FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR 1980

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS AND RELATED AGENCIES

CLARENCE D. LONG, Maryland, *Chairman*

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DONALD E. RICHBOURG and DONALD L. DENTON, *Staff Assistants*

PART 2
INTERNATIONAL FINANCIAL INSTITUTIONS

Printed for the use of the Committee on Appropriations

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Printed for the use of the Committee on Appropriations

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A REPORT TO

THE COMMITTEE ON APPROPRIATIONS

U.S. HOUSE OF REPRESENTATIVES

on the

INTERNATIONAL FINANCIAL INSTITUTIONS

Surveys and Investigations Staff

March 1979

NOT FOR RELEASE UNTIL AUTHORIZED BY THE COMMITTEE

March 2, 1979

MEMORANDUM FOR THE CHAIRMAN

Re: International Financial Institutions

By directive dated December 5, 1977, the Committee requested that a study be made of the operations of the International Financial Institutions which receive United States contributions.

The study has been completed and the results are set forth in this report. While not formally classified, the report contains substantial data drawn from documents bearing various internal classifications of the International Financial Institutions designed to restrict further distribution and were supplied with the understanding they would be afforded the same protection as required by the institutions.

Respectfully submitted,

J. Brian Hyland

J. Brian Hyland, Director
Surveys and Investigations Staff
House Appropriations Committee

C R Anderson

C. R. Anderson
Chief of the Surveys and
Investigations Staff
House Appropriations Committee

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SUMMARY AND OBSERVATIONS

Though not classified, the report contains data drawn from material classified according to internal systems of the International Financial Institutions (IFIs) to avoid disclosures which may cause economic embarrassment or disadvantage to a member country--the Executive Branch retains such classifications to insure a degree of protection equivalent to that required by the international organization. Due consideration should be given the underlying reasons for such classification safeguards in the use and dissemination of this report. Generally, the Investigative Staff had access to any material normally available to the U.S. Executive Directors to the IFIs, though exceptions were encountered; however, considerable pertinent material is not normally available to Executive Directors and, thus, was not available to the Investigative Staff. Access to documents and staff personnel was noticeably freer at the World Bank, Asian Development Bank (ADB), and African Development Fund (AfDF) than at the Inter-American Development Bank (IDB). The Investigative Staff's planned field visits were accommodated (66 projects examined in 11 countries) except for the refusal of the Government of Mexico on the grounds that it was satisfied with inspection/supervisory control mechanisms of the IFIs and could not permit legislative representatives of one IFI contributor to inspect projects without permitting all contributors' legislators to do so, which it is not prepared to do.

Frames of Reference

For FY 1980, U.S. Treasury Department seeks new authorization of $4 billion (IDB, AfDF, and Asian Development Fund) and appropriations of $3.6 billion, of which $1 billion is under the new authorization and $2.6 billion under previously-authorized funding. Of the latter amount, $1 billion is in arrears.

As a group, the IFIs cumulatively have made $59 billion in loan commitments, of which $34.5 billion (58 percent) has been disbursed. The World Bank accounts for 78 percent of the total commitments made to date. The lag in disbursements so far behind commitments is a continuing problem plaguing all of the IFIs and results largely from delays in implementing projects. Some of the causes of the delays are: inadequate preparation and/or overoptimistic appraisals, inappropriate covenants and agreements, changes in project management, and lack of local financing for the borrower's share of the project. With the press to commit money at year's end, self-generated quests for money and growth, and obfuscatory language to avoid or soften criticism, the IFIs are not dissimilar to other governmental bureaucracies.

Of the cumulative lending by all IFIs, 30 percent has been to low-income developing countries (under $280 per-capita income), 43 percent to middle-income, 18 percent to high-income ($1,136-$2,700 per-capita income), and 9 percent to the more advanced Mediterranean countries and those with centrally planned economies. Charted in the details of the report are the amounts to each lesser-developed country (LDC) as well as the proportion in each that multilateral debt bears to total external public debt outstanding--as a group, the latter ratio is 20 percent. Considering only lending through the concessionary windows (soft lending) of the IFIs, the World Bank has committed 86 percent of its total soft lending to low-income countries; ADB 89 percent; AfDF 86 percent; and IDB 2 percent.

Coordination

Though the World Bank exercises leadership in arranging cofinancing and in organizing consultative groups, criticisms of lack of coordination among the IFIs as well as with bilateral donors, particularly at the project level, is a matter of record. There is a frequent lack of coordination between IFI representatives and representatives of the U.S. Agency for International Development (USAID) when both have overlapping projects pursuing similar objectives in the same country. In a population project examined by the Investigative Staff in its field visits, lack of coordination between the World Bank and USAID has led to duplicative programs wasteful of the funds involved; local management and IFI supervision has been weak; appraisal estimates of goals to be reached are overoptimistic; and an excessive amount involved in the World Bank project was spent on hardware components. Presently, the World Bank and the country are engaged in reaching a determination as to how to spend the unspent funds available from this $50 million project and at the same time develop a follow-on loan to set up pilot research projects in five provinces to gain experience in how to best approach population control. Photographic illustrations of overdesigned buildings in other projects are set out in the details of the report.

Planning and Policy Directions

Country planning documents for the IFIs' 5-year program cycle are not available to the Executive Directors and the Board does not get involved in the allocation of resources and lending strategy by country or by sector. Program loans to provide foreign exchange rather than support a particular project have ranged from 2 to 9 percent of World Bank lending during the past 5 years, at times with insufficient coordination with the International Monetary Fund (IMF).

There is an increasing tendency among the IFIs, particularly IDB, to provide local cost financing in addition to the foreign exchange components of projects, although the IFI charters provide that local cost financing should only occur under exceptional circumstances; without the international bidding that attends most foreign exchange procurement, there is less control over expenditure of funds in local cost financing.

Lending for industrial development and finance constitutes 15-16 percent of IFI lending. One World Bank/IDB loan of $124 million to Mexico to construct a new steel plant appears to have been, in part, politically inspired--it is losing money and not meeting objectives set forth at appraisal. Lending to intermediate credit institutions has mixed results in benefiting small industry; poorly defined objectives result in poor performance of some of these institutions and others remain almost wholly dependent upon the IFIs for continued infusion of capital. The Treasury Department has not performed the study of such lending that was requested by the Senate in making appropriations for FY 1978. Loans and equity investments of the International Finance Corporation (IFC) of the World Bank are directed to private enterprise, without guarantee of the country government. Loans written off by IFC in the past 2 years have amounted to $6.2 million and $2.9 million, respectively; debts rescheduled in the past 5 years have ranged from $2.9 million to $4.6 million per year. The World Bank negotiated a soft loan to Ethiopia of $24 million in April 1978 when it apparently was evident that an IFC loan to the same country of $1.1 million would have to be written off by the end of the fiscal year June 30, 1978. IFC has had no procedure for post evaluation of projects but plans to develop one.

While the World Bank has led in research and experimentation for use of light capital technology in projects, the IFIs have no standard or means of measuring how they are really doing in substituting light capital technology for capital-intensive technologies. The Executive Directors have little input to consideration of alternate technologies in individual projects inasmuch as project design is fixed before presentments are made to the Board.

<u>Future Growth</u>

All of the IFIs are committed to real growth in the years ahead, ranging from 5 percent in World Bank planning to 25-35 percent by the African Development Bank (AfDB). In a current statement to the Congress by U.S. Treasury, discussion of rates of growth are miscast and beg the question of actual levels of annual lending commitment that would be permitted under the new capital increases and appropriations being proposed. The proposed next capital increase of $40 billion (U.S. share $9.6

billion) for the International Bank for Reconstruction and Development (IBRD) meets planned growth targets which represent a need to double capitalization about every 6 years and to increase professional staff by some 60 percent over the next 10 years. In considering long-range growth plans, officials of the IFIs recognize that resolution is called for of such questions as the relationship of the World Bank to the regional IFIs, enlargement of the political power base attending such growth, overstraining the absorptive capacities of LDCs, and when the point is reached beyond which effective management and quality control may deteriorate.

Present and planned capitalizations of IDB and ADB represent growth in real terms of about 7 percent annually. AfDB has proposed a capitalization increase to $6.3 billion with one-third participation by non-African members and the African members' contributions being entirely in local currencies--the U.S. share is estimated at $500 million, with 25 percent paid in.

The Executive Branch has had ample time to formulate long-range policy, not only concerning the next round of IBRD capitalization, but concerning the future growth of all of the IFIs and questions raised thereby, and should be required now to recite and justify policy planning goals to the Congress.

Loan Processing and Administration

From identification to negotiation and approval of loans normally takes from 24 to 30 months. Except for IDB, loans are negotiated before presentment to Executive Directors for approval. No loan has ever been formally disapproved by Executive Directors at any of the IFIs. The IFIs recognize the internal conflict inherent in their roles of preparing projects and then appraising them favorably for lending approval, but feel they do not get enough good projects to appraise unless they are intimately involved in the identification and preparation processes. A project is seldom turned down at the appraisal stage because too much money has then been invested in it. The President of the IFI serves also as Chairman of the Board of Executive Directors and normally announces what he deems to be a consensus of views expressed--formal votes are rarely taken. The Executive Directors are employed by the IFIs and function in continuous session, thus making the Board a part of the management process. Though the IFI charters provide that the Executive Directors are responsible for the general operations of the IFIs, they are more led by management than directing it.

Appraisal reports presented at the time of submission of a proposed loan for approval by the Board are cast in over-optimistic terms, particularly with respect to projected rates of economic return to the country involved, which frequently results in cost overruns, implementation delays, and failure to meet objectives.

While the IFIs rely upon procurement guidelines and international competitive bidding as safeguards against corrupt practices, marked deviations from the guidelines do not result in any harsh reaction. Regular supervision of ongoing projects through site visits and reviews of reports required to be submitted by borrowers is the primary vehicle by which the IFIs assure that funds are spent as intended. Supervision reports are not available to Executive Directors and accordingly were not available to the Investigative Staff. Internal studies of supervision have pointed up such defects as (1) one-half of revenue covenants in loan agreements not complied with; (2) infrequency of supervision missions and noninclusion of financial analysts cause failures to detect low-level accounting practices; (3) breaches of covenants in staffing levels to operate the project and in auditing of accounts; and (4) failures to apply lessons learned in one project to other similar projects. The lack of financial reporting and auditing have been described as weak links in the overall control system involved in the supervision process. Examples found by the Investigative Staff in field visits of weak supervision practices are set forth in the report.

Oversight Procedures of the Executive Branch

The U.S. Executive Director is the focal point by which influence upon IFI policies may be exerted--when a U.S. position can be expressed in terms of economic development concerns, it receives an audience; if not, the Executive Director is isolated and ineffective. Voting instructions on each proposed loan project are conveyed through the Treasury Department following review and analysis by the Executive Director's office, Treasury personnel, the Development Coordinating Committee (successor to the National Advisory Council insofar as review of individual loan projects is concerned), and by the Interagency Group on Human Rights and Foreign Assistance (Christopher Group) insofar as human rights questions are concerned. On the average, eight to nine loan projects are reviewed weekly. There usually is about 1 week's time to make the reviews and analyses of lengthy documentation on each loan on which the IFIs have had 1 to 2 years to prepare.

In testimony before the Committee in 1977, the Assistant Secretary of Treasury for International Affairs reported upon a planned study to be completed within 6 months of IFI lending policies, loan evaluations, supervision, procurement, disbursement of funds, postaudit procedures, administrative practices, and the overall financial performance of the IFIs. The study has not been performed. The "Issue Papers" delivered to the

Congress last year do not constitute the results of a study; in fact, except for updated statistical data, they could have been prepared at the time of the aforementioned testimony.

In June 1978, Treasury initiated new procedures for supplying the Congress with various reports and lists of other reports available concerning the IFIs which has considerably increased the flow of information to the Congress than was the case before.

Accountability

Bank management and the Board of Executive Directors of each of the IFIs submit annual reports to the Board of Governors. The IFI annual report is a public document and contains the certification by external auditors of financial statements set out therein. The documentation and records of many of the day-to-day operating actions are not disseminated or available to the Executive Directors. Internal management controls are generally effective. Given the essentially pro-forma approval process for loans presented to the Board, lack of access by Executive Directors to various pertinent documents, and the lack of input by them to budget formulation and 5-year lending programs, accountability by management to Executive Directors leaves much to be desired.

There is a need among all of the IFIs for a central point, detached from operating responsibility, for investigation and resolution of facts on alleged or suspected irregularities. While corruption within borrowing countries is suspected or rumored to exist, most IFI management officials believe their supervision of loans is sufficiently sophisticated to deter or detect abuses. The pending investigations by the U.S. Department of Justice into corrupt or improper practices involving foreign activities by U.S. companies includes two cases involving one or more of the IFIs which are unknown to the IFIs involved, per Justice representatives.

As a part of the loan supervision process, the IFIs require borrowing entities in revenue-producing projects to submit annual audited statements of their financial positions and operations. Such audit reports do not normally trace the use of the project funds but are simply an overall certification of the borrower's financial condition. For the most part, they are little used by supervisory personnel and are not designed to disclose procurement or spending abuses. Samples of them were reviewed at the World Bank--they were not made available by the other IFIs.

While practical difficulties would be presented in adoption of routine procedures of audits of the books of account of all borrowers (maintained in the local language and utilizing indigenous bookkeeping methodologies), procedures need to be devised whereunder audit practices are imposed with reasonable frequency and comprehensiveness to disclose operating inefficiencies, overbuying, overpricing, nondelivery, diversions, and similar defects which are not unusual in the execution of large-scale development projects.

The internal audit departments of the IFIs engage basically in internal administrative and financial reviews of various functions and offices of the IFI--they do not perform audits of projects or of borrowing entities. Also, for the most part, the internal audit departments do not engage in operational or program-type auditing within the IFIs, nor do other bank departments except for budget formulation and review. Representative samples of internal audit reports were reviewed by the Investigative Staff, except at IDB where they were denied because such reports are not normally available there to the Executive Directors.

Since a reorganization in 1977, the internal audit function at ADB has been strengthened and upgraded, reporting directly to the President. At the World Bank and IDB, the internal auditor reports to operating departments. At the World Bank and ADB, the Executive Directors' oversight arm (an audit committee) reviews the work of the internal audit department; at IDB there is no such review by the Board's oversight arm (the Group of Controllers). At IDB, it is difficult to see how the Executive Directors can be informed of managerial defects without knowing what the internal auditors are auditing, what they are finding and recommending, or what management is doing about the recommendations.

With respect to evaluations of projects and operational activities (often misnamed as audits), the World Bank performs post evaluations of every completed project by a department which reports to the Board and the President (124 project evaluations performed in FY 1978). At IDB, the Board instructed establishment of such a function in 1972; an office was established in 1975 and, to date, 11 project evaluation reports have been issued. The reports are not available to the IDB Executive Directors and, accordingly, were not available for review by the Investigative Staff. At ADB, a new office for post evaluation of projects and other activities, reporting to the President, was established in 1978; prior thereto selective evaluations were made, many by outside consultants. The post evaluations do not always incorporate site visits but may be desk reviews of supervisory mission reports and the project completion report prepared by the operating department. The World Bank and ADB reports are professional but often couched in muted and diplomatic language to avoid giving offense to borrowing country representatives. Although the post evaluation reports surface substantial and valid self-criticisms, there has been insufficient adaptation of lessons learned to other

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projects--objective evaluation is needed of ongoing projects, at least on a selective basis, so that timely corrective action can be taken.

The oversight arm of the Executive Directors at the World Bank and at ADB is represented in an audit committee which reviews work of both the internal audit and project evaluation departments, reporting results directly to the Board, though such reports likewise are toned down. At IDB, the Group of Controllers serves a similar purpose although they do not review the work of either the internal audit or project evaluation function. The Group of Controllers makes selected studies of bank operations and submits three to four reports per year to the Board.

AfDB has neither an internal audit nor project evaluation function and insufficient data is assembled in the files upon which to conduct an objective, comprehensive evaluation of completed projects. AfDB currently is engaged in management studies designed to lead to the establishment of both functions.

Administrative Budgeting

Annual IFI administrative budgets (ranging from $25 million at ADB to $240 million at the World Bank for FY 1978) distributing anticipated expenses (75 percent of which are personnel costs) from earned revenues are prepared with little participation by the Executive Directors. Each bank permits various degrees of reprograming without Board approval. It is apparent from comparative indicators set forth in the details of the report that, among the IFIs, ADB operates more austerely in its administrative costs. All of the IFIs find it difficult to measure productivity and cost effectiveness of the operating departments; within support departments, it is easier to measure productivity and gauge budgetary needs. The Treasury Department reviews the administrative budgets but can do little more than compare one against the other and against the prior year's costs, though Treasury has taken issue with the levels of certain administrative expenses.

Annually, the IBRD Board of Governors approves transfers from IBRD earnings to the International Development Association (IDA) of $100 million or $110 million which has resulted in a cumulative amount of $734 million carried on IBRD's books as due to IDA (not yet transferred) as of June 30, 1978. Since 1974, a practice has been followed of requiring IDA to utilize the entire amount of donor contributions of each replenishment before drawing upon the IBRD transfers; prior to 1974, the transfers were drawn upon on a pro-rata basis. There has been some pressure within the World Bank to cease the transfers of IBRD revenue to IDA and declare dividends instead as a means of creating greater cost consciousness and control over administrative expenses.

Staffing

IFI staffs are multinational with an informal system of allocation among member countries. U.S. nationals constitute 27.6 percent of World Bank (IBRD/IDA) employees; 24.1 percent of IFC; 15.4 percent of IDB; and 3.7 percent of ADB (most all support staff at ADB are Philippine nationals). Treasury considers the matter of overall staffing needs primarily a determination that must be reached by IFI management. The growth of professional staff tends to follow the growth of monetary lending commitments, which is not necessarily sound.

Salaries and Other Benefits

The Executive Branch has made considerable effort to effect changes in World Bank and IDB compensation programs which has resulted in extensive reviews and studies within the banks. Consultants retained by the major donor governments found that the current method of computing tax reimbursements for U.S. employees results in overcompensation and recommended that a different approach be established. The so-called Kafka Committee, following review of both World Bank and IMF pay structures, submitted a report in January 1979 recommending that professional compensation be based on a composite of the U.S. civil service and the private sector, with a 10 percent premium added to assure quality and to attract employees from high-salaried countries. No composite base was established by the Kafka Committee and at the time of the writing of this report, the Board of Directors of the World Bank had not acted on the recommendations. IDB is expected to follow the direction of the World Bank on the compensation issue. Set forth in the details of this report is a listing of the U.S. civil service grades, World Bank grades, and a payline of private industry reported in the annual study conducted by the Office of Personnel Management as a guide to the President in making recommendations for adjustments in civil service salaries. Also set out are the most recent available salary scales of each IFI.

Fringe benefits represent 25.5 percent of the World Bank's FY 1979 administrative budget and 23 percent and 19.4 percent, respectively, of the IDB and ADB administrative budgets. The single largest benefit cost is employee pension plans and the second largest is the tax reimbursement which is designed to equalize or eliminate the effects of assorted national tax structures on staff members--primarily applicable to U.S. employees. Nearly 50 percent of employees eligible for tax reimbursement received amounts in excess of their actual taxes paid on total family income, with the average amount of such excess being over $2,300. U.S. employees at ADB receive no tax reimbursement payments and, in fact, their remuneration is less than other ADB nationals and less than other U.S.

Government employees in Manila because of recent changes in the U.S. tax code. To date, the Treasury Department has not proposed to the Congress a solution to the peculiar situation applicable to U.S. employees at ADB.

Each of the IFIs, using assorted methods of calculation, provides a dependency allowance designed to afford staff members additional income on behalf of dependents--the purpose being to replicate national income tax procedures which result in higher after-tax incomes to married persons with dependents.

As of June 30, 1978, the World Bank had 669 housing loans to employees totaling $6.1 million outstanding and 262 other loans to employees totaling $1.3 million. Housing loans are made for a maximum period of 12 years and the interest rate is the same as that charged by the Federal Housing Administration. IDB housing loans are made from the Staff Retirement Plan and are considered a part of the investment portfolio of that Plan--the outstanding balance as of October 31, 1978, was $432,318. ADB does not make housing loans but does provide salary advances on which interest is charged. Other miscellaneous benefits include education grants, spouse travel on business trips, and recreational and meal subsidies.

Loans Affecting Certain Commodities

Since the passage of legislation in October 1977 requiring opposition by U.S. Executive Directors to loans establishing or expanding production for export of palm oil, sugar, or citrus crops if such loans will cause injury to U.S. producers, special analyses have been made by the Treasury Department of all such loan proposals arising in the IFIs. In FY 1978, the result was an instruction to the U.S. Executive Directors to oppose two World Bank loan proposals (one to Swaziland involving sugar and one to Malaysia involving palm oil). Neither, of course, resulted in disapproval of the loan proposals. Review of minutes of discussions surrounding the two negative votes shows not only a lack of sympathy for the U.S. position but a counterproductive reaction on the part of other Executive Directors to U.S. efforts to inject political and/or protectionist attitudes into the loan discussions. Review of the IFI pipelines of projects in various stages of processing toward negotiation and approval indicates no curtailment of projects involving the three commodities. IFI management officials observe that though they are concerned with the wishes of the United States, attempts by any member to inject parochial impediments to the question of who gets lending and for what would only lead to all countries interposing objections to safeguard their own interests.

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Human Rights

The Christopher Group, acting in an advisory capacity to Treasury on human rights questions involved in any IFI loan proposal, reviews each loan proposal toward that end. There are no formal minutes of the Group's meetings and no established guidelines or criteria by which standards of human rights behavior are gauged or by which can be judged the extent a project meets basic human needs so as to outweigh the unacceptable human rights record of a country. A consensus of views is announced by the Chairman on each discussion. No country has been characterized as a gross and consistent violator of human rights inasmuch as both the State Department and the Christopher Group want to retain complete flexibility in evaluating a country's record at any given point in time. Thus, a U.S. Executive Director may be instructed to oppose a loan to a human rights violator which meets basic human needs and on the same day vote to approve a loan to another human rights violator which has no element of meeting basic human needs--the apparent capriciousness of such actions has led to criticisms of the U.S. position by other Executive Directors of the IFIs.

