumes that Iran attaches more priority to the former activities than it does to the latter and consequently, if it did not get a loan from the World Bank to finance humanitarian or economic development programs it would reduce its expenditures on nuclear development in order to undertake the needed development projects. On the other hand, if nuclear development is more important to Iran than are particular development projects, Iran may go ahead with its nuclear program regardless, leaving the other projects undone.

A termination in World Bank lending to Iran might be a form of retribution, however, to punish the Iranians for their choice in priorities. Given Iran's expressed priorities, however, it might not impact the development of Iran's nuclear program. Were lending continued, in any case, it would be hard to siphon money from World Bank projects to illicitly fund nuclear activities or terrorism. The World Bank maintains tight oversight of its projects as they are implemented, which would likely be redoubled in this case. The Bank does not release money as a lump sum. Rather, it is disbursed to pay suppliers or contractors only after specific work has been completed and the bills are checked against plans.

Effects of Sec. 404 on U.S. Contributions to the World Bank. In the case of Sec. 404 of H.R. 1400, the proposal to reduce U.S. contributions to the IBRD may be more symbolic than substantive. The United States has made no payments to the IBRD since 1996 and none are anticipated in the future.

The IBRD's capital base determines how much it can borrow in capital markets to fund its lending operations. According to the Articles of Agreements, total outstanding loans cannot exceed the IBRD's total subscribed capital base. It is unlikely that the IBRD will need to increase its capital base for the foreseeable future. In 1988, the IBRD

⁴ For example, Representative Sherman said (p. 5) in support of his legislation, during the hearings cited above, that "Money is fungible. The government in Teheran must make some domestic expenditures, and then they can spend our money instead of theirs. They can use their money for terrorism." He also mentioned Iran's nuclear development program.

approved a General Capital Increase (GCI) which substantially increased the Bank's capital base. Together with other countries, the United States agreed to expand its financial support for the Bank by contributing new callable and paid-in capital; the last U.S. payments were made in FY1996. In 1988, the IBRD made loan commitments totaling \$14.9 billion and it was assumed that, after the capital increase took effect, the volume of IBRD lending would increase substantially. In the past 20 years, however, the environment for IBRD lending has changed and there appears to be little demand for the anticipated high volume of lending. The IBRD's total lending in 2007 was slightly smaller (\$14.1 billion) than it was in 1988. The IBRD could continue lending at its present annual rate — or even a much larger annual rate — without risk that it would need to curtail its loan program because its capital base could no longer support its volume of lending.

Effects of Sec. 10 on U.S. Contributions to the World Bank. The likely impact of Sec. 10 of S. 970 would be greater than that of H.R. 1400. Since S. 970 would rescind funds for all World Bank assistance, U.S. contributions to IDA (or the IFC, in years when the United States is making contributions) could be impacted. The Bush Administration pledged \$2.85 billion to the most recent round of IDA funding, IDA-14, to be split into three payments of \$950 million for each of fiscal years 2006, 2007, and 2008. **Table 2** includes U.S. budget requests and appropriations for IDA-14 and total arrears. If U.S. contributions to IDA were rescinded due to World Bank IBRD loans to Iran, they would add to U.S. arrears to IDA. Currently, U.S. arrears to IDA are \$377.9 million. These arrears have had a bandwagon effect — unpaid U.S. contributions have triggered a pro-rata withholding of contributions during IDA-12 and IDA-13 by three other IDA donors, totaling about \$72 million. Continued U.S. arrears would also likely constrain the U.S. negotiating as it pursues its negotiating objectives at the next round of IDA funding, IDA 15, which provides funding for 2009-2011.⁵ Finally, it is unclear whether restrictions would be applied to disbursements on earlier loans or only to new loans.

Table 2. IDA-14 Appropriations
(\$ in millions)

FY2006		FY2007		FY2008		Total Arrears (Includes arrears from IDA-13)
Request	Approp.	Request	Approp.	Request	Approp.	
950.0	909.15*	950.0	940.5	1,060.0	\$950.0	377.9

* In FY2006, \$940.5 million was appropriated, however, the enacted Continuing Resolution (P.L. 110-5) rescinded \$31.35 million of this amount since Treasury was unable to certify that the World Bank complied with certain congressionally mandated transparency initiatives.

⁵ For more information, see CRS Report RL33969, *The World Bank's International Development Association (IDA)*, by Martin A. Weiss.