From October 3, 1977, through December 31, 1978, 23 negative votes were cast and 22 abstentions recorded by U.S. Executive Directors in the IFIs on human rights grounds; of course, all of the loan proposals were approved. During that same period, 35 U.S. approval votes were cast on loan proposals to the same 14 countries involved in the negative and abstention voting. Except for Uganda and Cambodia (loans are not being processed for them because of their overall policies adversely affecting the economic viability of their development), pipelines of the IFIs show loans are being processed forward not only for the aforementioned 14 countries but for virtually all countries that might be considered to have human rights problems.

While there has been some support for the U.S. position on human rights among various Executive Directors, review of minutes of Board meetings at the IFIs conveys no impression that the cause of human rights is being advanced in the opposition expressed by the U.S. representatives. The U.S. Executive Directors are chided by both management and other Executive Directors for attempting to interject U.S. political considerations currently in vogue in pursuit of foreign policy objectives. As a result, one U.S. Executive Director has adopted a practice of not announcing the basis of his opposition at Board meetings.

To influence other governments in supporting the U.S. position on human rights, missions have been sent to Canada and Europe for discussions with high-level officials. The U.S.

Governor to the IFIs also has initiated discussions with other IFI Governors as well as with other governmental representatives to seek support in proposing charter amendments to apply human rights considerations in appraisal of projects. Such a change would require agreement of a majority of member countries as to what constitutes acceptable human rights conditions and by whose judicial standards that should be judged. There is a strong body of opinion that any attempt to amend the IFI charters along such lines would fail and a more satisfactory solution would be acceptance by member governments that the human rights question really encompasses basic economic considerations. The inclusion of such considerations into loan appraisals would require functions and procedures currently beyond the IFIs' competence. To date, efforts to persuade adoption of such a course of action have not met with resounding success.

Assistance to the Poor

Since 1973, the IFIs have been developing strategies and redirecting sectoral lending (from traditional infrastructure projects to the so-called "new style" or social projects) in earnest efforts to devote a greater share of lending to poorer LDCs and to the poorest segments within LDCs--the World Bank has led in such efforts. The change in emphasis in lending, primarily toward agriculture but also including nutrition, health, population, rural and urban development, and education, shows marked increases among all of the IFIs. Some 800 million people still live in absolute poverty and projections to the year 2000 do not show substantial relief. The evidence is clear insofar as the efforts that have been made by the IFIs are concerned--it is mixed with respect to results obtained.

Of the projects selected for site visits by the Investigative Staff, 36 were either designed primarily to benefit the poorest people of the country or contained substantial segments allegedly so directed. Generally, these projects were being diligently pursued by local project managers and staff toward the objectives set and the failures encountered were outweighed by the accomplishments being achieved. Some had fallen far short of appraised estimates as to the number and type of sublender to be reached, i.e., farmers to whom subloans were made were relatively prosperous; others were reaching the rural or urban poorest of the poor. Examples of both situations are set forth in the details of the report. The new-style projects suffer higher-than-normal implementation delays and local budgetary problems, principally because of the lack of institutional capability within the LDCs and the multifaceted administration of the programs spread among a number of ministries.

Fundamentally, poverty is a product of the economic, social, and political realities of a country. Improvement, which requires change in the redistribution of wealth and influence, is a long process. The post evaluation of the new-style projects has barely begun and it will really be years hence before evaluators can come to grips with the total effect of the projects offering new horizons for the poor within a country, region, or sector. There is no perfect understanding of the appropriate mix of projects within a given country among those stressing alleviation of poverty and those emphasizing acceleration of economic growth. Statistical information gathered on the plight of the poorest 40 percent of a country's population is unrealiable and no satisfactory means have been devised to measure the overall effects of the new-style projects upon that poorest segment whose share of per-capita income appears to be remaining static or worsening. One former IFI official observed that while a lot of money is being spent on the new-style projects, there exists no real proof that the poorest of the poor are being reached or that the long-range goals are being achieved.

I. INTRODUCTION

A. Directive

By directive dated December 5, 1977, the Committee requested that a review be made of the operations of the International Financial Institutions (IFIs) which receive United States contributions. The Committee instructed that the inquiry be focused upon, though not necessarily limited to, the following determinations:

(1) Whether the IFIs' operations should not be publicly accountable in the same way that the operations of the U.S. Government, including the Congress, are accountable--through audits, open proceedings, and disclosures;

(2) How efficiently and economically the IFIs are administered, with attention to the size and location of staffs, salaries and fringe benefits paid management and staffs, and the qualifications and conflicts of interest of management and staffs;

(3) The extent of assistance being used to subsidize the production of commodities that could injure U.S. producers by enabling the countries receiving loans and credits to compete with U.S.-produced goods, either in U.S. or foreign markets;

(4) The amounts of multilateral assistance channeled to dictatorships, both left and right wing, which are gross violators of human rights or are hostile to the United States, and the measures being used to stop such flows; and

(5) The extent to which multilateral assistance is reaching the very poor; i.e., the poor people within poor countries.

B. Scope of Inquiry

At the Office of the Assistant Secretary for International Affairs (OASIA) of the U.S. Department of the Treasury and at the headquarters offices of each of the IFIs, appropriate officials and staff were interviewed and file material reviewed, within the limitations imposed with respect to access to file material. The Investigative Staff visited 11 countries where 66 projects were examined, including interviews concerning the projects with IFI staff at headquarters and in the foreign countries if available, as well as local project managers, governmental officials, and local subborrowers and/or beneficiaries in some cases. Many of the 66 projects covered multiple loans for follow-on purposes to continue development of the project. The projects selected for examination covered a wide cross section of sectors though emphasis was placed upon projects designed to aid the poor. The countries visited were Honduras, Bolivia, Colombia, India, Pakistan, Malaysia, Indonesia, Philippines, Ivory Coast, Malawi, and Kenya. It was necessary to sharply curtail the visit to Kenya because of the coincidence of the death of President Kenyatta while there. Also, during the course of the study, officials of the U.S. Agency for International Development (USAID) in Washington, D.C. and abroad and other persons familiar with the operations of the IFIs within the U.S. Government and outside were interviewed.

The IFIs include the World Bank Group, i.e., the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); and the African Development Fund (AfDF). In view of the considerably lower levels of funding for loans and credits in IFC and AfDF and the fact that the United States is not a member of the African Development Bank, the study was focused more upon IBRD, IDA, IDB, and ADB. Throughout the report, use of the term World Bank will denote the three institutions forming its complex; when necessary to refer to a single institution for clarity, its own designation is used (IBRD, IDA, or IFC).

Document Classifications

The IFIs utilize various classifications to control access, dissemination, and use of documentary material, e.g., "Confidential," " Strictly Confidential," "Restricted," "For Official Use Only," and "Not for Public Use." The classification systems, of course, are not directly related to United States classifications for security purposes under applicable executive orders and these internal classifications did not inhibit the Investigative Staff's access to documentary material. U.S. agencies, in distributing IFI documents or material drawn therefrom, assign the IFI classification so that caution may be exercised to avoid public disclosures which may cause economic embarrassment or disadvantage to a member country and to recognize the implicit assumption that release of the material by the IFI is only for internal use by the U.S. agency or other agencies to which it may be disseminated. Executive Order 12065 requires retention of the original classification designation to ensure a degree of protection equivalent to that required by the entity furnishing the information.

Although considerable material herein is drawn from documents so classified by the IFIs, this report is not being classified in view of the different criteria used by the various IFIs and the lack of any single applicable classification assignable. However, due consideration should be given the underlying reasons for such classification procedures to avoid unnecessary jeopardy to the economic posture of a member country and to U.S. relationships with international institutions.

In addition to the classification procedures, the IFIs have other devices, such as color coding of documents, which prevent the flow of certain types of documents to the Board of Executive Directors--these devices, which also precluded access by the Investigative Staff, will be dealt with in the section of the report discussing accountability questions.

Constraints

At each of the IFIs, the Investigative Staff worked through the U.S. representatives (Executive Directors and/or their alternates) arranging for interviews and requesting documents. Generally, material normally available to the Executive Directors was available to the Investigative Staff. Material not normally available is treated later under the discussion of accountability. Exceptions were encountered to such availability. For example, at the World Bank a report was distributed to Executive Directors with comment referring to another report which would be available upon request--the Investigative Staff requested it and it was denied to the U.S. Executive Director. On the other hand, at the World Bank and ADB internal audit reports were made available upon request of the Investigative Staff though they are not normally distributed to Executive Directors--at IDB they were denied.

At the World Bank, ADB, and AfDF interviews of management officials and staff at their own offices were accomplished with ease; at IDB all interviews had to be conducted in the offices of the U.S. Executive Director and on occasion were monitored by the U.S. Alternate Director there, despite requests by the Investigative Staff not to engage in such practice. The Alternate Director explained the responsibility he felt to keep bank management fully informed of aspects of the Investigative Staff's inquiries--an attitude not encountered among the Executive Directors and Alternates at the other IFIs.

In general, the attitudes of bank management personnel at the World Bank, ADB, and AfDF toward openness and a desire to fully inform the U.S. Congress of bank positions and the reasons for them, within the limits of established guidelines, were in marked contrast to the attitudes expressed at IDB of limited responsiveness as well as hindrances to the Investigative

Staff's inquiries. Throughout the report, it will be noted that the more prevalent specific instances cited to illustrate points made are those from World Bank projects. The reason is not only because of greater time devoted to the largest IFI but also because of the high degree of candor and openness on the part of its personnel and of access to Bank material through the office of the U.S. Executive Director.

One of the more serious constraints encountered was the refusal of the Government of Mexico to permit the Investigative Staff to visit the country to discuss IFI projects and to visit sites. After selecting a group of projects from both IDB and the World Bank about which questions pertinent to the points of the directive could be raised and interviewing project personnel at the headquarters of those two IFIs, arrangements were made to visit Mexico along with other Latin American countries. Upon being apprised of such intention, the Government of Mexico informed the U.S. Embassy that such a visit was unacceptable as the Government of Mexico is quite satisfied with inspection/supervisory control mechanisms of the IFIs themselves and it cannot permit legislative representatives of one IFI contributor to inspect projects without permitting all contributors' legislators to do so which it is not prepared to do.

Although subsequently the U.S. Executive Directors of the World Bank and IDB indicated that a future visit might be possible if accompanied by one of the U.S. Executive Directors of either institution, the U.S. Embassy in Mexico responded that it had received no indication of any reconsideration of the Government of Mexico's opposition to such visit by the Investigative Staff. Pertinent material gleaned from the headquarter reviews of certain projects in Mexico bearing upon questions of accountability, alleged conflicts of interest, aid to the poor, etc., will be commented upon under the appropriate topics later in the report.

The overriding constraint is the inviolability of the IFIs' archives and documents, pursuant to their respective charters establishing their sovereign character as international institutions. Without direct access to accounting records and archival documentary and file material to verify oral statements and formal reports rendered, no meaningful, indepth study really can be accomplished with assurance of the validity of findings. U.S. Executive Directors face the same dilemma--although they give assurance that they have not been denied anything they request, they abide by the guidelines established as to what is and what is not available to them from management.

II. OPERATIONAL MECHANISMS AND INTERRELATIONSHIPS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

A. Overview

Extensive documentation has been supplied the Committee concerning the origins and history of development of the IFIs, including General Accounting Office (GAO), Congressional Research Service (CRS), and the U.S. Treasury Department reports submitted during 1978. Consequently, this report is not being burdened with an extensive recapitulation of such historical data.

Set forth as a frame of reference on the following page is a summary of basic fact data pertaining to the principal funding mechanisms of the IFIs, including the so-called "soft" windows of concessional lending; i.e., IDA, Fund for Special Operations (FSO) of IDB, Asian Development Fund (ADF) of ADB, and AfDF. The African Development Bank (AfDB) data is not included as the United States is not a member of that institution and it was not a part of instant study except as relationships with it bear upon U.S. interests in AfDF. Information shown for the World Bank Group is as of June 30, 1978, the close of its fiscal year; for the regional institutions it is as of December 31, 1977, the latest published and audited figures for those institutions. However, the U.S. share of subscriptions and voting power allocation is as of June 30, 1978, for all IFIs.

TABLE I

(Dollars in Millions)

	World Bank Group			IDB		ADB		AfDF	
	IBRD	IDA	IFC	Ordinary and Interregional Capital	FSO	Ordinary Capital	ADF		Totals
Paid-In Capital, Reserves, and Retained Earnings	$ 5,835	$14,139	$ 244	$1,832	$6,178	$1,355	$1,260	$ 308	$31,151
Callable Capital	29,741	n/a	n/a	7,741	n/a	5,451	n/a	n/a	42,933
Loan Commitments Outstanding:									
Disbursed	19,359	8,468	712	2,097	2,266	1,200	325	37	34,464
Undisbursed	13,706	3,881	271	2,586	2,200	1,325	621	283	24,873
Total	$33,065	$12,349	$ 983*	$4,683	$4,466	$2,525	$ 946	$ 320	$59,337
Most Recent Annual Net Income	$ 238	$ (43)	$ 13	$ 96	$ 48	$ 82	$ 17	$ 6	$ 457
U.S. Share of Subscriptions	25.5%	28.4%	37.6%	34.8%	66.4%	9.8%	15.0%	5.4%	n/a
U.S. Share of Voting Power	22.7%	20.3%	31.8%	34.6%	34.6%	8.3%	8.3%	2.8%	n/a

* Includes equity investments.

The U.S. share of total callable capital of the IFIs at the close of U.S. fiscal year (FY) 1978 amounts to approximately $10.7 billion. Of that amount, $5.7 billion has been appropriated in prior years and the remaining $5.0 billion has not. On Treasury's books, both are carried forward from year to year as unobligated balances, the former shown as appropriated and the latter as authority to borrow.

All paid-in capital is not freely usable in IFI lending operations. Many members restrict the use of capital paid in their own currencies (usually for procurement of goods or services within that member country) and such restricted currencies are usable by the IFI only with the consent of the respective member. For example, at IBRD some 30 percent of paid-in capital upon a new capital increase is in restricted currencies and thus not freely available for lending.

For soft lending, the IFIs require continuous infusion of new replenishments of capital in view of the long repayment terms of such loans made (usually 50 years). On the other hand, paid-in capital is a relatively minor source of funds for hard lending with the members' commitment of callable capital providing the support for borrowings in international markets which provides the principal source of funds for hard lending. For example, at IBRD from 1970 to 1976, the source of funds was as follows:

Paid-In Capital ------	2%
Loan Sales -----------	3
Retained Earnings ----	7
Loan Repayments ------	20
Borrowings -----------	68
Total -------------	100%

The cost then to donor countries of the total of all hard lending is relatively minor, whereas member donations constitute the major source of soft lending; e.g., 98 percent of IDA resources provided in FY 1978 was from member donations.

Because of the distinction in members' contributions for soft and hard lending with the former having a strong aid or grant component to it and the latter being more in the nature of investment and guarantee to allow the IFIs to serve as financial intermediaries, the Treasury Department has considered separating the requests for appropriations into two different forms. Officials of some of the IFIs believe that perhaps it would have been wiser at the outset to have established a system of dividend declarations and payments upon the donor member investments to more clearly display the nature of the contribution for hard lending. The use of IFI earnings will be discussed more fully later in the report in sections dealing with administrative costs and transfers of earnings to soft windows.

As can be seen from Table I, the World Bank Group accounts for 78 percent of total loan and credit commitments; 83 percent of those disbursed and 72 percent of those undisbursed. The lag in disbursements keeping pace with commitments is a continuing problem at all of the IFIs, contributing to an unnecessary and undesirable level of liquidity among the Bank assets. The World Bank attempts to hold its liquidity to 40 percent of the succeeding 3 years' borrowing requirements but has been consistently running higher than its set policy in recent years--it is currently over 50 percent. Also affecting liquidity is the practice of borrowing at faster than forecasted rates in order to take advantage of favorable interest rates. The lag in disbursements is affected principally by delays in implementation of approved projects which plagues all of the IFIs.

All of the IFIs except IFC by charter provision require that the total amount of disbursed loans outstanding not exceed the total of unimpaired capital, reserves, and retained earnings. As can be seen in Table I, all are well within such provision.

The U.S. share of subscriptions of the IFIs, as depicted in Table I differs from its voting share because of the allocation of a basic number of votes upon membership admission irrespective of the proportionate share related to each member's subscription. At the World Bank, subscriptions by member countries are based on each member's quota in the International Monetary Fund (IMF) plus the basic allocation (250 votes) so that any attempt to limit a member's share of subscription would skew the relations to IMF quotas. For example, if the United States attempted to hold its IBRD subscription below its IMF quota, other countries would want to follow suit as all countries would prefer to keep IMF quotas high but to reduce shares of IBRD subscriptions. Though individual loan presentations require only a simple majority approval, any change in the Articles of Agreement requires approval by 80 percent of the total voting power; accordingly, so long as the United States maintains voting shares over 20 percent it has an effective veto over such major policy changes.

The regional IFIs have similar allocations of voting power. IDB assigns 135 votes upon membership admission and ADB divides 20 percent of the total votes among members with the remaining 80 percent related to shares of subscriptions. The soft-window funds of the IFIs have still different voting arrangements and only in FSO of IDB is there any veto power by the United States on individual loan presentations, for so long as the United States retains as much as 34.5 percent of the subscribed shares. While this veto power has never been formally exercised, the announced intention by the United States to vote negatively on a loan application has caused withdrawal of it from the agenda for formal presentation to the Board of Executive Directors at IDB.

The U.S. Executive Directors at the World Bank, IDB, and ADB all point out that their ability to influence voting of other members on such issues as human rights is adversely affected by the fact that the United States is the only member substantially in arrears on its subscriptions. U.S. arrearages of paid-in and callable capital, following the enactment of the FY 1979 appropriation and for which Treasury will again be seeking appropriation in FY 1980, are as follows:

	Amount (in millions)
World Bank:	
IBRD ---------------	$502.8
IDA ----------------	292.0
IDB:	
FSO ----------------	150.3
ADB:	
Ordinary Capital ---	44.8
Total ---------	$989.9

Treasury anticipates (as of the time of the writing of this report) seeking a new round of authorizations and appropriations for subscriptions and/or replenishments of IDB (both ordinary capital and FSO), ADF, and AfDF in FY 1980, in addition to the foregoing arrearages and tranches of previously authorized funding. The FY 1980 appropriation request, as approved by the Office of Management and Budget at the time of preparation of this report, was as follows (in millions):

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	Previously Authorized (including arrearages)	Under New Authorization	Total
World Bank:			
IBRD	$1,025.8		$1,025.8
IDA	1,092.0		1,092.0
IFC	33.45		33.45
IDB:			
Ordinary and Interregional Capital		$687.3	687.3
FSO	150.27	175.0	325.27
ADB:			
Ordinary Capital	248.41		248.41
ADF	60.0	111.25	171.25
AfDF		41.67	41.67
Totals	$2,609.93	$1,015.22	$3,625.15

The new round of authorizations sought in FY 1980 are:

IDB:	
Ordinary Capital	$2,750.0
FSO	700.0
ADF	445.0
AfDF	125.0
Total	$4,020.0

The tranches are to be spread over the next 4 years (FY 1980 - 1983) except for AfDF which is over the next 3 years.

The IFIs are not dissimilar to any other governmental bureaucracy with self-generated quests for money and growth, the press to commit money at yearend to meet planning goals, and obfuscatory language to avoid or soften criticism. At the same time, at the World Bank and ADB operational efficiency is clearly recognizable in the quality of professional staff and the procedural controls and systems administered. The comparative weakness of IDB management is conceded by U.S. Treasury Department officials.

Though the IFI charters provide that the Executive Directors are responsible for the general operations of the IFIs, they are more led by management than directing management as one would expect from the charter provisions or from the normal function of a Board in a commercial enterprise. For example:

(1) No loan presented for approval has ever been formally disapproved by the Executive Directors of any of the

IFIs. Except at IDB, loans have been formally negotiated with the borrowing entity before presentment for Board approval.

(2) With the prescribed tenure of an Executive Director of 2 years at the World Bank and ADB and 3 years at IDB and AfDF, there is a natural lack of experience and institutional memory for carrying forward policy issues from year to year.

(3) Until the past year, it has been unusual for any Executive Director or group of Executive Directors to visit recipient countries to review or inspect projects.

(4) The President of the IFI serves as Chairman of the Board of Executive Directors, flanked on either side by numerous senior officials of management with the Executive Directors seated around the remainder of the table.

(5) A formal rollcall vote is seldom taken; following presentation of a matter and discussion of it, the Chairman announces what he deems to be the consensus of the views expressed or he simply introduces the next topic and instructs the Secretary how to record the consensus in the minutes.

(6) Questions or issues raised by Executive Directors frequently are responded to by the Chairman announcing that the points raised will be considered by management or that a note responding to them will be passed later to the member(s).

(7) The Executive Directors are employed by the IFIs and function in continuous session, thus making the Board a part of the management process, though there is no mechanism by which Board actions are reviewed or evaluated.

(8) With the long leadtime needed to have influence over policy change as it affects individual loans (the average loan takes about 2 years from identification to negotiation), it is difficult for any Executive Director or country to inject a policy change upon lending patterns that will show any reasonably prompt result.

All the foregoing observations will be dwelt upon more fully in later sections of the report.

The commodity being supplied by the IFIs to the Lesser Developed Countries (LDCs) is principally foreign exchange which, under normal circumstances, is fungible. So long as a project proceeds to implementation as negotiated, the IFI has no control over the country's use of its foreign exchange from all sources among the priorities it has fixed inasmuch as foreign exchange from one source is indistinguishable from that from another source. There is, of course, no means by which the IFI can be assured that the project would not have been pursued in the absence of the IFI loan which would be the real test of the use of the foreign exchange supplied. In fact, often the project is suggested and planned by IFI technical advisors, rather than by the developing country itself. The point here is not to denigrate the value of assistance provided for development of LDCs by the IFIs but to observe that even if audit and evaluation procedures were fully refined, which they are not, in the final analysis they would not test the need for and use of the foreign exchange supplied.

Set forth on the following pages, in Table 2, is a summary of cumulative lending to 99 LDCs by the IFIs dealt with in this study through June 30, 1978, and the ratio of outstanding multilateral debt to total external public debt outstanding for each of these LDCs at the end of 1976 (the latter data computed from World Bank Tables of External Public Debt). Although the outstanding multilateral debt includes all international organizations, the preponderant majority of such debt is to the IFIs. Groupings of LDCs in Table 2 by per capita income follows World Bank practice except low and intermediate middle income as used by the Bank were combined, as were upper middle income and high income LDCs; the per capita income divisions (in 1976 U.S. dollars) are low income--$280 or less; middle income--$281-$1,135; and high income--$1,136-$2,700. The only countries included under the category of more advanced Mediterranean countries and centrally planned economies were those which have received loans or credits in the recent past. The data in Table 2 is compiled as a general reference framework; any conclusion with respect to a particular LDC would require deeper analysis as well as an understanding of the particular complexities of the economy of that LDC.

TABLE 2 (Dollars in Millions)

LOW-INCOME LDCs

Country	Cumulative Lending to 6/30/78: World Bank Group	Regional Bank/Fund	Total	Percent of Total	Proportion of Outstanding Multilateral Debt to Country's Total External Public Debt Outstanding (12/31/76)
Afghanistan	$ 156.1	$ 73.6	$ 229.7	.32%	9.5%
Bangladesh	983.7	273.9	1,257.6	1.78	31.9
Benin	68.7	21.2	89.9	.13	37.2
Burma	196.4	163.8	360.2	.51	43.8
Burundi	53.3	12.4	65.7	.09	48.5
Central African Empire	13.4	21.5	34.9	.05	26.1
Chad	71.4	21.8	93.2	.13	39.0
Comoros	0	10.3	10.3	.01	31.9
Egypt	1,194.1	—	1,194.1	1.69	10.3
Ethiopia	481.4	22.0	503.4	.71	55.8
Gambia	22.5	2.0	24.5	.03	44.5
Guinea	94.5	5.0	99.5	.14	10.0
Haiti	96.1	110.7	206.8	.29	63.5
India	8,101.2	—	8,101.2	11.44	32.4
Indonesia *	2,475.8	527.6	3,003.4	4.24	13.5
Kenya	793.4	0	793.4	1.12	44.0
Lesotho	36.3	20.9	57.2	.08	82.7
Madagascar	205.0	9.8	214.8	.30	51.4
Malawi	180.2	15.7	195.9	.28	36.2
Mali	147.6	39.1	186.7	.26	25.8
Nepal	164.7	125.3	290.0	.41	75.8
Niger	64.7	10.0	74.7	.11	35.1
Pakistan	1,747.3	540.1	2,287.4	3.23	21.3
Rwanda	75.4	19.4	94.8	.13	53.3
Sierra Leone	50.2	5.5	55.7	.08	27.5
Somalia	106.6	15.0	121.6	.17	18.9
Sri Lanka	226.0	114.9	340.9	.48	18.2
Tanzania	620.0	23.2	643.2	.91	31.0
Togo	61.8	15.5	77.3	.11	15.1
Uganda	61.0	0	61.0	.09	31.7
Upper Volta	97.8	20.9	118.7	.17	46.4
Yemen Arab Republic	142.0	—	142.0	.20	30.1
Yemen, People's Dem. Republic	49.3	—	49.3	.07	20.1
Zaire	395.4	5.5	400.9	.57	10.7
SUBTOTALS	$19,233.3	$ 2,246.6	$21,479.9	30.33%	

* Oil Exporter

TABLE 2 (Dollars in Millions)

MIDDLE-INCOME LDCs

Country	Cumulative Lending to 6/30/78 World Bank Group	Regional Bank/Fund	Total	Percent of Total	Proportion of Outstanding Multilateral Debt to Country's Total External Public Debt Outstanding (12/31/76)
Algeria *	$ 803.0	$ —	$ 803.0	1.13%	3.4%
Bolivia	323.7	402.2	725.9	1.02	25.3
Botswana	108.3	9.9	118.2	.17	43.3
Cameroon	381.1	—	381.1	.54	35.1
Chile	400.9	513.7	914.6	1.29	11.2
China, Republic of	335.4	91.2	426.6	.60	9.2
Colombia	1,955.4	811.8	2,767.2	3.91	38.8
Congo	98.2	—	98.2	.14	16.8
Costa Rica	296.8	307.6	604.4	.85	49.1
Dominican Republic	96.5	215.1	311.6	.44	21.0
Ecuador *	299.1	380.3	679.4	.96	34.9
El Salvador	220.7	201.7	422.4	.60	58.6
Ghana	299.7	—	299.7	.42	31.0
Guatemala	278.7	291.9	570.6	.81	60.7
Guyana	64.4	58.3	122.7	.17	13.0
Honduras	258.3	250.9	509.2	.72	64.8
Ivory Coast	427.5	—	427.5	.60	20.2
Jamaica	223.5	104.4	327.9	.46	16.9
Jordan	164.5	—	164.5	.24	13.0
Korea	2,234.7	724.6	2,959.3	4.18	18.1
Liberia	138.7	—	138.7	.20	28.7
Malaysia	937.2	345.5	1,282.7	1.81	28.9
Mauritania	126.3	13.6	139.9	.20	16.7
Mauritius	95.3	—	95.3	.13	47.4
Mexico	3,144.0	1,566.9	4,710.9	6.65	17.7
Morocco	934.1	—	934.1	1.32	19.4
Nicaragua	194.5	213.3	407.8	.58	29.4
Nigeria *	953.3	—	953.3	1.35	51.2
Papua New Guinea	120.9	60.2	181.1	.25	36.9
Paraguay	184.5	246.4	430.9	.61	32.0
Peru	576.3	361.3	937.6	1.32	12.5
Philippines	1,786.0	634.0	2,420.0	3.42	28.5
Senegal	214.2	9.0	223.2	.31	31.7
Sudan	490.3	9.0	499.3	.70	21.7
Swaziland	47.4	8.4	55.8	.08	48.4
Syrian Arab Rep.	465.8	—	465.8	.66	11.5
Thailand	1,249.2	341.7	1,590.9	2.25	63.1
Tunisia	568.5	—	568.5	.80	21.2
Zambia	479.7	—	479.7	.68	26.3
SUBTOTALS	$21,976.6	$ 8,172.9	$30,149.5	42.57%	

* Oil Exporters

TABLE 2 (Dollars in Millions)

HIGH-INCOME LDCs

Country	Cumulative Lending to 6/30/78 World Bank Group	Regional Bank/Fund	Total	Percent of Total	Proportion of Outstanding Multilateral Debt to Country's Total External Public Debt Outstanding (12/31/76)
Argentina	$ 1,062.8	$ 1,330.8	$ 2,393.6	3.38%	18.3%
Barbados	0	33.2	33.2	.05	33.5
Brazil	4,282.6	2,558.9	6,841.5	9.66	20.1
Fiji	50.2	22.8	73.0	.10	48.2
Gabon *	69.1	—	69.1	.10	5.7
Iran *	1,186.5	—	1,186.5	1.67	13.1
Iraq *	106.5	—	106.5	.15	9.7
Lebanon	125.7	—	125.7	.18	64.7
Oman	25.0	—	25.0	.03	2.2
Panama	228.9	224.8	453.7	.64	19.5
Singapore	179.4	101.8	281.2	.40	25.9
Trinidad & Tobago *	93.6	24.7	118.3	.17	61.7
Uruguay	206.5	181.7	388.2	.55	24.9
Venezuela *	380.1	218.4	598.5	.84	12.0
SUBTOTALS	$ 7,996.9	$ 4,697.1	$12,694.0	17.92%	

MORE ADVANCED MEDITERRANEAN COUNTRIES AND CENTRALLY PLANNED ECONOMIES

Country	World Bank Group	Regional Bank/Fund	Total	Percent of Total	Proportion (12/31/76)
Cambodia	$ 0	$ 1.7	$ 1.7	0 %	n/a
Cyprus	108.1	—	108.1	.15	76.8%
Greece	521.1	—	521.1	.74	14.0
Israel	294.7	—	294.7	.42	2.6
Lao P.D.R.	8.2	11.7	19.9	.03	n/a
Malta	6.0	—	6.0	.01	3.8
Portugal	298.5	—	298.5	.42	13.5
Romania	882.8	—	882.8	1.25	n/a
Spain	435.9	—	435.9	.61	6.8
Turkey	1,837.5	—	1,837.5	2.59	31.8
Vietnam	0	44.3	44.3	.06	n/a
Yugoslavia	2,051.5	—	2,051.5	2.90	31.5
SUBTOTALS	$ 6,444.3	$ 57.7	$ 6,502.0	9.18%	
TOTALS	$55,651.1	$15,174.3	$70,825.4	100.0 %	20.0%

* Oil Exporters

TABLE 2

RECAPITULATION OF LENDING PROPORTIONS BY FUNDS

	World Bank Group			IDB		ADB		AfDF
	IBRD	IDA	IFC	Ordinary and Interregional Capital	FSO	Ordinary Capital	ADF	
Low-Income Countries	17.5%	85.5%	14.3%	.0%	2.2%	25.9%	88.9%	86.4%
Middle-Income Countries	49.1	13.1	36.3	42.9	70.6	70.0	6.2	13.6
High-Income Countries	18.7	.0	28.8	57.1	27.2	4.0	.3	.0
More Advanced Mediterranean Countries and Centrally Planned Economies	14.7	1.4	20.6	.0	.0	.1	4.6	.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

B. Processing of Loans

The basic steps taken in processing a loan or project are similar for all of the IFIs and encompass (1) project identification, (2) preparation, (3) appraisal, including negotiation and approval, and (4) supervision. The IFI is the dominant force in these four phases of the project cycle, except preparation, and frequently it is in that too. From identification to approval of the loan normally takes about 2 years during which period the project is classed as being in the IFI's "pipeline." Supervision of the project begins when the loan is effective and ceases upon final disbursement of the loan.

Identification of projects is accomplished through economic missions, operational missions, supervision missions of other ongoing projects, permanent resident missions (particularly at IDB), missions specifically assembled to identify projects, sector studies, and often through current projects resulting in repeater loans to the same borrowing entity for subsequent stages of development of the same or a similar project as one underway. Also, in several sectors, the World Bank has arrangements with agencies of the United Nations (UN) for identification and preparation of projects. At the World Bank, about 75 percent of projects identified annually are at the Bank's suggestion.

Preparation involves all necessary actions to bring a project to the point where its technical, economic, and financial feasibilities have been established and it is ready for appraisal. Though primarily the responsibilility of the borrowing entity, the IFI renders substantial assistance in varying degrees depending mainly upon the institutional capability of the member country. Technical advisors from the IFI may be used or management consultants with guidance from the IFI in how to go about selecting the consultant. The World Bank has a Project Preparation Facility from which loans are made (up to $500,000) to aid the borrower in preparing projects, such loans then being refinanced from proceeds of the project loan. The IFIs recognize the internal conflict of interest situation in their roles of preparing projects and then appraising them favorably for lending approval, but feel they do not get enough good projects to appraise unless they are intimately involved in their identification and preparation.

Appraisal by the IFI covers both the project and the borrowing entity. It is conducted by IFI staff from the operating division covering the geographic area involved, frequently with the aid of consultants or borrowed technical experts from member governments and is always made in the field. It covers creditworthiness, managerial and organizational aspects of the borrowing entity, and technical, commercial, financial, and economic aspects of the proposed project. The IFIs almost never turn a project down at the appraisal stage as too much money has then been invested in it. A project may be turned down at identification or preparation stages, but seldom thereafter. If may, however, be substantially modified or redesigned at the appraisal stage. Comprehensive appraisal reports are prepared for consideration of approval of the loan by Bank management and by the Executive Directors. After appraisal, the proposed project is presented to the Loan Committee, composed of senior management officials of the IFI, for approval or disapproval. At the World Bank and IDB, each proposed project also is reviewed for approval by a central staff, organized along technical and sectoral lines. At IDB, the President's report and the appraisal report then are presented to the Board of Executive Directors for approval, prior to negotiation. At the other IFIs, the borrowing entity and the IFI negotiate the loan prior to presentment to the Board of Executive Directors for approval. Loans become effective upon meeting conditions established in the agreement and thereafter disbursements are made by the IFI to the borrowing entity as the project is implemented. In reviewing appraisal reports and testing estimates and projections against site visits and against post evaluation reports, the Investigative Staff found that there is a tendency among the IFIs to cast appraisal reports in optimistic terms and to deemphasize risks, the natural result of which contributes to cost overruns, implementation delays, and failure to fully meet objectives and goals forecast. The Investigative Staff had access only to the appraisal reports submitted to Executive Directors; perhaps those considered by management are cast in more realistic terms. Also, one must recognize that cost overruns and institutional failures would be expected to be more prevalent in development lending, particularly concessional loans and social projects directed to reach the poorest of the poor, than would be the case in commercial lending.

Supervision of the loan and project is accomplished both through headquarter review of reports and documentation submitted by the borrowing entity and/or auditing firms and through onsite visits periodically by supervision mission teams to resolve problems and assure that the project is being properly administered and is being implemented toward its intended development impact. Frequency of field visits varies among the IFIs though all heavily stress the manyears and effort devoted to supervision. Supervision also encompasses post evaluation of projects and financial audit procedures. The various aspects of project supervision among each of the IFIs and the adequacy thereof is reviewed in detail in a subsequent section of the report.

C. Coordination

An area of coordination in which the World Bank has taken the lead over the past 10 years is in arrangements for cofinancing large expensive projects among several lenders, with the World Bank assuming responsibility for organizing, preparing, and supervising the project. It has made such arrangements not only with each of the regional IFIs but also with others, e.g., the European Development Fund, European Investment Bank, Kuwait Fund for Arab Economic Development, etc. A multilateral institution is, of course, in a more advantageous position to organize such lending than is a bilateral donor. In field visits, the Investigative Staff found that where cofinancing was involved, either among the IFIs or between an IFI and a bilateral donor, there existed excellent coordination in development and supervision of the project.

Another area in which the World Bank has taken the lead is in organizing and chairing consultative groups, participated in by other multilateral and bilateral donors. In recent years, it has chaired such groups in some 20 LDCs. The consultative groups provide a framework for assessing the development potential and establishing priority needs. Participation does not require pledging of specific amounts or types of assistance, though that frequently occurs. It is an area wherein the IFIs and other donors are making progress toward more effective coordination, though there remains noticeable gaps in coordination, even in LDCs where consultative groups have been initiated.

Considerable impact upon the LDCs' macro-economic policies can be achieved through these consultative groups, particularly if the donors act in unison in actions proposed, e.g., maintaining interest rates above inflation, reduce subsidies, encourage agricultural research, etc. The lack of such unison was encountered in one Asian country in the Investigative Staff's visits, where the assumption of sole responsibility by the World Bank for planning and preparing agenda for the consultative group meetings was resented by major bilateral donors.

In a sector operations review in 1978 in another Asian country by the World Bank, seven other donor agencies, both bilateral and multilateral, were consulted concerning the level of coordination and they consistently responded that: (1) there was a need for closer coordination than existed, especially in overlapping programs in key subsectors; (2) the World Bank or a United Nations agency were the appropriate agencies to take the initiative but the World Bank had taken very little initiative and most contacts were initiated by the other donors; (3) most other donors can offer examples of cases where World Bank projects have constrained or even wrecked their own projects, particularly when the World Bank entered a subsector in which another donor already was involved--with World Bank funding larger, the local government changed the rules on other donors to bring their projects in line or simply shifted its priorities and attentions away from the older activities; and (4) the local government probably would not encourage complete coordination but the degree of resistance was uncertain. The World Bank, in examining these responses, observed that the picture painted by the other donors seemed to be overdrawn.

Although basic data for broad economic studies of an LDC is put together and supplied by the LDC, each IFI sends its own team into the LDC for periodic economic reporting, all using the same basic data base. Officials of the IFIs recognize and concede the duplicative effort involved in such efforts, pointing out at the same time that results of analyses are exchanged and that the World Bank does the more complete analysis and study.

With World Bank and IDB headquarters both in Washington, there is naturally more coordination among lower level desk officers than exists among any of the other IFIs. Also, with IDB having local field offices in the LDCs to whom it loans, there is greater coordination between IDB and bilateral donors, e.g., USAID, than is the case with the World Bank, ADB, and AfDF. Present and former officials of the IFIs advised that there is a clear need for greater coordination among them, particularly below the levels of cofinancing and consultative groups, i.e., at the actual project level. One former official stated that one seldom observes any IFI representatives meeting together to discuss common objectives in a country within a given sector, such as the agricultural or education sector, in order to best resolve the role that each should play. There does not exist any formal mechanism outside of the consultative groups for the IFIs to coordinate projects or the identification and supervision of projects. The IFIs overlap each other in virtually all sectors.

USAID personnel abroad observe that they seldom see IFI representatives though both USAID and the IFIs have ongoing projects in the same sectors (IDB is excluded from this comment as USAID officials regularly meet with the local field office representatives). Normally, USAID personnel learn of visiting teams' presence in country from local governmental officials after the IFI team has departed. USAID officials in one Latin American country pointed to the obvious duplication in analysis, planning, and technical assistance as a major problem and advised that a single, unified development approach in the principal social sectors is strongly needed, so as to avoid wasteful projects that do not accomplish what is intended.

In an Asian country, both USAID and local governmental officials described coordination between USAID and the World Bank as woefully inadequate in connection with two separate population projects each agency was funding, which has led to waste of resources and unnecessary duplication of effort. Because this population project illustrates several points, in addition to lack of coordination, it is summarized below.

Population Project

In 1974 the World Bank negotiated a $25 million 25-year loan to an Asian country for 50 percent of a $50 million population project, with the local government supplying 48 percent of the remaining cost and other donors 2 percent. Of the World Bank's $25 million, $15.3 million was for foreign exchange costs and $9.7 million for local costs. The funds provided by the World Bank were to finance construction of 205 rural health units, 11 regional training centers, provide 200 jeeps for use of the health units, assist in developing a statistical system for data analysis and performance evaluation, and provide training of midwives. The country's overall population program was cited as designed to reduce the fertility rate by one-fourth (from 6.4 to 4.8) from 1970 to the year 2000 and to avert 15 million births during that period--the World Bank financed project was stated to contribute directly to one-sixth of such goals, i.e., to avert 2.5 million births between the completion date of the project in 1979 and the year 2000. The Population Commission of the local country was to be the coordinating agency. In approving the project, Executive Directors made favorable comments though challenging reliance on the extensive demographic, fertility, and acceptor/user rates of contraceptive devices presented in statistical forecasts and expressed some concern over the use of Bank funds to finance recurrent salary costs for the country.

The Investigative Staff examined pertinent material and interviewed appropriate officials of the World Bank, USAID, and the country involved including demographic experts at the local university, as well as visiting the site of a rural health unit in the countryside. The project is now about two-thirds complete. Set forth below are defects found:

(1) A population expert in New York familiar with the particular project described it as vastly overfunded; concentrated too heavily in urban areas rather than rural where the most need was; really a health-care project more than population; the need for technology transfer coupled with the virtual illiteracy of rural outreach workers supplying basic data makes a computerized management information system unworkable; and with concentration of expenditure on buildings and

equipment, rather than humans, recurring maintenance costs may not be fundable by the local government.

(2) Upon implementing the project, the World Bank placed coordinating responsibility with the local Department of Health rather than with the Population Commission as advertised in reports to the Board of Executive Directors. Just recently (1978) did they suddenly transfer such responsibility to the Population Commission. Local officials believe it should have been placed with the Population Commission at the outset, though both that Commission and the Department of Health admittedly have weak managerial structures.

(3) USAID has had an ongoing population project (through the Population Commission) for about 10 years in the country, one portion of which is training and funding volunteer workers drawn from rural hamlets, each of whom serves about 100 married couples. They are supervised by a full-time paid outreach worker. About 2,500 such outreach workers have been recruited and some 18,000 supply points established for distribution of contraceptive devices--through "mom and pop" grocery stores in the hamlets. While the full-time outreach workers trained under the USAID grant work out of the rural health units and supervise the volunteer rural workers, they do not have supervisory responsibility over the midwives trained under the World Bank project who also work out of the rural health unit. It is presently unknown just how the World Bank project midwives will interface with the USAID project outreach workers--both will be working in the same rural outlying communities. The overlap and duplication results from failure of World Bank personnel to confer with USAID personnel in designing their project. Local governmental officials recognize the problem and are now exploring means to avoid the two different groups of rural workers from competing with and/or working in conflict with each other. An even more severe problem described by a governmental official is avoidance of competition at higher governmental levels--he believes there is an urgent need to combine the USAID and World Bank population projects into a single project.

(4) The $50 million available in the World Bank project represents power and the Department of Health's

distributions to local governors of provinces who have general jurisdiction over the rural health unit personnel constitute a patronage plum. Salaries paid under the project, both at Department of Health headquarters and in the rural areas, are higher than average which has led to morale and bureaucratic problems.

(5) In gathering demographic data, the country counts withdrawal and rhythm among users and acceptors of contraceptive devices which most countries do not, and assembly of statistics also is weak because of not taking into account program dropouts. The Population Commission has one set of demographic figures, the Department of Health another, and the University another. An umbrella agency merges the three sets of figures for reports and predictions. An estimate of new acceptors is used by the World Bank in making its projections of the contribution of its project toward reducing population growth; USAID uses continuous users as its primary data base--a more reliable statistic.

(6) The computerized management information system being developed is behind schedule and one official doubts that it can work (he would rather discard the computer) because of duplication and unreliability of data gathered at the province level by unsophisticated and untrained workers. He observed also that the fertility rate of 4.8 to be reached by the year 2000 was simply a target goal and in no way a reliable projection. The number of continuous users of family planning methods currently is a declining statistic.

(7) In a visit to a rural health unit, a local official of that unit reported that family planning service there had declined from coverage of 45 percent of the married couples of reproductive age at the beginning of the program to 15 percent currently; most women who originally accepted use of the pill have ceased use and ceased visits to the clinic; one midwife working with 20 families reported no repeat visits by any of the 20; rhythm and withdrawal simply do not work; and in responding to the Investigative Staff's comment on the large size, spacious accommodations, and excellent construction materials of the rural health unit building, it was pointed out that this particular one was the largest of the 205 that had been built in the country because the Minister of Health was from that province.

(8) An official of the population center of the University reported that the midwives trained under the World Bank project have been found to be poorly trained in family planning matters (many could not instruct in the proper use of contraceptive devices) and had to be sent back for retraining; they have been concentrating more on health services than family planning counseling and, in fact, the entire World Bank project is more of a health-care project than population; the layworkers in the USAID outreach program need the support of trained midwives but the two projects proceed along separate paths; and records maintained by the full-time outreach workers under USAID on family planning and users are separate from records maintained by midwives under the World Bank project and there is no correlation of the basic data contained in these separate records.

(9) The country's budgeted resources presently provide inadequate maintenance of existing health and medical facilities and equipment; accordingly, it is deemed highly dubious that the government will be able to absorb the future costs of maintenance of the rural health units, training facilities, jeeps, and salaries of the midwives funded under the World Bank project without further infusion of assistance.

(10) The World Bank presently has under consideration a second population project for the country as a follow-on for the first one. The first $50 million project had a substantial cost underrun of some $21 million, including savings of some $3 million by the country's using less expensive construction material than had been planned and an $18 million contingency provision that was found unneeded. How to use these available funds is currently under study along with the planning for the second World Bank project. At the time of the Investigative Staff's visit, country officials advised that present planning for the second project was to set up a pilot research project in five provinces to gain experience as how best to approach the population control problem throughout the country as well as how to strengthen management among the governmental agencies involved in population matters. Though country officials see a clear need to integrate the USAID and World Bank project approaches, USAID had not been approached by World Bank

representatives at the time of the Investigative Staff's visit. USAID officials pointed out that if the World Bank intends to take over their project (as frequently happens in other sectors), they need to know about it in sufficient time to avoid budgeting further for it. It appears that planning a research project to ascertain the best way to approach the problem, after the $50 million brick-and-mortar project, is a cart-before-the-horse situation and an ill-advised use of resources.

Officials of both the country and of the World Bank do not hesitate to concede that the foregoing project has suffered a number of errors and is not a glowing example of a well-run population project. The World Bank has been active in the population sector since 1970. The regional IFIs have avoided population projects. Beside religious and cultural impediments in many parts of the Third World, they constitute an area of social engineering in which no one really knows what will work successfully. The World Bank in 1976 commissioned a study by an external advisory panel to review the Bank's strategies, policies, and programs in the population field and provide counsel on how the Bank could best utilize resources effectively in the sector. The result was critical in several areas, such as: (1) inadequate incorporation of population considerations in the Bank's overall economic analyses and reporting; (2) insufficient research; (3) overly ambitious demographic targets; (4) of the 11 projects reviewed ($123 million), three-fourths of the total project sums went for hardware (buildings, equipment, and vehicles) with family planning representing a minor fraction of the hardware usage; and (5) unhealthy reaction by recipient countries that the Bank had used "heavy-handed" pressure tactics in getting them to accept the projects as conceived and planned by the World Bank.

In making development loans generally, and more particularly in making a first one in a social sector within a country, errors are to be expected. The World Bank, recognizing that short of nuclear war the gravest issue the world faces over the decades ahead is unchecked population growth, is to be commended for its commitment to population projects. The other IFIs should also be in the sector particularly in light of their closer bonds and common interests with the countries where curtailment of population growth is most needed. Nevertheless, the cited defects in the foregoing project are demonstrative of inadequate planning, coordination, and supervisory control, especially in view of the substantial funding involved for a population sector loan.

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D. Planning and Policy Directions

1. Allocation of Resources and Selection of Projects

The basic framework from which IFI resources are allocated and projects selected is the long-range planning program for each country, normally covering a 5-year cycle. There is no global or regional strategy governing the allocation of resources. At the World Bank and ADB, reviews of the country programs collectively are made against economic conditions in each country as reported in the periodic economic reports and memoranda prepared of macro-economic conditions, e.g., income distribution, per capita income, population, export creditworthiness, absorptive capacity, and performance on existing loans, making bank-wide comparisons to arrive at tentative allocation of resources. IDB and AfDF are less concerned with the whole economic condition of the countries and tend to evaluate more on the basis of the worth of individual projects.

The individual projects, thereupon selected by country, enter a 2-year "pipeline" constituting a listing of all projects, under consideration for lending with a brief description of each. Consideration is given in the selection process to an appropriate distribution of projects among sectors within each country, with the sectors focused upon the overall economic models. Specific projects are selected on the basis of high priorities in the economic model and acceptable rates of return for development. The IFIs are interested in aspects of the country's economy wherein the most influence might be exercised in altering or emphasizing broad economic policies and in building institutions within the country; though at IDB, planning suffers from the inability to link proposed projects to an overall economic framework.

The country planning documents for the 5-year program cycle are not available to the Executive Directors and the Board does not get involved in the allocation of resources and lending strategy by country or by sector. Country planning drives the resource allocation more significantly than does sector planning.

A project normally takes some 24 to 30 months from identification to presentation to the Board for approval. The pipeline of projects being worked up has a deliberate planned overage beyond the annual lending program envisioned at each IFI. At the World Bank, the overage has been running 40 percent and at IDB 33 percent. Some margin is essential so as to replace projects that drop out with others suitable for lending in the country or region and to control the timing and mix of Board presentations. At the same time, an excessive margin is costly and undesirable in terms of the manpower to generate and update projects in the pipeline. The World Bank has been experimenting in 1978 with a reduced pipeline (15 to 20 percent) as a cost-saving measure, but projections indicate that it will soon rise to former levels.

Present and former staff members and officials of the IFIs have decried the pressure upon staff to meet annual lending targets with emphasis upon quantity of commitments made annually rather than upon assurance of quality projects. Also cited by these officials as well as by officials in some of the countries visited is the tendency of the IFIs, particularly in recent years with emphasis upon social projects, to oversell LDCs in acceptance of expensive projects designed by the IFIs, straining the absorptive capacities of the LDCs to implement and manage the projects. Comments concerning such practices are supported by the statistical showing of the lag in disbursements that occurs after commitments are made and approved which is common among all of the IFIs as well as the problem common among the IFIs of "bunching," e.g., the presentation for Board approval in the last quarter of the year of 40 to 50 percent of the total commitments for the year (over 50 percent at IDB).

In the Investigative Staff's field visits, comments also were made by project managers and local officials concerning the higher levels of funding of certain projects than were deemed necessary, as well as of more elaborate design than was really needed. One governmental official in an Asian country advised he did not desire IFI participation in a $28 million dairy project but consented reluctantly because of the need for foreign exchange. The loan is through the soft window of the World Bank at three-fourths percent service charge but sublent by the local government bank to farmer cooperatives at 11 percent, which the governmental official believes is excessive. He also is apprehensive of the supervisory efforts of World Bank "college" farmers who cannot appreciate the practical problems of dealing with 10 million farmers in the dairy cooperative.

In a Latin American country, a $44 million IDB loan for an urban development project (total project cost $86 million) in a poor section of a metropolitan city is for sites and services, street paving, hospital and clinics, low-cost housing units, schools, community center, and gymnasium to serve the community. At the time of the Investigative Staff's visit, the project was proceeding satisfactorily and construction was expected to be completed in 1979. Overall, the project clearly will substantially benefit a large segment of poor residents of the city; however, it appeared that the community center and swimming pool-gymnasium were overdesigned for such purposes and are more elaborate facilities than might be found in affluent communities of developed countries. Photographs depicting the two facilities are on the following page.

URBAN DEVELOPMENT PROJECT

COMMUNITY CENTER

SWIMMING POOL

Similarly, a population project funded by an IDA loan of $13 million (40 percent of the project cost) in an Asian country, encompassing many components, included an administration building to house administrative staff for family planning. The project had many of the defects of the population project in another Asian country cited earlier; namely, excessive amounts for hardware and brick and mortar construction rather than concentration upon the human element necessary in reaching the rural poor in remote sections of the country. The architectural design of the administration building for family planning was insisted upon by local governmental officials so as to conform to traditional architectural design compatible with other buildings. In the same country, a building to house administrative staff for a tourism project, which project is described in a later subsection of this section of the report dealing with tourism lending, likewise was overdesigned to conform to local traditions. Photographs of both of these buildings appear on the following page.

POPULATION PROJECT AND TOURISM PROJECT

FAMILY PLANNING CENTER

TOURISM CENTER

2. Graduation of Borrowing Countries

There are no specific criteria, in terms of per capita income, by which graduation from IFI hard lending is adjudged, though the countries which have graduated in recent years have had per capita income in excess of $2,000. Also, it is not unusual for a country that has graduated to again be deemed eligible and a number of other factors govern such eligibilty, e.g., creditworthiness in capital markets and ability to borrow therefrom on terms affordable. At the World Bank, eight countries have graduated since 1970.

At the World Bank and ADB, graduation from soft lending to hard lending is predicated upon charter provisions and periodically, as replenishments for soft lending are made available by agreement among donor countries, the LDCs for whom soft lending is available are determined. For example, under the IDA 4th replenishment, 4 countries were added (2 of whom were new members of the World Bank) and 13 were dropped (9 of whom graduated to hard lending); under the IDA 5th replenishment, 9 countries were added (3 of whom were new members of the World Bank) and 9 countries dropped (all of whom were graduated). As a country approaches the upper levels of the per-capita-income criterion or conversely suffers a decline in its creditworthiness for hard lending, it may be considered a "blend" country where both hard and soft loans are made. The three criteria by which availability for soft lending is judged are (a) relatively less developed (below $550 in per capita income in 1976 dollars); (b) lack creditworthiness for conventional lending; and (c) be in a position to use soft lending resources effectively, as indicated by their economic performance and absorptive capacity. All three criteria must be met.

At IDB, there is no defined income test or specific criteria which must be met for an LDC to be eligible for soft lending. IDB has an extensive set of guidelines to be applied and special circumstances may be considered, as well as soft lending for a low-income region of an otherwise high-income country or for projects directly benefiting low-income sectors. Further, the wealthier and more creditworthy countries, e.g., Brazil, Argentina, and Mexico have access to soft lending by borrowing back their own currencies. As demonstrated in Table 2 earlier, 27 percent of IDB soft lending is to the high-income LDCs (over $1,135 per capita income), whereas none of the World Bank or AfDF soft lending and less than 1/2 of 1 percent of ADB soft lending is to high-income LDCs. At all of the IFIs, there is direct input by the Board of Executive Directors into the classification of countries that are considered most suitable for soft lending based on recommendations by management pursuant to established criteria. In considering criteria governing the grouping of countries eligible for soft lending, Executive Directors at the World Bank have recommended broadening the criteria base so that factors other than per capita income are judged, e.g., distribution of income, infant mortality, literacy rates, etc. The Chairman responded to such suggestions by observing that such points were interesting and would be considered by the staff.

In the presentation of approval for three separate loans to Romania during FY 1978, Executive Directors of the World Bank raised objections based on Romania's advanced state of economy and their reluctance to supply the World Bank basic data whereby the Bank could be sure of its creditworthiness (Romania received $256 million in IBRD loans in FY 1978). Management's response was that the World Bank's position on Romania is to transfer resources so as to aid it in its lack of convertible currency.

3. Program Lending

Program loans are used when needed to transfer resources to support development that cannot be effectively achieved by financing investment projects. They may provide foreign exchange for financing imports, export credits, relief of a natural disaster, or simply to relieve a sharp deterioration of trade balance or overall balance-of-payments condition. By charter, such loans are not to be made except under special circumstances; however, such term has been construed rather liberally. Program lending by the World Bank (IBRD and IDA combined) has ranged from 2 percent to 9 percent of total lending during the past 5 years. At IDB, it is less than 1 percent; ADB and AfDF do not make program loans. They are difficult to monitor to confirm uses to which funds are put.

In 1977 after brief Board discussions of two program loans to relieve balance-of-payments problems (Jamaica and Tanzania) wherein it was pointed out that a program loan was being used as a substitute for a tranche drawing from IMF and that there was a lack of coordination with IMF, Bank management agreed they represented a deviation from policy. A subsequent review of Bank policy with the Board was summarized in management's announcement that future program lending would be reasonable, that closer coordination with IMF would be desirable, that there would be a clearer statement of conditions in such loans so as to permit monitoring of performance, and that there should be a clearer statement in future on such loans regarding IMF's position.

4. Local Cost Financing

The charters of the IFIs provide that in exceptional circumstances when local currency for the project cannot be raised by the borrower on reasonable terms, the IFI may provide an appropriate amount of such cost. The operable phrase is "exceptional circumstances" which is characterized as "special cases" in the charters of the regional banks. There has been an increasing tendency among the IFIs to grant the exception under that operable phrase in recent years, particularly to finance the so-called "new style" projects in social sectors such as health, education, population, nutrition, irrigation, rural development, and urban renewal. Prior to the emphasis upon such projects (1973), ADB did not supply local cost financing. Over the years, IDB has provided local cost financing to a greater extent than the other IFIs. The Executive Directors of the World Bank passed a formal resolution in 1964 that the Bank could make local expenditure loans when necesary to insure that high-priority projects are carried out.

The proportion of total project costs represented in local cost financing at the World Bank statistically is reported as having ranged from 8 to 16 percent in the past 5 years. As a matter of policy, ADB (traditionally the more conservative of the IFIs in lending practices) holds local cost financing to no more than 5 percent of hard loans and no more than 10 percent of soft loans. IDB had no readily available statistics, though at both IDB and the World Bank it was noted in reviews of individual projects that local cost portions ranged over 50 percent. An official at the World Bank estimated that in agriculture and rural development projects only about one-third of the project costs on the average is actually expended for foreign exchange. In a proposed irrigation project in an Asian country at the World Bank for $58 million, one Executive Director raised objection to the extent of local cost financing (two-thirds of the project cost)--the Chairman responded that it was in line with Bank policy to support such financing up to 50 percent of total project cost when the project dealt with important economic objectives.

In another Asian country a $65 million urban renewal project, of which $32 million had been financed by the World Bank, was visited by the Investigative Staff. In the President's Report and the Appraisal presented to the Board, it was only stated that the $32 million would finance the foreign exchange costs with no analysis of comparative local and foreign exchange costs presented. It was also stated that civil works contracts of more than $1 million each for a total of some $14 million would be awarded on the basis of international competitive bidding and other civil works contracts of less than $1 million each, amounting to some $15 million, would be awarded on the basis of local competitive bidding. This project will be commented upon more fully in a later section of the report as it is an excellent example of aid to the poorest of the poor. However, in examining the various components of the project to attempt to segregate costs that might reasonably lend themselves to nonlocal costs, little could be found. Headquarters staff representatives at the World Bank agreed that very little of the direct costs of the project represented foreign exchange costs. At the site, the project manager had no records from which he could provide any breakdown of the expenditures between local costs and foreign exchange costs, but said the preponderant majority of all costs incurred in the project were local. There was no international competitive bidding because allegedly no nonlocal firm was interested in bidding. The point here is that it appears many projects may involve substantial financing of local costs which are not apparent in documents presented by management and do not show up in annual statistical summaries of the total amounts of local cost financing by IFIs (the 8-16 percent range shown above).

At the time of formation of the IFIs, it was the United States that pressed for restrictions in the charters governing extent of local cost financing, recognizing the loss of control over the use of funds provided when the loan is primarily expended in local costs.

5. Tourism Lending

The World Bank and IDB have engaged in tourism lending; ADB and AfDF have not. It has represented a very minor amount of total World Bank lending (0.6 percent in FY 1978) and slightly greater in IDB lending (2 percent in 1977). In FY 1978, the World Bank, following a study of tourism sector lending, proposed to the Board that it be phased out of World Bank lending in view of (a) the relatively small volume and limited number of countries affected; (b) the high drop-out rate for such projects in light of their low priority among other development projects; (c) the complexities and manpower costs of working up and supervising the projects; and (d) the finding that most such projects are not really an important source of foreign exchange earnings in developing countries. Of course, private capital markets are available for projects that promise commercially profitable ventures. The Board approved the recommendation, giving recognition to occasional contributory financing through loans to development finance companies or through IFC's mobilization of private capital for such investment. Similar questions have arisen from time to time at IDB Board meetings, but opponents of tourism projects there have been in the minority.

The Investigative Staff visited one tourism project in an Asian country financed by the World Bank ($16 million loan--a $36 million project). Except for overdesign of the building housing the administrative staff shown in the earlier photograph, the project was well designed, being successfully implemented, and was integrated with other community needs, e.g., water and sewerage, technical assistance, training facilities, and aid to local farmers growing produce for the expanded demand with a demonstration farm included in the project.

A tourism project of IDB in Mexico was scheduled for site visit but had to be aborted when the Government of Mexico refused the Investigative Staff's entry for discussion and visitation of projects. The initial loan in 1971 was $20 million and the estimated project cost $47 million; the project had a cost overrun of 96 percent and a second loan was made in 1976 of $20 million to consolidate infrastructure, urbanization, and for retroactive recognition of financing under the first project phase. The first project loan covered construction of airport, bridge, golf course, roads, dredging, acquisition of ferry, electricity and telephone service, sanitation, and other infrastructure. The borrowing entity sublent funds to a group of investors to develop a new resort site at Cancun, Mexico. Some officials at IDB described the site selection as poor in view of dangerous waters and lack of nearby facilities. The ferry and dock were deleted from the project. The bridge was built with one lane under the first phase and subsequently had to be enlarged to two lanes. Dirt had to be shipped in to construct the golf course. A U.S. Treasury official advised that the first project was acceptable on its face but the second one was quite difficult to justify, though the U.S. Executive Director was not directed to oppose it. The project had been scheduled for visit by the Investigative Staff not only because of the foregoing apparent lack of adequate planning, but information also had been received of political pressures imposed to obtain the loan and possible conflict of interest by local politicians in land acquisitions.

6. Industrial Development and Finance Lending

In the most recently completed full year, World Bank (IBRD and IDA) lending in the industrial development and finance lending sector amounted to 15 percent of total lending; IDB's 16 percent; and ADB's 16 percent (AfDF has not lent in the industry sector). Though not precisely comparable in sector divisions of lending, all of the IFIs include in that sector lending to intermediate credit institutions (ICIs). An example of the impreciseness in sector classification of loans is a $6.5 million loan by IDB in 1973 to a South American country, the purpose of which is identified as housing in IDB's statement of loans. Documentation of the project discloses it is for sites and services (water, sewerage, road pavement, railroad spur, and gas pipelines) to assist in the creation of a new industrial park adjacent to a major city. Delays have been suffered in implementation of the project. Upon visiting the site, the Investigative Staff found that 52 new businesses had located thus far in the industrial park.

Existing businesses in the adjacent city were not permitted to move into the new park. It could not be determined how the new business enterprises were selected, though one was a relative of an official of the borrowing entity.

An industrial loan on which records were examined at IFI headquarters and which the Investigative Staff intended to visit before the trip to Mexico was denied, as earlier reported, was a combined IDB/IBRD loan in 1973 of $124 million to construct a steel plant at Lazaro Cardenas, Mexico, at a first-stage total project cost of $678.5 million. Of the total, foreign exchange requirements were $310 million met by the two IFI loans plus bilateral credits from nine countries. British Steel Corporation was the operating and technical advisor. Funding was to a Government-owned steel company created in 1969, through the National Development Bank. The plant was to achieve a 1.1 million-ton capacity most of which was for the domestic market. It was the first "greenfield" steel plant financed by either bank since early post-World-War-II reconstruction days (a steel plant built from scratch upon a green field, instead of expanding an existing plant). At the time of approval, questions raised by various Executive Directors included (a) whether competitiveness would be sufficient to warrant such an addition to Mexico's debt service burden; (b) expansion of existing plants may be more feasible in view of substantial infrastructure required (construction of port and railroad spurs as well as a town); (c) training problems of workers drawn from the rural countryside and (d) deviation from usual bank policy in allowing preference to Mexican components of foreign bids instead of only on total bids. In addition, the then U.S. Executive Director at IBRD had raised questions to Treasury Department; namely (a) depressed condition of U.S. steel industry; (b) lack of coal and coke supply at site; (c) Mexico's steel-pricing practices protective of high-cost producers; and (d) his information that the project was a political deal. Information received by the Investigative Staff from IFI staff personnel was that the political overtones referred to the strong desire of a high government official of Mexico to accomplish the new construction in the home region of a former high government official who had a relative working for the steel company and there was a strong appeal for both IDB and IBRD to participate in the financing.

Cost of the first stage of the project overran by 42 percent. A proposal for a second-stage loan in 1976 for $95 million from each bank (IDB and IBRD) to raise productive capacity to 3.3 million tons was approved in 1976 as part of a $3.6 billion project. However, in 1977 after a new administration had taken office in Mexico, the project and the two loan commitments totaling $190 million were cancelled.

Production in 1978 originally estimated at 500,000 tons will run about 360,000 tons with 80,000 to 100,000 exported. Because of lack of coordination among local agencies, social and housing support for the new city has been far behind schedule. As a result, there is a high labor turnover. The plant is operating at a loss, though subsidization from the Mexican Government aids it in meeting foreign exchange obligations. Cash flow has been adverse as a result of failure to reach expected capacity. The effect of the new plant upon the general economic development of the area was overly optimistic at appraisal.

In April 1978, an IBRD loan of $16.5 million was approved for urban development of Lazaro Cardenas. In presenting justification, it was pointed out that while shelter and some urban services had been provided for regular workers at the steel plant, no provision was made for thousands of others, including many unskilled migrant workers, who were added to the unemployed when the construction of the plant was completed. The new project is to provide jobs, shelter, and urban services for the region's low-income group, construct training centers, feeder roads, sites and services, and provide sublending for small and medium-scale enterprise.

Intermediate Credit Institutions

IBRD, IDB, and ADB regularly lend to established ICIs as well as to establish new ICIs in developing countries. The ICI may be either private or government controlled. Such lending represents a fairly substantial volume--the World Bank estimates such lending at between $3 billion and $4 billion for the 5-year period 1976-1980. The World Bank reviewed its lending and policies involving ICIs and issued a published sector policy paper thereon in 1976. Also, as each such loan is completed (fully disbursed), the World Bank and ADB perform a post evaluation and issue a report to the Board of Executive Directors. (As will be covered in a later section of this report dealing with accountability, IDB has yet to institute a practice of post evaluation of each disbursed loan.)

ICIs are institutions whose major activity is to provide medium- and long-term financing to investment projects of enterprises which promote development within the country. Usually, an IFI loan together with other resources of the ICI covers expected capital needs for about 2 years. With a new ICI, the IFI normally requires that it approve each subloan; after the ICI is established and has demonstrated managerial capability, a so-called "free limit" is established in the IFI loan, below which subloans may be made without IFI approval. One of the IFI objectives in ICI lending is to expand employment opportunities. In a study of lending to 68 ICIs around the world, the World Bank found that the cost of job creation ranged from $7,000 to $48,000, per job created.

Guidelines in judging requests or proposals for ICI lending, used both by the IFIs and U.S. Treasury are (a) whether bank funding is declining as a portion of total financing of the ICI; (b) that sublending is not at negative interest rates, considering inflation and commercial and devaluation risks, to avoid decapitalization of the ICI (in some cases interest rates on subloans are as high as 40 percent); (c) appropriateness of the free limit; and (d) repayment experience on prior lending.

In reviewing post evaluations of ICI loans, it was found that the results reported were mixed. In some, institution building was successful, subloans made at profitable rates, steady improvement in availability of other resources found, and distribution of projects reflected steady growth in diversified industries. In others, objectives of the IFI loan are poorly articulated or unrealistically defined so that poor performance of the ICI resulted, investment in sublending is at a far slower pace than envisioned upon appraisal, meager information is available of performance of the subborrowers, supervision of subborrowers by the ICI is deficient, emphasis upon employment generation is inadequate, and capability among ICIs to properly appraise requests for lending frequently is lacking.

The Investigative Staff visited four projects of lending to ICIs (exclusive of agricultural credit institutions which are treated under a later section of the report dealing with aid to the poorest of the poor). One in an Asian country represented a total of seven loans by IBRD totaling $248 million dating back 15 years and four loans by ADB totaling $70 million since 1969. This ICI has directed the bulk of its loans to a few well-established industrial groups and has been criticized by Executive Directors and in internal bank documents for insufficient stress upon small-scale enterprise. Despite the period of continued operation, it remains almost solely dependent upon the World Bank and ADB for operations and continued existence. Its free limit is $2 million. The ICI's average loan the past year was $50,000, though the majority of loans made recently has been to smaller enterprises than was the case in prior years--per statistical data presented by ICI officials to the Investigative Staff. It was observed that the smaller loans require considerable more administrative overhead and contributed significantly to the ICI's overall arrearage condition of 20 percent of its loans.

A World Bank project in a South American country, representing two consecutive loans totaling $20 million, was to a well-organized and managed ICI which was emphasizing sublending for capital equipment to small-scale enterprises. One of the subborrowers was visited whose small fabrication plant (70 employees) had utilized two loans (each under

$10,000) for controlled expansion and increased production; the loans were current and overall record of the ICI indicated a good example of use of resources for development.

In an Asian country, an ICI had been the recipient of 12 World Bank loans since 1955 with three currently outstanding totaling $248 million. The ICI has 300 employees and its free limit is $600,000. Its lending is concentrated primarily among large industries and arrearages are but 3 percent of outstanding loans. In another Asian country, two ICIs were visited which have been funded by both the World Bank and ADB and their procedures reviewed as well as visitations to subborrowers. At one, arrearages represented 40 percent of outstanding loans and at the other approximately 35 percent. The country has suffered political upheavals and currency devaluations which have contributed mainly to the financial difficulties of the ICIs and the subborrowers. Neither is in arrears to the ADB or the World Bank because of subsidization from the local government. In the visits to subborrowers, shaky financial conditions were found, attributed in part to the lack of any technical assistance from the ICI as well as lack of experience and technical expertise of the secondary managerial level.

As will be reviewed more fully under the section of this report dealing with accountability, it was found in the visits to these five ICIs that during supervisory visits from the IFIs to the ICIs, no audits were conducted though annual statements of financial condition are submitted by the ICI to the IFI headquarters. The ICIs follow the same practice, i.e., they do not audit the subborrowers' records, though they likewise receive audited statements of financial condition and operations from the subborrowers.

In making appropriations for FY 1978, the Senate (Report 95-352) requested a detailed report from Treasury Department on the matter of IFI lending to ICIs. During the Investigative Staff's study, inquiries were made at Treasury as well as at the headquarters of each IFI with respect to such a study and its results. No study had been initiated and no report has been submitted. The book of issue papers submitted by Treasury at the time of hearings on the FY 1979 budget request is silent on the matter of ICI lending, except to cite examples in a discussion of interest rates for sublending.

7. International Finance Corporation

The regional IFIs do not have counterparts to IFC at the World Bank, which makes loans or equity investments directly with private enterprise, without guarantee of the country government. IFC shares the same Board of Executive

Directors as IBRD and IDA at the World Bank and it currently is receiving installments of a $480 million capital increase--the first increased capitalization since IFC was founded in 1956. At the end of FY 1978, investments held (loans and equity) totaled $983 million and earnings for the year were $12.5 million. Traditionally, IFC's portion of projects represents some 20 percent. It sponsors numerous joint ventures with private companies that can contribute technical expertise and industrial competence to the project. In addition to direct contributions of capital, IFC borrows from IBRD--up to four times the amount of its own unimpaired capital and earnings. Funds also are replenished through the sale of investments--in FY 1978, $59 million were sold.

A reserve against losses is established out of earnings. In FY 1977, loans written off amounted to $6.2 million and in FY 1978, $2.9 million. Arrearages of principal and interest at the end of FY 1978 totaled $11.2 million. Also, it is necessary each year to reschedule debts; such rescheduling over the past 5 years has ranged from two to six loans with total amounts ranging from $2.9 million to $4.6 million.

One of the loans written off in the year ended June 30, 1978, was for $1.1 million to Ethiopia. The potential loss had been pending since the 1975 nationalization of all large- and medium-scale financial, commercial, and industrial enterprise, including IFC holdings. In discussing the situation at a meeting of the IFC Board of Executive Directors in March 1978, an Executive Director observed that the situation affected IFC's ability to attract the trust and confidence of private investors and management responded that although Ethiopia had promised to negotiate, no progress had been made. In April 1978, an IDA loan of $24 million to Ethiopia for a grain storage project was presented and approved. It was apparently evident at that time that the IFC loan would be written off as a loss within the next 2 months.

IFC has its own operating staff, although it draws upon IBRD for some administrative services. It does not have a post-evaluation process nor does IBRD's post-evaluation department serve IFC projects. IFC plans to develop a system for project completion reporting in connection with its supervision of projects. Its FY 1979 administrative budget is $20.6 million; up 23 percent over FY 1978. IFC's staffing growth over the next 5 years is projected to increase from 151 to 236 (56 percent) and during the same period its program of investments is projected to increase from $240 million in FY 1979 to $480 million by FY 1983. The expansion of IFC activities is directed particularly toward Africa and Latin America and sectoral expansion into mining and energy fields, agribusiness, and service industries. IFC also intends to expand its role in financing small-scale enterprises which, to date, has been relatively minor. In reviewing the proposed 5-year program, Executive Directors expressed the hope that coordination between IFC and IBRD could be improved.

The basic criteria which must be met by IFC's investments and loans are economic priority and profitability. From time to time, as proposed IFC investments are presented to the Board, Executive Directors pose objections to the enrichment of holdings of wealthy families or other close ownership of the companies as not really contributing to the development needs of the country, not aiding the poor, representing costly job creation, and assisting companies with ample recourse to private borrowing.

The Investigative Staff visited two IFC projects during the course of its field visits. One was a fertilizer plant in an Asian country which was a $78 million project with IFI financing represented by a $32 million loan by IBRD and a $3 million equity investment by IFC. The project was a technical and financial success with construction completed on time and with a cost overrun of only 7 percent. Ownership of the company was 40 percent by a local wealthy family, 40 percent by an associated United States corporation, 10 percent by IFC, and 10 percent by the local public.

The other project was a $9 million loan by IFC in 1977 to a sugar corporation in an African country to help finance the development of a sugar estate and a factory to produce sugar for domestic and export markets. The remainder of the $65 million project cost was financed by a German development company, the European Investment Bank, a local ICI, and suppliers' credits. The project includes establishment of a 1,630-acre smallholder development (326 families), creation of 2,900 jobs, and generation of foreign exchange earnings of $7 million a year. At the time of approval, Executive Directors raised questions concerning the domination of the local sugar industry by monopolistic private interests, the displacement of 750 families with compensation of but $200 each, and the exorbitant engineering fee allowed of 15 percent of the factory cost (IFC had tried unsuccessfully to get it lowered). Construction of the factory is well underway and expected to be completed in the spring of 1979. At full production, 3,400 workers will be employed and the project includes $5 million for individual homes for each worker. Some 45 percent of the sugar cane has been planted and analysis discloses higher yield (63 tons per acre) than originally expected. Local workers have been trained to occupy senior-level positions. Although initial delays were encountered, the project is proceeding toward an apparent success. Employment opportunities had been offered the displaced families, though local officials had no statistics on the number employed.

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8. Light Capital Technology

Light capital technology, alternately characterized as appropriate or intermediate technology, has been extensively studied by all of the IFIs. The World Bank has led in the research, experimentation, and study of sectors in which it can be effectively adopted, beginning such efforts in 1971. Reports of such studies and experiments by each of the IFIs, as well as a comprehensive report by U.S. Treasury Department April 3, 1978, have been supplied the Congress and, accordingly, instant report is not being burdened with a recitation of material already supplied.

In reviewing minutes of Board meetings at each of the IFIs, it was noted that Executive Directors, particularly the United States Executive Directors, regularly emphasize the need for consideration of light capital technology in all sectors of bank lending. One difficulty is the lack of any standard or means of measuring how the IFIs are really doing in substituting light capital technology for capital-intensive technologies. Another difficulty is that with respect to any individual project, the Executive Directors have no information or input to possible alternative technologies considered in the design of the project inasmuch as the design is fixed before the project is presented for approval of the Board--thus, the only impact upon continued stress on the use of light capital technology is through general discussions to influence projects working through the pipeline. All of the IFIs, however, now incorporate requirements for consideration of technologies appropriate to the development goals and social and economic conditions of the country (or the locale within the country) in their identification and appraisal of potential projects. Many borrowing countries also stress the use of light capital technology so as to attack unemployment or under-employment problems. Among the World Bank's long-range goals is the increase of small-scale enterprise development from $50 million in FY 1977 to $300 million by FY 1981.

In its field visits, the Investigative Staff observed a number of uses of light capital technology in agricultural, rural development, urban development, irrigation, and road projects in Latin America, Asia, and Africa. All were being effectively used and local project managers and governmental officials were highly pleased with the inclusion of such approach in the design of the projects.

9. Use of Consultants

The employment of consultants constitutes a substantial cost of projects financed by the IFIs. For the 5-year period 1972-1976, it represented 6 percent of total disbursements at the World Bank. In one loan for $36 million for area development, consultant fees of $8,000 per man-month were charged. Consultants are employed by the borrowing entity when its own resources are inadequate for the tasks involved and are used for preinvestment studies, engineering and design, and technical guidance or supervision in the project's implementation. Selection of consultants is the primary responsibility of the borrower but the IFIs review and approve the terms of reference, the budget, the list of proposed firms under consideration, and the contracts executed. While policy provides that the IFI act in an advisory role, it frequently assists in the selection process and negotiation of the consultant contract. Policy also provides that the selection of consultants by the borrower be made on the basis of technical information without regard to price so as to avoid price becoming a major consideration in selecting consultants.

At the World Bank, an internal study was made in 1977 of the cost-effectiveness of the substantial and growing amounts of World Bank financing utilized for the purchase of consultant services. The problems presented for study were poor conception and planning, borrower resentment of tasks and costs that were felt to be imposed by World Bank staff personnel, disagreements concerning the competence of consultants selected, and failed results. In its report to the Board, the findings were cast in the usual muted and recondite terminology one encounters in IFI management documents; namely, (a) generally, the Bank's role was proper; (b) it is difficult to gauge consultant's performance; (c) costs have moved with general price levels; (d) clients did not give support to consultants that might have been expected; (e) allegations that Bank supervision interfered with consultant's work were not substantiated; and (f) the performance of consultants in training local personnel was variable. It was concluded that, nevertheless, the Bank could improve through a better system of collection and retrieval of information on consultant services and although encouragement of the use of local talent is a Bank policy, there may be room for improvement there also.

A member of the Joint Audit Committee of the Board was critical of the report as too generalized and in the individual cases studied, when a critical result appeared, the Bank dismissed it as not typical; the review was an expression of general views on Bank operations rather than a critical analysis of key issues; while it concludes that the Bank's present system of selecting consultants is best, that is contrary to what borrowers have expressed to members of the Board.

When the report was reviewed by the full Board, similar criticisms surfaced, including a need to avoid the striking deviation from Bank policy in selection of consultants, the need to get the borrower more involved in determining a need for consultants, insufficient use of local consultants, and the need to have borrowers evaluate consultant services instead of evaluation solely by Bank staff.

In a subsequent report responding to consideration of Board comments, it was indicated that the Bank was considering a better system of compiling and retrieving data on consultants' performance, that steps should be taken to evaluate consultants' performance in the course of regular supervision, that steps needed to be taken to encourage local consultants, that the Bank would pursue the question of how to improve the definition of consultants' tasks, that it will consider ways to improve the system of selection, and that the policy guidelines will be brought up to date.

10. Future Growth

All of the IFIs are committed to real growth in the years ahead, ranging from 5 percent in present World Bank planning to some 25-35 percent by AfDB. In its "Issue Papers" submitted to the Congress in the spring of 1978, U.S. Treasury indicated support by the Administration of growth of lending by the IFIs during the 1980s of 5 percent in real terms as a broad overall rate (not equally applied across the board to each IFI). In a current (December 1978) statement submitted to the House Committee on Banking, Finance and Urban Affairs, outlining authorization and appropriation levels anticipated for FY 1980-1984, discussions of rates of growth therein are unclear and beg the question of levels of annual lending commitment that will be permitted by the IFIs under the capital increases and appropriations being proposed. Instead, rates of growth are cast in terms of comparisons of paid-in capital (excluding callable capital) represented in the current anticipated requests to the paid-in capital contained in prior years' requests--a non sequitur in considering rates of growth of IFI lending to be funded by the capitalization increases and replenishments sought. The confusion is compounded by using zero paid-in capital for IBRD in the 1981-1984 time frame, comparing it to the 10 percent paid-in capital of IBRD in prior periods (ignoring future plans for callable capital), and then erroneously pointing to the "negative growth" involved in real terms in the amounts of paid-in capital to be appropriated.

As has been set forth earlier in the report, FY 1980 authorizations being sought are for four IFI windows--IDB (ordinary capital), FSO, ADF, and AfDF. Present planning calls for seeking new authorizations for IBRD and IDA (VI replenishment) in FY 1981 and for ADB (ordinary capital) in FY 1982.

In the course of the Investigative Staff's inquiries, suggestions were posed by officials interviewed for future consideration of division of types of lending by sector among the World Bank and the regional IFIs, or of the World Bank assuming a greater role in providing services and coordination among the regional IFIs. In any consideration of the future role of the IFIs and/or of multilateral assistance vis-a-vis bilateral assistance, cogent points emerge, both pro and con.

Bilateral aid is a complex amalgam of systems among major donor countries, encompassing motivations of economic and social development, maintenance of political stability where special ties exist to the donor, and promotion of favorable types of exports. Multilateral institutions enjoy a political assistance frequently more effective, staffs trained in a variety of disciplines to provide technical assistance, leverage of capital with borrowing in private markets, equitable burden-sharing among donors, and freedom to employ infrastructure and industrial development which generate employment that are outside the scope of USAID. Multilateral lending also embraces a subtle influence throughout the Third World of encouragement of beneficial adherence to economic patterns of the Free World rather than embracing the communist patterns of development, with the assistance offered by the IFIs being insulated from policy variations of any one member country.

On the other hand, continued growth of the IFIs contributes to an ever-increasing political power base that is, in many respects, independent of direct and positive control of the member governments. Both former and present officials of the IFIs expressed apprehension of such factors during the Investigative Staff's inquiry, as well as the point of the undetermined level at which the IFIs will be able to effectively administer a vast lending program. The pressures to demonstrate growth by committing an increased amount of lending each year tends to overstrain the absorptive capacities of LDCs and thus be counterproductive in making them more dependent rather than building their own indigenous institutions. Considering the backlog of undisbursed loans, there is a continuous need to borrow and, in turn, a continuous need for new infusions of capital. Whether callable capital really is "free" depends upon the soundness of the economies of the Third World in the decades ahead.

a. World Bank

The question of planned growth of IBRD and consideration of the appropriate amount of its next general capital increase was formally presented to the Board of Executive Directors in a report of the Bank President in January 1977, which presented various alternatives and pointed to a need for resolution of the question by the end of calendar 1978. The amount of the proposed increase--$30 billion to

$40 billion--was endorsed by the Board of Executive Directors as well as by the Governors at the annual meeting in September 1978. Though the Bank has urged action and pointed out that failure to resolve agreement on the capital increase by January 1979 may impose real penalties on borrowers, U.S. Treasury had not reached a final position on the amount and timing of the proposed increase, as well as the question of extent of capital to be paid in, at the time of the writing of this report, in December 1978. However, out-year projections indicate a U.S. share of $9.6 billion (24 percent) of a $40 billion capitalization.

IBRD growth is measured in terms of annual lending commitments, and from 1973 to 1978 it grew at a rate of 11 percent. The proposed $40 billion capital increase would provide annual growth of 5 percent in real terms. Based on such growth and on an IDA VI replenishment providing the same real terms of growth as IDA V, lending targets in current dollars (billions) are:

	FY 1979	FY 1983
IBRD --------	$6.8	$10.4
IDA ---------	2.6	3.2
Total ----	$9.4	$13.6

IBRD is the largest single source of official development finance and since the 1960s has materially shifted in sectoral lending from infrastructure projects, principally transportation and power, to agricultural projects. It predicates its case for 5 percent real growth, in part, on the need to sustain and accelerate economic growth among LDCs and to reduce absolute poverty in the poorest countries, with emphasis upon increasing productivity of the rural and urban poor in those countries. The net external financing requirements of LDCs (excluding oil exporters) is projected at $39.5 billion by 1980, $30.3 billion for middle-income countries, and $9.2 billion in poor countries. Potential graduation in the 1980s is foreseen for Portugal, Romania, Yugoslavia, Argentina, Brazil, Mexico, and Uruguay. Growth of 5 percent per year in real terms equates to growth in nominal terms of about 12 percent a year, or a need to double capitalization about every 6 years.

In testimony before the Committee in 1977 with respect to appropriations for the selective capital increase, U.S. Treasury officials observed that upon receiving that increase, the World Bank would be able to operate indefinitely at its current (FY 1977) level of lending, without ever coming back to the Congress again, i.e., its earnings and turnover of repayments on loans, plus borrowings permitted by the subscribed callable capital, would finance future lending at approximately that $6 billion level. World Bank officials confirmed that estimate to the Investigative Staff, pointing out, however, that continued operation at a $6 billion lending level meant a gradual decline in real terms of some 6-7 percent per year resulting from inflation. There is concern among World Bank officials that adoption of a no-real-growth policy would adversely affect the Bank's standing in the bond market and force decline in lending even more rapidly than that caused by inflation factors.

Irrespective of the proposed general capital increase, the World Bank announced January 18, 1979, its plans to go forward in the energy sector with a $3 billion 5-year program for oil and gas development in LDCs other than those that are members of the Organization of Petroleum Exporting Countries (OPEC). The program was urged at the Bonn Economic Summit of July 1978 as well as by the United Nations and encompasses some $2 billion for development of known reserves in oil importing countries, $460 million for appraisal drilling in known fields, $450 million for geological exploration, and $100 million for geological surveys. It is expected that the exploration activities will attract other investment capital. Countries considered for projects include Argentina, Colombia, Bolivia, Peru, India, Turkey, Syria, Philippines, Pakistan, Vietnam, Egypt, Tunisia, Chad, and Zaire.

Both Bank officials and members of the Board of Executive Directors have raised questions, in considering the overall matter of growth, as to the need to resolve the role of the World Bank vis-a-vis the regional IFIs and the administrative implications of expanding growth of professional staff and ability of IBRD to assure continued effective management and quality control of its lending operations. The 5 percent growth rate means an increase of professional staff of some 60 percent over the next 10 years.

The time may come when the ability of the World Bank to operate on its own, without ever-expanding infusions of capital, whether callable or paid in from member governments, will have to be tested. The Executive Branch has had ample time to formulate long-range policy, not only concerning the next round of IBRD capitalization but concerning other issues of future growth of all of the IFIs, and should be required now to recite and justify policy planning goals to the Congress.

b. Inter-American Development Bank

The new capitalization for ordinary and interregional capital for IDB of $8 billion will continue to allow growth in real terms at the historic level of about 7 percent annually. IDB's projected lending program for the 4-year period, 1979-1982, shows a doubling of loan commitments during that period--from $995 million in 1979 to $1.9 billion in 1982. Authorization is being sought for the U.S. share of $2.75 billion of that increase (34.5 percent) of which 7.5 percent will be paid in and the appropriations are to be spread over a 4-year period. Thus, the paid-in capital of the U.S. share for each of the 4 years (FYs 1980-1983) is $51.5 million and the callable capital over that same period is $635.8 million annually.

The negotiated fifth replenishment of FSO, for which authorization for the U.S. share likewise is currently being sought, is $1.75 billion, also to be spread over the next 4 years. The U.S. share of $700 million (40 percent) thus represents an appropriation request of $175 million for each of the years FY 1980-1983. IDB's concessional program, under FSO, is changing in that it is projected at a constant level of $625 million over the next 4 years, thus representing a decline in real terms. Several countries have agreed not to borrow convertible currencies from FSO under the fifth replenishment thereby allowing the reduction of soft lending in real terms. The change will permit greater allocation of FSO resources to the poorer countries and present planning calls for 75 percent of FSO lending to be to these poorer countries in 1979-1980 and 80 percent in 1981-1982. As shown earlier in Table 2 in this report, historically 70 percent of FSO lending has been to middle-income countries and the proposed change of lending practice is long overdue.

c. Asian Development Bank

ADB's second general capitalization increase of $5 billion, approved in 1976, is still being incrementally funded and will carry its lending program from ordinary capital resources through 1981. The U.S. share of that increase (16 percent) is $814.3 million for which appropriations are being sought over the 4-year period, FYs 1978-1981. There are yet no definitive plans for the next general capitalization increase and ADB's projected lending program from ordinary resources (hard lending) show an annual growth rate of about 4 percent from 1979 to 1982, reaching planned commitments of slightly over $1 billion in that year. However, in considering the combined resources of hard and soft windows, planned growth averages about 6.5 percent per year because of the more rapid growth of concessional lending from ADF.

The third replenishment of ADF negotiated in 1978 is for $2 billion, of which the U.S. share of $445 million (22 percent) is included in authorizations being sought in present submissions to the Congress. It likewise is to be spread over a 4-year period, with the first increment of $111.25 million requested in the FY 1980 budget request. The $2 billion replenishment will permit growth in concessional lending of 10 percent per year in real terms over the 1979-1982 time frame, reaching a level of $670 million by 1982. Currently, the ratio of ADB's concessional lending to total Bank lending is some 33 percent; ADB plans to increase this ratio to 40 percent by 1982, so as to meet its objective of achieving a more balanced proportion between the level of assistance provided recipients of concessional loans and that provided to recipients of loans on conventional terms. As shown in Table 2 earlier in the report, almost 90 percent of ADF lending has been to low-income countries and its concessional lending has been concentrated in the agriculture sector in these countries (57 percent of concessional lending in 1977).

d. African Development Bank

Pursuant to a May 1977 resolution, AfDB has been proceeding with negotiations for nonregional membership and, for planning purposes, is using a 30-percent growth rate over the 1982-1986 period which implies a $4.2 billion lending program. To finance that lending program, management has suggested a capitalization increase to $6.3 billion, with non-African members providing one-third and with paid-in contributions from African members being entirely in local currencies. As of June 30, 1978, the Bank's subscribed capital totaled $957 million, of which $363 million was paid in. The principal assumptions underlying the $6.3 billion capitalization plan are: (1) that the Bank can borrow against 90 percent of the non-African callable capital; (2) that it can borrow against 40 percent of African callable capital; and (3) that it can lend local currency paid-in contributions for intra-African procurement. Any change in these assumptions will affect the size of the capital increase needed to sustain any given level of AfDB lending.

Other policy issues under discussion in the negotiations are the portion of African-member contributions that will be in convertible currencies, the unit of value, possible special contributions or entry donation by nonregional members, voting structures, the future relation of AfDB and AfDF, the basic decisionmaking rules of the bank, human rights, recruitment policies, and employee tax problems.

At the time of the writing of this report, U.S. Treasury's position, in connection with the negotiations, was not firm and officials pointed out that full consultation with the Congress would be required before any commitment is made. Current thinking was that a lower rate of growth might be desirable and that the United States' share of nonregional capital in the 15-20 percent range (roughly parallel to the

U.S. contribution to AfDF) probably would be proposed. It is anticipated that negotiations would be completed so that authorization and appropriation requests would materialize in the FY 1981 or FY 1982 time frame. Out-year projections indicate planning for a U.S. share of $500 million of the nonregional capitalization, spread over a 5-year period, with 25 percent being paid in.

The United States has contributed $50 million to AfDF, including the $25 million appropriated for FY 1979, and that cumulative contribution is expected to raise the U.S. share of the fund resources to 10 percent, tying the United States with Japan as the second major donor, behind Canada. Total pledged resources for AfDF of $500 million were expected as of the end of 1978. For the second replenishment of the fund, donors have agreed to a $770 million target which will cover fund lending through 1981 and permit a 10-percent real growth in lending over the 1979-1981 period (AfDF's fiscal year being on a calendar-year basis). The U.S. contributuion to the second replenishment has been programed at $125 million for which authorization is now being sought. It is planned for payment over a 3-year period, and the first appropriation of $41.7 million is included in the FY 1980 appropriation request.

E. Loan Administration

1. Economic Rates of Return

The IFIs presentations of proposed projects to the Boards of Executive Directors normally contain representations on financial and economic rates of return, determined during the loan appraisal process, as part of the justification for making the loan. Financial rates of return are fairly forthright in that profitability is calculated, i.e., the revenues to be generated over the project life as a ratio of the capital invested. The economic rate of return is more esoteric. It is computed on the premise a country should not borrow beyond the point at which the real cost of debt service exceeds the economic return on the project. There is no set percentage by which projects are accepted or not accepted, though it is generally recognized that a project should show an economic rate of return of 10 percent or better and the average is believed to be around 18 percent. A borrower should not obtain an IFI loan if its opportunity cost of capital (its productivity in other uses) is better applied elsewhere.

A combination of macro-economic data and project perspectives are gathered to evaluate whether the project is a high-priority use of resources and whether the project can sustain itself without subsidy or protection. Shadow pricing frequently is used, predicated upon an increase in welfare resulting from any marginal change in the availability of commodities or factors of production. The economic rate of return is expressed as a discount rate which equates the present value of expected future revenues to the initial cost outlay. Certain effects of a project, particularly one in the social arena, may not impose a cost or confer a benefit but, if significant, they are to be identified and measured, though it is recognized that there is really no satisfactory way to deal with them--many professional judgments are involved in the process.

In reviewing samplings of project post evaluation reports, it was noted that not infrequently the calculation of the economic rate of return, made after all disbursements were completed, was significantly lower than that calculated in the original documentation presenting the project to the Board for approval.

In the urban renewal project in an Asian country alluded to in an earlier section of the report, an economic rate of return was quoted in the appraisal presented to the Board of 21 percent for the component of providing sites and services for 180,000 squatters in a slum area of the capital city (per capita income of $87). Revenues are to be generated from long-term leases, with option to purchase, and water and sewerage charges. (Other components of the project with different economic analyses are not dealt with so as not to complicate the illustration.) The project also encompassed small business lending and cottage industry establishment by the local government. In visiting the project, the Investigative Staff learned that the proposed cottage industry and small business loan aspects were not working as the squatters do not trust the local bureaucracy and continue to utilize the local loan-shark lenders. The governmental authority operating the project now expects no net financial return over the 25-year project period, though it is hoped that the project breaks even. The local officials advised that the World Bank economists appraising the project had to arrive at some economic rate of return and they advertised in the local newspapers for a good tract of land near the port. From responses to the advertisement, a tentative land value was derived on the theory that, if someone paid the true value of the land instead of the subsidized value, it would produce a higher economic return. It was then quantified into an economic rate of return, inflating it by consideration of improved health and social benefits. The result was deemed to be meaningless by the local officials except as an exercise to go through to be able to present a quantified economic rate of return. The project really should be judged on its merits as a high-priority social project to aid the poor, according to these officials.

Another World Bank soft-loan project (IDA) in Africa for rural development, encompassing agricultural credit, livestock credit, insect control, water systems, agricultural training, animal and land husbandry, hospitals, clinics, and road and building construction, has progressed into its third phase. The first loan was $4.3 million in 1968; the second $10.5 million in 1973; and the third $11.6 million in 1978. The original economic rate of return estimated at 20 percent has been adjusted downward to about 8 to 10 percent. Project officials and the local Ministry of Agriculture officials advised that their own computations of economic rates of return differ from those of the World Bank and they have not been able to obtain responses to their queries as to how the World Bank computes the figure. They now anticipate a negative economic rate of return but believe that substantial nonmeasurable benefits, nevertheless, will accrue. They observe that economic rates of return should not be used to attempt to measure the worth of a project but only to measure one project against another.

Former World Bank and U.S. Treasury officials interviewed in the course of the study advised that documentation of project proposals are massaged to perfection and represent only an illusion of real conditions; that projects are treated by IFI economists as though they were being carried out in a high-powered social laboratory rather than in a poor undeveloped country; and that paper and bureaucratic procedures are substituted for substance.

2. Procurement Practices

All of the IFIs require international competitive bidding for goods and services to be procured for the foreign exchange costs involved in the projects, except where specific exceptions are applicable. The international competitive bidding procedure has two basic principles: (a) all eligible suppliers should have equal access to procurement opportunities and (b) procurement should result in the provision of appropriate goods and services (as determined by the borrower with the assistance of his consultant) which meet specifications at minimum cost. Procurement procedures to be followed in all cases, together with the criteria for exceptions to international competitive bidding procedures, are published by each IFI. The documentation on each loan specifies that the borrower will follow the lending institution's guidelines for procurement and will adopt procedures approved by the lending bank for advertising and evaluating bids under international competitive bidding procedures. In certain cases, particularly for large or complex civil works contracts, the Bank's guidelines allow for prequalification of bidders.

In certain circumstances, international competitive bidding may not be required by the lending bank and exceptions may be granted due to the special project characteristics. These circumstances usually include (1) projects where the borrower must maintain the technical compatability of equipment with other equipment either already integrated in the project or in other related projects; (2) procurement of spare parts for existing equipment, where the number of qualified suppliers is limited; and (3) contracts in which either the amounts involved are so small that foreign firms would clearly not be interested or where the goods and services are so diverse and limited that securing bids is impractical.

The procurement guidelines of some of the IFIs also allow for certain preferences to local suppliers. Such exceptions may be granted to local suppliers in the recipient country and/or to suppliers in other developing country members. A 15 percent margin of preference for local suppliers of equipment and materials and 7.5 percent for local contractors is permitted. This preference is applicable only when the borrower requests it and is only for locally manufactured goods. Formerly, the preference was only applicable to the poorer countries but has now been extended to all borrowers. It is permitted in order to encourage the growth of local industry and provide incentive to the borrower.

Another exception granted by the IFIs is for consulting services required to design and to implement a project inasmuch as these services are selected on the basis of qualifications to perform the required work and not on the basis of their cost. Financial terms are set through negotiations between the borrower and the consultant.

Although the IFI loans finance only a part of the total cost of projects, including the foreign exchange funds needed to finance items not available within the borrower country, the ultimate responsibility for the execution of the project and, therefore, for the award and administration of contracts under the project rests with the borrower. The IFIs are concerned generally with three considerations: (a) economy and efficiency in the execution of the project, including the procurement of the goods and works involved; (b) giving all its member countries, developed and developing, an opportunity to compete in providing the goods and works financed by the lending bank; and (c) encouraging the development of local contractors and manufacturers in the borrowing country.

Satisfying these considerations necessitates extensive involvement of the IFIs in the actions taken by the borrower country to meet the requirements of IFI procurement guidelines. This involvement usually entails detailed reviews and approval of the prequalification procedures and criteria, tender documentation, bid evaluations, and contract awards.

Despite the existence of the IFI procurement guidelines and direct IFI involvement in the borrower's procurement actions, many of the implementaton delays being experienced in projects can be traced to problems associated with satisfying the requirements of the procurement guidelines or, in some instances, the overapplication of the guidelines.

Of its 16 "special attention" projects as of March 31, 1978, ADB classified four of them as being delayed in implementation due to procurement problems. In commenting on project implementation in its Highways and Airports Division, ADB noted that difficulties had been encountered in the preparation and issue of tender documents due to lack of adequate experience on the part of executing agencies. It also mentioned that in one project delay had been due to the failure of the executing agency to justify its proposed award of contract to a tenderer other than the lowest evaluated bidder.

An independent management consultant's report on a review of the disbursement and control procedures applied by AfDF pointed to the many projects delayed because of difficulties of procuring goods from member countries.

During the course of review of selected projects being financed by the IFIs, the Investigative Staff noted instances wherein procurement procedures, in a variety of ways, had impact upon the implementation of the projects. For example, in 1977 a U.S. company was determined to be the low bidder by a substantial margin for the switching equipment component in an IBRD-financed telecommunications project in which the total loan was for $25 million. In apparent disregard of the agreed-upon arrangement that the Bank would approve the award of the contract, the borrower elected to award the switching equipment contract to a French company, despite the fact that it was not the low bidder. The U.S. company complained to IBRD and to the U.S. Executive Director. Despite protests by the U.S. Executive Director and by IBRD management, the borrower remained adamant in its decision to award the contract to the French company. Although the U.S. Executive Director sought to have the entire loan cancelled because of the borrower's actions, the IBRD took action to cancel only that part of the loan that was intended to go for the switching equipment ($7.6 million) with the remaining portion of the loan remaining to finance the other parts of the project.

In another instance, IBRD management reported to the Board of Executive Directors the cancellation of a 1977 loan of $40 million to an Asian country arising from an initial disagreement between the IFI and the country over a proposed procurement contract award. The project involved an integrated grain storage and handling system, comprising the design and construction of 15 silos and expansion of 5 existing ones, a mechanized inventory control system, personnel training, and a grain marketing and pricing study. Delays and changes in silo design had resulted in a 280 percent cost overrun (total estimated project cost of $92 million had risen to $350 million). The borrower had decided to award the procurement contract to a local firm that had ranked seventh in the original bidding for the project. Because such action was inconsistent with IBRD procurement guidelines, the borrower was advised of the Bank's objection to the award decision. The borrower dispatched a delegation to IBRD headquarters with a request that the loan proceeds be used solely to finance the expansion of the existing five silos. Bank management reported that it was quite prepared to disburse the loan on that basis, but the delegation went further and insisted that the entire construction component of the project be redefined in the loan agreement to cover only the five silos. Bank management concluded that such proposal was not acceptable since it would have removed assurance that the balance of the integrated interdependent project would be carried out and took the position that unless the project were maintained as an integrated nationwide storage and transportation system, it could not justify financing some fragment of it. The country refused to reaffirm its commitment to carry out the overall project and thereupon elected to announce cancellation of the unwithdrawn amount of the loan--$39.1 million. Thus, it appears that Bank management would have condoned the attempted circumvention of its procurement guidelines, had the local government agreed to proceed with the full integrated project.

In making disbursements against procurement, the IFI's examination of documentation furnished is directed principally upon the meeting of financial requirements and procurement guidelines--not whether the procured items are appropriate to meet project goals. A high official at IBRD advised that Bank procedures were not really adequate or designed to detect if overbuying occurs in a project and the material consigned to other uses. The IFIs recognize that international bidding is sometimes rigged and the Investigative Staff found that personnel charged with loan supervision consider that examination of procurement documentation by the Controller's Department is where such practice should be detected whereas Controller personnel consider that the regular supervisory responsibility of the regional operating department is where it should be detected.

The periodic submission of external audits of borrowing entities, described more fully in a later section of the report dealing with accountability, normally involves description only of the financial condition and year's results of overall operations of the entity--not a tracing of procurements and expenditures under the project. Although IBRD regulations provide for an exception, i.e., when the entity submits only a listing of expenditures, instead of procurement documentation, an audit of expenditures in such instance is provided for under IBRD regulations to show that goods were procured or work performed and payment made therefor. No such audit reports were available for examination by the Investigative Staff and project supervision personnel in the operating departments did not express familiarity with that type of audit requirement.

IBRD's Internal Audit Department in January 1978 reviewed conformity to procurement guidelines in a selected sampling of projects in one regional department of the Bank. Their report concluded that both borrowers and consultants had complied substantially with the Bank's procurement guidelines and that, with certain exceptions, the Bank staff had properly carried out its responsibilities. The exceptions were (a) that loan supervisory personnel after reviewing bidding procedures did not thereafter review the actual contracts awarded to assure that no substantial changes occurred, and (b) that a form designed to track and record procurement actions was not utilized by supervisory staff because they felt they had insufficient time to do so.

3. Supervision of Loans

Supervision of loans by the IFIs, up to the point of final disbursement, is to insure the loan proceeds are used only for the purpose for which the loan was granted, that the proceeds are disbursed to meet expenses of the project as incurred, and that the project has its intended impact upon the development process. Supervision is accomplished by desk reviews of progress reports submitted by the borrowing entity and by on-site visits to the projects, either from IFI headquarters or from a resident mission field office. IDB has a field office in each borrowing country; ADB and AfDF operate exclusively from headquarters; the World Bank has some resident field offices but primarily operate supervision missions out of headquarters.

Supervision missions are at three stages of the project: (a) at implementation to assure the project gets off to a good start; (b) in the operating stage to check progress; and (c) after final disbursement to assure the borrower can service the loan and to see how the benefits match with the original appraisal. At the final stage, a project completion report is prepared by the regional department having supervision over the loan which serves as the basis of the subsequent post evaluation of the project by another department. Reports of the results of supervision reviews are not available to the

Executive Directors of the IFIs and consequently were not available to the Investigative Staff.

Supervision is one of the principal administrative costs, in terms of manyear effort, with an average of 13 manweeks devoted to supervision per project. At the World Bank and ADB, it is 15 percent of the administrative budget; at IDB it is 24 percent. The supervision workload has increased substantially in recent years because of emphasis upon more complex social-oriented projects and the recognition of past inadequacies of supervision.

The number of projects developing problems has increased. The World Bank reports that in 1977, 11 percent of all projects had major problems and 50 percent had moderate problems. There is a special review by an upper-management level of officials semiannually of all projects with special or major problems. Again, this review and its results are not available to the Executive Directors, though broad studies of the supervision process by the Internal Audit and Operations Evaluation Departments of the World Bank and by the Group of Controllers at IDB have been reviewed with the Boards of Executive Directors. These studies have pointed up defects such as: (a) inadequate financing by the borrowing entity or local government of recurring costs (maintenance, spare parts, staffing levels, etc.); (b) one-half of revenue covenants in loan agreements not complied with caused by unrealistic original targets, insufficient enforcement by the Bank, lack of commitment to financial objectives by the borrower, and other factors internal to the project and/or the borrowing entity; (c) frequent cost overruns; (d) breaches of covenants in areas of staffing levels to operate the project, auditing of accounts, and cost recovery; (e) infrequency of supervision missions, poor continuity of staff participating, and non-inclusion in such staff of financial analysts causing failure to detect low levels of accounting practices; and (f) failure to sufficiently apply lessons learned in one project to other similar projects.

As noted earlier, whereas supervision missions are the principal vehicle for assuring that funds are being allocated and expended for the purposes for which intended in the project, normally a supervision team (2 representatives for a 2-week period) is made up of economists, engineers, technical specialists, or financial analysts, but does not include auditors for reviews of financial records of account. Internal studies have commented that financial reporting by the borrowing entities and auditing are weak links in the overall control system involved in the supervision process. Frequently, younger and less experienced staff are assigned to supervision missions with the older, more experienced professonal staff devoting time to the appraisal and lending

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processes. Revenue-earning projects normally include requirements for annual audit by independent auditors or governmental agencies which are overall reviews of the financial condition of the borrowing entity, rather than an accounting of the use of project funds. The nature of these audits is more fully described in a later section of the report dealing with accountability of the IFIs.

Supervisory officers at the IFIs advised that a difficulty often encountered is the hydraheaded proliferation of local agencies involved in a project, each zealous of its own prerogatives, making it difficult to fix responsibility for failures and delays in projects. It also appears evident that problems might be minimized if smaller pilot projects were initiated, particularly in the so-called new style types of projects, before rushing to commit funds to overly ambitious projects for which the country does not really have the absorptive capacity in terms of its existing institutions.

In its field visits, the Investigative Staff encountered both commendatory and critical comments of the supervision missions by the local project managers and staff. In the majority of cases, the local officials were appreciative of the missions and had found them helpful in keeping the project progressing toward its desired goals. The most frequent critical comments were lack of understanding by the IFI supervisors of local conditions affecting implementation of the project and lack of continuity of personnel on the supervision teams. The latter condition results in substantial time being spent educating the IFI supervisory officials in the parameters of the project and in having each new team engage in application of its own ideas in redesigning components of the project. At an urban renewal project in an Asian country, the project manager recited how upon each supervisory visit, the new team members elicited from him a recital of the current problem areas and how he was overcoming them and then simply wrote up their report citing those same problem areas as having been discovered and supplying his solutions as their recommendations on how to overcome them.

Infrequency of supervision contacts was another criticism with the time-consuming process, particularly in dealing with AfDF, of attempting to resolve problems by mail with the red tape of bureaucracy causing frequent delays and resultant cost overruns. An internal study at the World Bank indicated that over one-fourth of the 140 projects reviewed suffered from insufficient frequency and/or intensity of supervision.

Delays in Implementation

Delays in implementing projects, after they have been approved and negotiated, have been a particularly thorny problem for all of the IFIs in recent years. They result in a lag in the planned disbursement schedule affecting the IFI's liquidity and in increased overall costs to the borrowing entity. Undisbursed commitments at the World Bank (IBRD and IDA) at the end of FY 1978 were $17.6 billion, contrasted with $6.7 billion at the end of FY 1972. The World Bank expects the lag in disbursements and delays in implementation to continue over the next several years because of different technical characteristics of the new-style projects, involving new agencies carrying out new activities to benefit groups of people previously considered outside the reach of most government programs and, accordingly, has lowered the projected disbursements previously estimated over the next 5 years (FY 1979-1983) by $3.3 billion.

The World Bank is currently engaged in a study of the causes of implementation delays, using 523 projects spread among 7 sectors. In that group, approximately one-third were on schedule in the second quarter of the disbursement period; of the two-thirds delayed, 35 percent were up to 1 year's delay, and 31 percent from 1 to 3 year's delay. At the point of full disbursement, only 17 percent were completed on schedule. While no single, consistent cause is apparent, the most frequent cause encountered is lack of local financing for funding the borrowing entity's share of the project. Other causes preliminarily indicated are (a) inadequate preparation, (b) inappropriate scale and complexity of projects, (c) changes made during the implementation period, (d) inappropriate covenants and agreements, (e) poor projection of the disbursement schedule at appraisal, (f) changes in project management, (g) problems encountered in following agreed procurement procedures, and (h) overoptimistic appraisals. With respect to the latter point, an earlier study had shown that a large number of projects should not have been presented for approval as they were not really ready for implementation, buttressing the earlier observation in the report concerning the rush to commit funds to meet targeted goals before the expiration of the fiscal year. A similar study of problems of implementation delays by the Group of Controllers at IDB cited some of the same causes as those listed above and reported occasions when IDB staff has been somewhat passive in the face of these problems.

Though in most cases, the cost overruns resulting from delays in implementing projects or from other causes such as inflation and balance-of-payment difficulties are required to be financed by the local governments or else are countered by reducing the scope of the project, it is not infrequent that the cost overrun is subsumed by the IFI in the funding of follow-on projects. In a World Bank project visited in South America, seven consecutive loans were involved for highway construction beginning in 1951 and aggregating $225 million. Except for the most recent loan on which there is little implementation experience, all have suffered problems and delays during implementation including geophysical survey deficiencies, inadequate provision of local funds, weak institutional management, unfavorable weather, award of construction contracts to inexperienced and financially weak local firms, inadequate design, and poor supervision and coordination by the local Ministry of Public Works. Resulting cost overruns have been taken up in the succeeding loans, either through direct funding or the reduction of scope of the earlier loan with inclusion of the reduced effort in the succeeding loan.

F. Roles of Management and Executive Directors

IFI charters provide that the Executive Directors shall be responsible for the conduct of the general operation of the IFIs, shall function in continuous session, and meet as often as the business of the bank may require. Under the direction of the Executive Directors, the President shall conduct the ordinary business of the IFI and shall serve as Chairman of the Board of Executive Directors. Lacking their own Chairman and any executive secretariat, the Board of Executive Directors of any given IFI necessarily must rely substantially upon management for direction, guidance, and resolution of policy issues. A former Executive Director likened the arrangement to a wheel with a well-greased hub (management) and spokes (Executive Directors) but no outer rim.

The overwhelming majority of Board decisions historically have been taken on the basis of consensus rather than through formal voting. The Executive Directors traditionally look to the Chairman (President of the IFI) to seek informal compromise on any contentious issues before the issues are presented to the Board for formal action. At IDB, the Board resolves itself into a Committee of the Whole for informal discussions; at ADB, informal coffee sessions are regularly held; at the World Bank and AfDF, there is no particular format for informal dialogue. Executive Directors do not have the range of expertise to examine all of the technical aspects of individual projects presented for approval but use such presentations as vehicles to raise policy questions or issues which management then takes under consideration. There is no institutionalized process for assuring followup on issues raised, though frequently policy papers are thereafter presented the Board outlining management's position.

Two former Executive Directors of the World Bank have been publicly critical of the extent and volume of paper with which the Board is inundated. Others interviewed during the course of this study echoed the same sentiment, observing also that management of the IFIs do not encourage any stronger role by the Board and discourage visitations to project sites. The Board has no input to formulation of the budgets, though they are presented to them for approval. The Board does not have access to the IFI's 5-year lending program by sector and country and it is a rule of thumb that Executive Directors do not go into internal IFI files or supporting documentation for reports presented. Executive Directors contend that they have not been denied documents when asked for, yet during instant study certain materials requested through the U.S. Executive Directors were denied.

Reports submitted to the Board are prepared so as to be as inoffensive as possible to anyone and cast a hope of great accomplishment in any given project. One high official of one of the IFIs advised that such reports contained too little of the hard, factual analyses available to management and that if the reports to the Board did reflect more balanced and factual material, he believed the U.S. Congress would benefit and might be less critical of IFI management.

The cost of funding the functions of Executive Directors, including salaries, representation allowances, and office administration, ranges from 3 to 8 percent of the administrative budgets of the IFIs. Such cost, and particularly salary levels, are believed excessive by some present and former U.S. Executive Directors (excluding salaries of U.S. representatives which are limited by statute). One suggested that consideration might be given to having remuneration of all Executive Directors and their staffs funded by the member governments represented which might also strengthen the role of the Board in its relation to IFI management.

III. OVERSIGHT PROCEDURES OF U.S. EXECUTIVE BRANCH

A. U.S. Executive Directors

At the World Bank and at IDB, the United States has an Executive Director, Alternate Executive Director, and a Technical Assistant, each with secretarial assistance. All are on the IFI payrolls. At ADB, there are two technical assistants to the U.S. Executive Director and his Alternate, both of whom are on U.S. Executive Branch payrolls. At AfDF, there is only an Alternate Executive Director, who is paid by the U.S. Executive Branch.

The U.S. Executive Directors, Alternate Executive Directors, and technical assistants closely coordinate their respective duties and interchange with each other in discharging them, as circumstances require. Their duties include analysis of loan projects proposed; review and analysis of policy matters being presented to the Board; attendance at meetings of the National Advisory Council, Development Coordinating Committee, and the Interagency Group on Human Rights and Foreign Assistance; attendance at policy meetings at U.S. Treasury; participation in subcommittees and working groups of the Board of Executive Directors; responding to Congressional inquiries; and liaison contacts with professional staff and management officials of the IFI. Of course, U.S. representatives at ADB and AfDF do not attend the Washington meetings but they perform more comprehensive and detailed analyses of loan projects inasmuch as such material must be forwarded initially by cable to U.S. Treasury with recommendations for action thereon. In-depth analysis of each loan proposal of the World Bank and IDB is made by U.S. Treasury personnel, as well as by other Departments that might be affected. The United States has considerably greater day-to-day review of matters coming before its Executive Directors than does any other member country and it was the Investigative Staff's observation that staffing of the U.S. Executive Directors' offices at each of the IFIs is austere.

The office of U.S. Executive Director at each IFI is the primary vehicle by which influence upon IFI policies may be exerted. When a U.S. position can be expressed in terms of economic development concerns, it receives an audience; if not, our U.S. Executive Director is isolated and ineffective. As will be pointed out in greater detail in later sections of the report dealing with human rights and commodities issues, our Executive Directors have found their positions so untenable in attempting to advance U.S. policy that frequently they will abstain from voting or register a negative vote without attempting any explanation of the underlying reason therefor.

B. Role of U.S. Treasury and Advisory Councils

The Assistant Secretary for International Affairs of U.S. Treasury and his staff are responsible for day-to-day oversight, liaison, and instruction in voting to the U.S. Executive Directors of the IFIs. The Executive Directors of the World Bank and IDB usually receive documentation on proposed loan projects from 1 week to 10 days prior to the Board meeting for formal consideration and approval. At the same time that the Executive Director's office is reviewing and analyzing the documents, copies are forwarded to U.S. Treasury for analysis there and by other departments of the Executive Branch when appropriate. Treasury utilizes a comprehensive checklist of areas of interest against which the loan documents are compared and analyzed, including macro-economic policies of the country, technical project considerations, conformity to IFI policies, and special U.S. interests, e.g., human rights, expropriation, sensitive commodities, etc. The loan documentation is quite extensive with some 200 pages normally comprising the President's report and accompanying appraisal of the project. There is an average of seven loan project proposals processed per week from the World Bank and IDB. ADB and AfDF project proposals average about one and one-half per week and arrive in the form of detailed cables summarizing pertinent points and adding analytical results from reviews made at those IFIs by U.S. representatives.

Treasury personnel also analyze and report upon IFI policy considerations to be presented to the Executive Directors, including lending rates, administrative policies, economic problem areas, capitalization, replenishment proposals, etc.

In considering administrative matters, such as the presentation of the annual administrative budget by each IFI, Treasury personnel have no means by which the adequacy of proposed staffing or expenditures may be measured, except to compare each IFI budget against prior year's budgets and against that of other IFIs.

The available time to make in-depth analyses of each loan project proposal is quite short and Treasury personnel are necessarily selective in pinpointing issues concerning which a defendable point can be made in the Board discussion of the project. Though Treasury personnel have but 1 to 2 weeks to analyze loan documentation whereas IFI personnel have spent 1 to 2 years preparing the project, economic deficiencies are occasionally surfaced in the Treasury analysis. In such cases, the Executive Director is instructed to raise the issue so as to make IFI management aware of the deficiency and avoid similar problems in the future--the Executive Director is not necessarily instructed to abstain or vote against the project in such instances. Because of the short time involved in Treasury review of documentation, often the instructions to the Executive Directors are too late to permit them to be effective in informal contact of their counterparts prior to the consideration of the issue. Near the close of the IFI fiscal year, it is not unusual for Treasury personnel to receive double or triple the normal volume of loan proposals for review and analysis in a few days' time.

Treasury submits the results of its analyses of project loan proposals and other policy questions, together with recommendations, to meetings of the National Advisory Council (NAC) and/or the Development Coordinating Committee (DCC) from which flow the instruction to the Executive Director on how to cast his vote. On human rights questions, recommendations are supplied by the Interagency Group on Human Rights and Foreign Assistance, usually referred to as the "Christopher Group," which will be discussed in detail in a later section of the report dealing with the topic of human rights.

NAC, originally created by the Bretton Woods Agreements Act in 1945, is an advisory body which reviews proposed transactions and programs to coordinate U.S. policies and to assure that the IFIs are conducted in a manner consonant with U.S. policies and objectives. Member agencies of NAC are Treasury, State, Commerce, Federal Reserve Board, and Export-Import Bank. USAID, though not a member, has participated in the loan review process. Other departments, such as Agriculture and Defense, participate as projects or issues arise involving their interests. With the establishment of DCC in 1978, NAC's responsibilities have been altered.

The framework of a DCC was described in the International Development Cooperation Act of 1978 (H.R. 10691) under consideration in the last Congress but which did not pass. Pursuant to a May 17, 1978, White House directive, DCC was created and became effective in July 1978. It assumed responsibility for review of all individual loan proposals of the IFIs as well as of questions on economic and lending issues. NAC has retained consideration of new capitalizations and replenishments, IFI borrowings, annual budgets, and broad policy questions such as proposed changes in IFI charters.

The regular members of DCC are Treasury, State, USAID, Commerce, Labor, Agriculture, Office of Management and Budget, Overseas Private Investment Corporation, National Security Council, Office of Special Trade Representative and ACTION. DCC is chaired by the USAID Administrator who is responsible for annual preparation of an aid policy statement showing how the different types of aid to be sought from the Congress will relate to each other and will be used. He also is to present to the Congress a comprehensive overview of the entire

U.S. development assistance effort, including bilateral and multilateral aid.

A subcommittee of DCC, chaired by Treasury, deals with multilateral aid matters, including the IFI loan proposals, providing advice to the Secretary of the Treasury for instruction on voting to the Executive Directors.

From a practical standpoint, the change is not substantive. The working group under the DCC subcommittee functions similarly to the former working group under NAC for review and analysis of loan documentation. There has been no change in the size of Treasury's staff handling these reviews.

To date, there is little evidence that creation of the DCC has added any cohesiveness or worldwide strategy planning to the U.S. approach to bilateral and multilateral assistance. The bureaucratic alterations involved in the establishment of the DCC appear to be more cosmetic than dynamic. Some officials participating in DCC view it as unwieldy and lacking any central supervisory authority by which unified approaches consistent with country strategy planning can be made effective.

On some 800-odd projects proposed by the IFIs in the last 2 calendar years, U.S. Executive Directors have been instructed to abstain or to vote negatively in 60 instances. Of these, 50 were on human rights grounds, 1 because of expropriation, 2 because of involvement of commodities for export injurious to U.S. producers, and 7 on economic grounds. Instances involving human rights and commodities are dealt with in later sections of the report. As has been noted, abstention from voting or a negative vote by a U.S. Executive Director or any other Executive Director(s) has never resulted in disapproval of a project presented by management to the Board. One official of DCC observed that the project approval process has been designed by the IFIs to assure approval of loans because when a proposed project is first seen in any detail by the Board of Executive Directors, the IFI and the country both are firmly committed to it and thousands of dollars have been spent in its preparation.

While the Investigative Staff's study was in progress during 1978, several field trips to project sites were taken and others planned by U.S. Treasury Department personnel, Executive Directors, and Alternates--each to different countries. It is a trend not so evident in prior years and one that should be continued. Such trips not only provide greater knowledge to responsible U.S. personnel but also show other members that the United States is interested in the specifics of development and accountability as well as providing an informal atmosphere in which United States policy concerns can be explained to other nationals.

During the course of its study, it became apparent to the Investigative Staff that heretofore the bureaucratic systems and procedures of U.S. Treasury, NAC/DCC, and other departments have produced a methodology of reacting to problems, issues, questions, and loan projects arising from the IFIs, rather than one of leading U.S. Executive Directors in the planned pursuit of wide-ranging United States interests, goals, and objectives.

In the NAC annual report for 1977, the Congress was informed that there was being undertaken an in-depth review of the effectiveness of IFIs in achieving their own objectives and the objectives of the United states and how U.S. objectives can best be pursued in the IFIs. Further, in testimony before the Committee in 1977, the Assistant Secretary of Treasury further elaborated upon the planned study, stating that "the comprehensive review has high priority. It will begin shortly and should be completed within 6 months. Lending policies will be scrutinized to determine how effectively the institutions promote the many facets of economic development and where improvement should be made. Practices with respect to loan evaluation, supervision, procurement, disbursement of funds, and postaudit will be assessed on the basis of what control and influence the bank can bring to bear for the successful completion of a project. The overall financial performance of the banks will be measured against relevant financial criteria. Administrative practices will be viewed in terms of efficiency and minimization of costs." Upon requesting results of the cited study, the Investigative Staff was informed that aside from the study of salaries being pursued by the World Bank and IMF (reported under a later section of this report), the only attention to such questions as raised above was in the form of pulling together a group of "issue papers" prepared by various staff personnel of OASIA which address some of the matters that have been of concern to the Congress and other current issues of significance. These issue papers were assembled in a February 1978 document entitled "Shaping U.S. Participation in the International Financial Institutions" and delivered to the Congress. A review of them discloses that they are not the result of any in-depth study but that, except for updating of statistics cited therein, could have been written at the time of the aforementioned testimony. The collection of issue papers provides general background on a number of selected issues, is silent on several of the topics cited as targets of a study, and does not formulate a U.S. policy approach based on study findings and conclusions of IFI effectiveness, lending policies and practices, internal administration, and overall financial performance.

C. Congressional Access to Bank Documents

Due to Congressional interest and concern with respect to IFI activities, the Treasury Department, in June 1978, during the course of instant study, initiated new procedures to increase the flow of documents to the appropriate Congressional committees. The documents covered by the new system are as follows:

(1) Evaluation Reports

These reports are transmitted by cover letter to the President of the Senate and the Speaker of the House. For the World Bank, they represent evaluations (primarily of completed projects) performed by bank staff. For ADB, they are evaluations of completed projects performed by bank staff or outside consultants. For IDB, they consist of review and evaluation studies (mostly of bank systems and operations, not individual projects) done by the Board's Group of Controllers. No such reports on AfDF are forwarded because the evaluation program has not yet been activated there.

(2) Lists of Evaluation Reports

Lists of the evaluation reports issued by the banks and described above are sent to the Foreign Operations Subcommittees of the House and Senate, as well as to the House Subcommittee on International Development Institutions and Finance so that, if required, they may be requested by title.

(3) Status of Negotiations Letters

These letters (World Bank, IDB, and ADB) announce that negotiations between the bank and the country borrower are substantially complete and that the project documents will be submitted to the Executive Directors. Copies of these letters are sent to the Foreign Operations Subcommittee and to the House and Senate Committees on Appropriations.

(4) Treasury Briefs on Proposed Loans

These Treasury summaries provide a brief description of proposed IFI projects, their purpose, expected benefits, and lending terms. They are sent to the Senate Foreign Operations Subcommittee.

(5) Other Documents

In addition to the foregoing, the Treasury forwards the following bank documents:

- IBRD/IDA Monthly Operational Summary
- IBRD Statement of Loans
- IDA Statement of Development Credits
- IDB Statement of Approved Loans
- IDB Monthly Report of Loan Applications and Technical Cooperation Requests
- ADB Loan and Technical Assistance Approvals
- ADB Monthly Operational Information
- AfDF Statement of Approved Loans
- AfDF "Pipeline" Information

The present distribution of these "other documents" is to the following groups:

- Senate Subcommittee on Foreign Assistance
- Senate Subcommittee on Foreign Operations
- House Subcommittee on Foreign Operations
- House Subcommittee on International Development Institutions and Finance
- Congressman Long's Office
- House Committee on International Relations
- Senate Committee on Governmental Affairs
- Senate Budget Committee
- House Budget Committee

The earlier system supplied considerably less data. Comments were received from two knowledgeable sources that indicated the earlier system was not fully responsive to the Congress, primarily due to bureaucratic deficiencies within OASIA, rather than any deficiency in the flow of documents from the IFIs to Treasury. It is too early to evaluate performance under the new system.

IV. ACCOUNTABILITY OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

A. General Perspectives

Each of the IFIs is a separate and distinct international multilateral entity and has its own approaches to matters of accountability, described under later subsections of this section of the report. However, on the broader side, there are similarities in approach and underlying premises reviewed first to provide a general perspective on how the IFIs operate in response to their understandings of broad-scale accountability and to avoid repetition in the later discussion of each institution.

As previously noted, each IFI is governed by an underlying charter, or articles of agreement, that has been subscribed to by the member governments. With respect to overall public accountability, these charters are similar in that all powers are vested in a Board of Governors. The individual governors are appointed by their respective governments. Usually the Minister of Finance, or a comparably high government official, is designated governor. Thus, each of the IFIs is broadly accountable to its member governments collectively in accordance with the provisions of the basic charter.

The general practice in each of the institutions has been for the Board of Governors to delegate much of its authority to the Board of Executive Directors. In some cases, Executive Directors are appointed by individual member governments; in others, they are elected by the governors of a group of member countries. By charter, the Board of Executive Directors is held to be the principal decisionmaking body in residence at each of the IFI headquarters. The charters also provide for a President who, as chief operating officer, conducts the ordinary business of the institution under the direction of the Board of Executive Directors.

The Board of Executive Directors and the President of each institution jointly submit an annual report to the Board of Governors as evidence of their accountability for operations for the year. The annual report of each institution is a public document and is given wide distribution. Quarterly statements of financial condition and of profit and loss are also distributed.

The annual reports are quite comprehensive on the subject matters covered. They provide extensive data on (1) the current year's activities, both loan and general matters, (2) borrowings and finance, (3) statements of financial position, and (4) various statistical annexes. The financial statements in each institution's report include a certification by an independent public accounting firm of international reputation that they tested the accounting records and that, in their opinion, the financial statements present fairly the financial position and the results of the institution's operations for the year.

The Board of Governors of each institution generally meets once a year to handle such business as needs to come before the Governors. Attendance at the annual meeting is by invitation. Attendees include member country delegations, development specialists and organizations, members of the private banking community, and selected members of the institution. There are open and closed sessions. The annual meetings are well publicized, information is made available at the meetings, and there is reasonable press coverage. A "replenishment of capital" negotiation usually requires a special meeting of the Board of Governors.

The Board of Executive Directors functions in continuous session at the principal office of each institution and meets as often as the business of the institution may require. Attendance at board meetings is generally limited to Executive Directors, their alternates, the President as Chairman, and to management staff concerned with the subject matters being discussed. The minutes of such meetings receive limited distribution within the institution and are not for external distribution.

The documentation and records which evidence the day-to-day policy and operating actions and decisions of the management staff are considered to be in-house material. Many IFI documents are stamped to show that they are only for internal use in the discharge of the business of the institution. There are other documents, such as press releases, sector papers, standard agreement formats, selected reports, professional monographs on development topics, etc., that are available for external informational purposes.

In summary, in respect to the broader aspects of public accountability, the IFIs tend to operate more like private corporations than institutions operating in the public or semipublic sector. Accountability to the member countries (the stockholders of the IFIs) is considered more significant than public accountability. Thus, the great bulk of information, records, and documentation is rather closely held within each IFI and not normally disclosed externally. The annual reports, press releases, speeches, and selected reports and technical data are the main sources of public informaton.

The IFIs use the terms "audit" and "evaluation" interchangeably and confusion can result in that reference to the audit of a project often means a review of its effectiveness rather than an accounting of funds. In this report, traditional definitions are adhered to in that audit refers to the methodical review and verification of records of account and evaluation refers to the study and appraisal of the worth of a function or of its product. Both audit and evaluation functions of each of the IFIs are described in later subsections dealing with each IFI individually.

While some form of overall public accountability is recognized by the IFIs, the primary concern of management staff is accountability to its top executives, to the President, and to the Board of Executive Directors. Public accountability is geared largely to supporting the IFI's financial reputation so as to continue to merit confidence and standing in the world capital markets.

1. Management Controls

Generally effective systems of management control are operative in all of the IFIs, with the World Bank's being perhaps the most sophisticated. The significant processes in the business of making and monitoring loans are the appraisal of proposed loans, negotiation and approval, and supervision of project implementation. Each of the IFIs put substantial time and effort into these three processes to assure themselves that proper judgments are made throughout the development and implementation of the projects. Administrative devices to affirm such assurance are responsive to management--not to the Executive Directors other than in periodic evaluation reports on their effectiveness. In discussing aspects of these processes heretofore in the report, defects of accountability have been pointed to--the lack of information disseminated to the Executive Directors (whether institutionalized or not), the essentially pro-forma or "rubber stamp" approval process of loan proposals presented to the Executive Directors, the lack of input by Executive Directors to budget formulation and to 5-year lending programs, and the lack of direct access by Executive Directors to files and work documents of the institutions including country planning documents and supervision reports showing how a loan project is faring.

The practice of carrying a loan project through the negotiation phase with the borrower before presentment for approval to the Executive Directors (except at IDB where negotiation follows Board approval), with the apparent tacit understanding that all loans presented will be approved, means that expression of views of Executive Directors on the specific components of any proposed loan will be taken into consideration by management only in the formulation of future loans. From a practical viewpoint, such expressions may not have their effect for considerable time, if at all.

Supervision of projects is a multifaceted monitoring of the borrower's project activity and embraces the control on use of bank-provided funds; a continuous review of borrowers' adherence to loan agreements; technical and managerial assistance with project implementation, including aid in meeting the bank's procedures and in administrative problems; assisting borrowers to develop their own institutions; and providing lessons for improving the bank's future operations. In an internal study of supervision effectiveness at the World Bank, it was reported that bank staff had widely different perceptions as to which of the foregoing roles is most important--the majority considered the technical assistance role to be most important and indicated that two-thirds of all supervision time is spent on the technical assistance aspect. A much smaller proportion put the enforcement of loan covenants as the prime purpose. Few staff personnel viewed supervision primarily as insuring that funds are spent as intended, although it is the only one of the functions clearly written into the IFI charters.

Project supervision is a function carried out entirely by bank management. The Executive Directors have no real involvement with supervision activities and, in fact, the key supervision documents (reports of supervision missions, external audit reports on borrowers, and correspondence with borrowers concerning problems in the projects) are not available to Executive Directors. In addition to periodic reviews of the supervision effort by management and reporting thereon to the Board, the Executive Directors as the Board of Governors' arm for managerial oversight, should have full direct access to bank documents and activities in order to make whatever input it considers appropriate to the project execution phase of the bank's activities.

<u>Need for Central Internal Control Mechanism</u>

None of the IFIs has a central point, detached from operating responsibility (such as an "Inspector General" function), to investigate and resolve facts on alleged or suspected irregularities, possible conflicts of interest, employee violations of internal regulations, misconduct issues, or similar sensitive matters. Problems of such a nature that do arise are handled by the employing department and/or legal staff if necessary.

Developing country projects present unusual challenges with respect to possible irregularities. For example, for one country a bank official said the bank had received rumors of corruption at local levels in a large rural development project but no action had been taken because no specific facts had been presented. In a country visited, businessmen said that corruption exists at high levels and, while it cannot be documented, their example is that a high official gets a "cut" on every bag of cement produced in the country.

A foreign national advised the Investigative Staff confidentially of widespread corruption in his country. He said that if one is a resident, it is readily apparent from the luxurious lifestyle of certain officials whose salaries cannot support such expenditures. He observed that short-term visitors have no real chance to see the real conditions of development projects or how the ruling groups get most of the benefits and how the workers or the poor continue as before.

An expatriate told the Investigative Staff, also confidentially, of another country where he had lived many years and where conspicuous spending by government officials is known to everyone. Very little assistance money from any source gets past governmental officials without a portion being "skimmed off" for private gain. In another country, a technician said that there was little possibility of funds being diverted on his project but admitted that this was quite unusual for a lesser-developed country.

In the minutes of a 1976 meeting of the World Bank Executive Directors, an exchange was recorded with respect to a second livestock loan to an intermediate credit institution. In this case, the bank staff reported to the Board that there had been a diversion of funds under the first loan. It was added that institutional and control safeguards had now been developed, which the bank judged satisfactory and that government legislation now minimizes the misapplication of funds.

Contact was made with the Securities and Exchange Commission and with the U.S. Department of Justice to ascertain whether any of the official inquiries resulting from the filing of public disclosure reports by U.S. companies or foreign companies selling stock in the United States wherein corrupt or improper practices were revealed might involve any of the IPIs. Of some 450 disclosure reports initially referred to the Department of Justice, the majority represented types of practices not conducive to prosecutorial consideration--these were the ones involving overbillings (deliberate overbilling at the foreign customer's request by the U.S. firm) and obviously excess commission payments to foreign representatives of U.S. firms. While both situations indicated a probable corrupt practice, the cases did not lend themselves to a gathering of evidence sufficient to warrant pursuing them further. Of the 80-odd cases investigated by the Department of Justice, a number already have resulted in consent orders for guilty pleas by the U.S. corporation, one condition of which is the nonrevealing of the identity of the country involved. Other cases still are pending. Consequently, the Department of Justice representatives did not feel they could freely disclose the details of any of the 80 cases investigated, though they did advise that at least 2 of these cases pending involved one or more of the IFIs involved in this study and felt certain that neither of the IFIs was aware of the improper activities involved in their loan projects.

The IFIs believe that their internal control procedures are adequate to prevent and/or detect corrupt or improper practices, though one official observed that the procedures are either very good because no instances have arisen or else are very poor because none have been uncovered. Other officials observe: (a) the IFI is not an investigative agency; (b) extended policing of possible corruption in loan projects would be inordinately expensive; (c) those who practice corruption avoid doing so in IFI loans because of the extent of IFI supervision afforded; and (d) use of a team approach by the IFI makes internal corruption remote because of the collective involvement of bank personnel at all stages.

It is difficult to establish the level or intensity of allegations or actual occurrences because of the absence of any central point of investigation with personnel skilled in inspection and investigative techniques and because of the closeness with which bank documents and comments are held. It may be that possible abuses are suppressed because of the adverse publicity such disclosures could entail. However, it appears that establishment of a central point detached from operating responsibility, to which suspected irregularities could be referred and investigated, would improve the IFIs' accountability as well as their image.

2. External Audits of Banks

All of the IFIs as a part of their overall accountability to member governments engage private, independent, internationally-recognized accountants for annual audit of financial records of the bank and its affiliates and certification to the accuracy of financial statements. This engagement of independent accountants is similar to the use of independent external auditors by private corporations for accountability purposes. The formal certification of the financial statements is published as part of IFI's published annual report. The emphasis of the external audits is on the application of prescribed accounting policies and procedures in light of generally accepted accounting principles and financial statement presentations. The World Bank and IDB use Price Waterhouse and Company; ADB and AfDF use Haskins and Sells. At each IFI, the Executive Directors have a role in nominating or approving the selection of the external audit firm and in reviewing the results of audit and examination. Review of the audit reports for each IFI showed no remarkable exceptions taken by the auditors and in each case the opinion was that the IFI's financial statements present fairly its financial position and results of operations in conformity with generally accepted accounting principles applied on a consistent basis.

3. Project Auditing

Essentially as a part of the loan supervision process, the IFIs often require, mostly on revenue-producing projects, that the borrowing entity engage an independent accountant or utilize a governmental auditing agency to review its books and records and to certify to the borrowing entity's financial statements. These audits generally are not examinations of whether the loan proceeds were used as intended but rather are a general examination of the overall financial condition of the borrowing entity. In the case of projects which do not yield revenues directly to the borrowing entity, the IFI has to be satisfied that the general control and accounting procedures of the project are adequate.

IFI officials advised that these external annual audits are primarily "financial statement" oriented and generally embrace the executing agency's total financial operations. They see the independent auditor involvement as useful in obtaining knowledge of the borrower's financial practices, e.g., rate structure, subsidy arrangements, rates of return, etc., and for providing the IFI with assurances that the financial data is complete and accurate and that, during the life of the project, the borrower will have adequate financial controls and will follow reasonable accounting principles. The IFIs also feel that the requirement has beneficial institution-building aspects.

A high official of the World Bank pointed out that not only are the external audits not obtained for the purpose of detecting procurement or spending abuses within the project but that it is not unusual that a really qualified public accountant is simply not available within the borrowing country. He observed that when a project represents all or largely local cost financing, without international bidding documentation, there is really no way for the Bank to guard against corrupt practices.

The IFIs do not rely upon the submitted audit reports for a determination of how and where the bank financing was spent, but rather use their ongoing loan supervision activities, including visits to the project site, to keep generally abreast of how the funds are utilized. The IFIs believe that emphases on good local project management and staff supervision thereof provide reasonable assurance that the bank financing is being used as intended. In a review of the effectiveness of supervision by the World Bank, problems were surfaced with borrower compliance with the audit covenants in the loan agreements. It was found that audit reports were received within the time limit specified for only one of the projects reviewed and considerable weaknesses were noted in the accountability aspects of external auditing, accounting, and financial reporting of the borrower. It was concluded that deficiencies in reporting standards and lack of management letters (accompanying audit reports) were such that the bank cannot be certain of reliance that can be placed upon the auditing standards used.

Upon request of copies of the project audit statements for the projects visited by the Investigative Staff, IDB denied access to them. A senior official of IDB stated that many such reports are received late and some required by loan covenants have not been received for several years; consequently, they have not served as a basis for action within IDB. Some IDB personnel view the audit requirement as a nuisance and feel that they know what will be found in the audits before they arrive based on knowledge gained in field visits. However, one senior IDB official advised that a recent audit disclosed a misuse of IDB funds in that the proceeds of the loan were used for purposes other than called for by the loan and were then replaced as the borrowing entity received funds from other sources.

At the World Bank and ADB, the Investigative Staff's request for copies of project audit reports also was declined initially based upon the confidential bank/client relationship inherent in the submission of the audit reports. However, the World Bank circularized all borrowing entities involved in the projects visited by the Investigative Staff to ascertain which of the submitted audit reports had been made a public document in an effort to thus be responsive to the Investigative Staff's request. As a result, 12 audit reports covering 16 loan projects were found to have been made public and were thereupon made available for review. (The World Bank offered to also circularize the remaining 50-60 borrowers involved in the request to ascertain if they might grant authority to turn over their audit reports to the Investigative Staff but at the time such offer was made, January 18, 1979, preparation of instant report was in its final stages and time did not permit acceptance of it.) The 12 reports made available covered 4 borrowers whose financial statements reflected loan projects also with ADB.

Review of the 12 audit reports disclosed confirmation of comments by World Bank officials in that they were published annual reports of the borrowing entities which contained financial statements and certifications thereof by certified accountants but lacked specific detail with respect to the World Bank projects. Whereas current indebtedness to the IFI on the loans outstanding is shown as a liability, either in the balance sheet or supplementary schedules thereto, there is no way to reconcile the funds provided in the project(s) by the IFI with sublending or other activities, i.e., the audited statements provide no means of tracing the use of project funds which are simply a part of total receipts or available assets reflected in the summary financial statements. The only exceptions were three relatively new small ICIs whose sole business was dispensing the project funds with no other source of monies as yet, so that all comments contained in their annual reports did relate directly to use of the project funds. In these three, auditors recorded exceptions such as schedules not made available, no verification of fixed assets or inventories, no internal control procedures, nonverification of sales in the absence of proper records, etc. Though proper followup procedures in the normal course of loan supervision would require corrective action to tighten accountability of the borrowing entity, the aforementioned study of effectiveness of supervision indicated that reliance is not placed upon the auditing standards in using the submitted reports as an adjunct to supervision. The need for more direct auditing of projects with accounting for utilization of the funds provided is reviewed in the succeeding sections of the report dealing with each IFI's audit procedures and weaknesses therein.

The Alternate Director of IDB, after learning of the efforts at the World Bank to make a group of the audit reports available, addressed a letter dated February 1, 1979, to the Investigative Staff stating that he was willing to initiate the necessary procedures with IDB management to see whether audit reports on IDB projects that had been made public in the borrower countries might also be made available. Inasmuch as instant report was then in typing and as it had taken the World Bank 3 months to go through that process, no action was taken. (The request for the audit reports of individual projects had been submitted to the World Bank, IDB, and ADB on October 27, 1978, and had been denied by IDB on November 28, 1978.)

B. World Bank

1. General Institutional Procedures

The IBRD management staff performs all management functions for IBRD and IDA; IFC has its own operating and legal staff but draws on IBRD for certain administrative and other services. The World Bank conducts its business on a highly centralized basis. While there are some personnel at various field locations throughout the world, the principal decisions are a headquarters function and most appraisal, technical assistance, and supervision missions to field sites are from headquarters. Field staff are mainly for liaison contacts and followup work after a headquarters visit. From a management viewpoint, the World Bank is tightly controlled in the areas of program planning, budget, finances, and operations.

The IBRD has an operating manual and other written guidance which prescribe the systems and procedures to be followed in the conduct of its business. There is a well-developed organizational structure which includes six geographic areas, a finance department (programming and budgeting, controller, treasurer, and internal audit), a department of administration, organization and personnel, a legal department, and a department for operations evaluation.

As a general policy, the Executive Directors see only key documents related to the discharge of their responsibilities. Many documents developed by the management staff are not distributed or available to the Executive Directors. For example, the country program papers (the principal instrument for defining the IBRD's posture toward each member country for which assistance is contemplated) and the regular project supervision reports are not available to the Executive Directors. Also, there is an elaborate system of color codes on loan documents, economic reports, policy studies, and other Bank documents prepared by management as they pass through various stages of distribution and review. Only the final (grey copy) version, cleared for distribution to the Executive Directors, is available to them.

Inasmuch as the President is supposed to carry out the operating function under the direction of the Executive Directors, and since the President and Executive Directors are presumably working toward the same objectives, it would seem that a freer exchange of information between them would be helpful in executing Bank business.

2. Internal Audit

The Internal Audit Department (IAD) is one of four departments under the Office of the Vice President for Finance. The Director, IAD, has access, as needed, to the President and to the Executive Directors. The latter takes place through the Joint Audit Committee of the Executive Directors which has an oversight function with respect to internal auditing.

The IAD services the IBRD, IDA, and IFC. Its functional statement provides that the department will furnish management with periodic, independent, objective appraisals and audits of financial, accounting, administrative, and other activities. The functional statement is generally consistent with the current approach to internal auditing in the public sector except for the placement of the audit function and the absence of emphases on operational auditing.

With respect to the placement of the audit function, IAD reports to the same officer who has responsibility for the three departments that handle the main financial work of the Bank. A high proportion of IAD's work is to make "independent and objective appraisals and audits" of financial activities. Thus, IAD is frequently auditing financial activities which are the responsibility of its superior officer. The Investigative Staff believes both management and the Executive Directors would be better served under an "auditor general" concept reporting directly to the President, enhancing the stature and independence needed to provide a broader internal audit program. It might then also serve as a situs for a central investigative point previously commented upon with broadened responsibilities to inquire into alleged improprieties.

IAD plans and conducts audits, issues audit reports, and monitors management action on its audit recommendations. The audits are examinations of selected books and records of IBRD and its affiliates. For the most part, these examinations concentrate on financial and administrative matters. Primary interest is on the validity of financial records and reports and on the protection of assets. The internal auditors do not review the books and records of borrowers and do not function as a detached central point for investigating alleged irregularities. IAD is a relatively modest operation considering the size of the Bank's operations. Currently IAD has 16 positions--9 professional, 5 assistant professional, and 2 secretarial. All the professionals are certified or chartered accountants in their countries.

To discharge its responsibilities, IAD develops an annual audit program. Planning is done within the framework of a multiyear plan which contemplates a 3-year cycle for audit of field offices and yearly audits of the investment portfolio and large cash holdings. The program for 1979 proposes 27 audits. IAD issued 14 reports in FY 1976, 21 reports in FY 1977, and 22 reports in FY 1978.

The type of coverage currently being effected by IAD can be seen from the following recapitulation of reports issued in FY 1978:

Subject Matter of Coverage	Number of Reports Issued
Reviews of Field Offices	7
Leave, Travel, and Other Staff Benefits	6
Cash, Investments, and Other Assets	4
Computer Operations	2
Program Activities	2
Administrative Budget	1
	22

In general, each internal audit report is sent to the office audited. Copies are distributed to a limited number of other bank offices on what roughly might be termed a need-to-know basis. IAD does not send copies to the Executive Directors but the Joint Audit Committee of the Board does review selected copies (usually two reports per year) to satisfy itself on IAD's performance. One copy of each IAD audit report is given to the external auditors for their use in reviewing and commenting upon the internal audit function.

The internal audit reports issued in FY 1978 appear to be meaningful, necessary, and consistent with IAD functional responsibilities. The Investigative Staff examined a representative sample of audit reports of its own selection and found them to be of good quality.

As previously noted, the internal audit coverage generally is directed primarily toward financial and administrative matters. It is believed the Bank would be better served if audit coverage was expanded through greater emphasis on operational auditing and through selected audits of borrower performance.

Need for Greater Operational Auditing

The trend in internal auditing in recent years has been to perform more operational audits that go into program and management substance in addition to straight financial coverage. Operational auditing examines a wide variety of management controls over operations and resources to ascertain if they are functioning properly and effectively. In doing so, operational auditing is directed toward appraising performance and evaluating efficiency, economy, and effectiveness. For example, it might question costly or inefficient policies and procedures, inordinate delays, duplication or overlapping efforts, overstaffing, faulty buying practices, performance of work of little benefit or purpose, inadequate work performance, decisionmaking weaknesses, etc.

IAD has done some of this type of auditing. Its recent "Audit of Bank Loans - Project Supervision" for a specific geographic area is an illustration of a broader scale review that goes beyond financial auditing and into operational matters.

The World Bank does not have a department that makes regular reviews of an entire department or function to appraise its efficiency and effectiveness and to identify operational weaknesses that may exist which have not received adequate management attention. IAD would be a natural department for establishment of such procedure.

Need for Internal Audits of Project Execution

IAD does not conduct audits of the project implementation activities carried on by borrowers or their executing agencies. The purpose of such audits would be to see if the borrower is using the funds in accordance with the terms of the agreement and, at the same time, could encompass review of the adequacy of bank supervision over project execution while the project is ongoing. As will be covered in the next subsection of this section of the report, the evaluation process is after completion of the project and is not an audit of use of funds. While a project is ongoing, the IBRD relies upon the project supervision missions and submission of annual financial-statement audits by the borrowers, neither of which normally constitute an accounting of use of the Bank funds during implementation of the project. Such an audit procedure would tend to disclose operating inefficiencies, overbuying, overpricing, nondelivery, diversions, and similar matters, many of which are not unusual in the execution of large-scale development projects. One Bank official commented that where a project is all or mainly local costs, there is really no way for the Bank to control or guard satisfactorily against corruption. In suggesting a need for expansion of the internal audit operation to encompass project audits during implementation, it is recognized that practical difficulties are presented. It would mean enlargement of Bank audit staff and a methodology devised whereunder borrowers' books of account maintained in a local language and utilizing indigenous bookkeeping procedures could be effectively audited. However, requirement for local auditing and accounting for the use of project funds, with selective supervisory activity by internal auditors of the Bank, would go a long way toward meeting the problem with deterrent and actual benefits from the standpoint of the Bank's accountability.

3. Evaluation

The Operations Evaluation Department (OED) conducts independent reviews, on a selected basis, of operational programs and activities to determine whether the objectives of the programs are being realized and how they might be made more effective, efficient, and responsive to the needs and concerns of member governments. The main effort is a system of post evaluations of projects under which the project supervision personnel provide project completion reports to which OED adds its input, primarily in the form of overall review and observations, on the project's success or failure and in drawing attention to any lessons of wider relevance that emerge.

OED is a detached evaluation group without operating responsibilities. It is headed by a Director General (rank equivalent to a Vice President) who is nominated by the

President and approved by the Executive Directors. He has a renewable term of 5 years and is ineligible for subsequent work on the management staff of the Bank except in unusual circumstances. He is removable only by the Executive Directors. The IBRD's organizational chart of July 1978 shows OED as a block beneath the President but reporting on dotted lines to both the Executive Directors and the President.

As of August 1978, OED had a staff of 22 professionals, 2 research assistants and 16 support positions. All positions were filled except one professional and one research assistant. OED's professional staffing has a heavy concentration of people with backgrounds in economics and prior bank experience. OED does not conduct reviews of IFC projects which are of a considerably different type than the IBRD and IDA projects it evaluates. As previously noted, an evaluation system for IFC is currently being developed.

Reports issued over the past 3 years show the following:

Type of Report	FY 1976	FY 1977	FY 1978
Project Audits ---------------------	68	113	124
Evaluation Studies -----------------	1	3	3
Policy Reviews, Followup Closing Reports, and Annual Reviews Summarizing OED's Work -----------	4	2	2
	73	118	129

The three evaluation studies completed in FY 1978 were on (a) built-in project monitoring and evaluation--first review, (b) the role and use of consultants in bank-financed projects, and (c) the agriculture program in Indonesia--a sector review.

As can be seen from the above tabulation, OED spends the greatest portion of its efforts (60 percent of manpower efforts) producing project performance audit reports (PPARs) which are reviews and analyses of each project, conducted about 1 year after the project is completed, for the purpose of obtaining an overall conclusion on the project's success or failure in relation to planned objectives and to draw attention to any lessons learned of wider relevance. The PPAR stems from a three-tiered effort, i.e., (a) the project completion report for which the project officer of the appropriate regional department is responsible, (b) the borrower's input, and (c) the OED analysis.

In its fourth annual review of PPAR results, OED reported in August 1978 on 109 projects totaling $8.5 billion. Per this recent report, the borrowers responded on 45 percent of the cases in the review and OED staff visited project sites on about 42 percent of the cases. The project evaluation system is a coordinated effort involving inputs by the regional staffs, the central projects staff, the borrowers, and the OED evaluators. A number of progressive steps have been taken to assure a good useful product for accountability purposes and for appropriate feedback into the system. The Joint Audit Committee has found the system adequate though it has registered criticisms of selected reports.

Within the Bank, OED serves the concerns of both management and the Board of Executive Directors. Occasions were noted when OED has been dilatory in responding to requests of the Executive Directors for special studies. One former Bank official thought that OED's reviews were more beneficial to management than the Board. Another thought that OED was inundating the Board with too many words, too much detail, not enough of the right subject matter, and not enough specific recommendations suitable for Board consideration in terms of improving the Bank. It appears that the Executive Directors would be better served if OED devoted less of its total effort to the post evaluations of each and every loan project and more to broad reviews of how well management performs its responsibilities and accomplishes its overall objectives. Such broadened OED coverage, coupled with increased operational auditing by IAD, would give senior officials more comprehensive review and evaluation coverage, better and quicker identification of operating deficiencies and potential weaknesses, and better insights into new program trends in relation to successful development accomplishments. Such reviews would also give the Board an objective view on how well different departments of the Bank are functioning. OED recently has undertaken three reviews of a broader type--i.e., reviews of project supervision, project implementation, and procurement.

With respect to OED's post evaluation of loan projects, the practice of making such evaluations only after completion of projects and applying them universally to all projects has limitations. One is that a number of years elapses (a project may take 3-6 years to complete) before the Bank can start to adjust new project activity for lessons learned. Another is that such evaluations do not provide any meaningful opportunity to highlight and overcome problems and issues on a timely basis during project execution. Illustrative of these limitations is the fact that the annual summary of PPAR results issued in August 1978 indicates that none of the new-style projects in rural and urban development, tourism, or population were included in the review. Also, it is possible that the Bank's day-to-day project supervision efforts in these new-style projects may not be adequately coping with current problems. Appraisals of selected projects during execution would have considerable benefits to the Bank and to the borrower. The programming of such reviews could be coordinated with any IAD planned internal audits of project activity to avoid duplicative efforts.

The requirement for PPAR coverage for every completed project raises questions of cost-benefit ratio. The President and some members of the Board feel that 100 percent coverage is important in terms of accountability to member countries. However, reduced OED project evaluation coverage would free staff for the broader management reviews and may be sufficient if (a) the regions continue to issue project completion reports on every completed project, (b) each region is held accountable for frank appraisals on project accomplishments in relation to objectives, and (c) OED performs selective project evaluations as well as reviewing each region's performance in preparing balanced project completion reports.

A quantity of PPARs were reviewed by the Investigative Staff in the course of the study. The reports are careful, well-written documents which report on the project experience knowledgeably and in perspective. The report language, however, is so muted and diplomatic in tone and critical comments so recondite that it is difficult to come to grips with the actual conditions being reported. One Bank official said that the language used in the reports is of an ameliorating nature, primarily to avoid being unnecessarily offensive to a member country or to its representative on the Board. A former official observed that some "hard-hitting" reports have been submitted but most are "mushy." It appears that so much emphasis is placed on making a report palatable to one or more readers that the real findings might be covered up, obscured, rationalized, or obfuscated.

A further peculiarity of the present approach is that the OED Director General is charged with appraising the Bank's operation evaluation system and reporting on its adequacy. In effect, the evaluator is being asked to report on how well his evaluation work is going.

All of the foregoing circumstances suggest the need to take another look at the approach to review and evaluation in the Bank. It appears to the Investigative Staff that either the dual role of OED's service to both management and the Executive Directors should be removed so that it is responsive solely to the Board or that the Board should have, within its own secretariat, a review and evaluation group to assess Bank operations and management effectiveness. Such a group would report upon whether (a) management is carrying out its operating functions properly, pursuant to delegated authority, and as efficiently and effectively as possible; (b) the Bank generally is accomplishing its objectives; and (c) management's detached internal audit and evaluation activities are adequate. The group's work would also be helpful to the Joint Audit Committee in carrying out its role.

4. Oversight Functions of Executive Directors

In 1970, the Executive Directors established a Joint Audit Committee (JAC) to maintain vigilance over the soundness of the Bank's financial practices and procedures. Its principal responsibilities are dealing with and nominating the external auditors, meeting with senior financial officers to insure that financial matters are conducted properly, and satisfying itelf as to the adequacy of both the internal audit program and the operations evaluation program.

The JAC consists of six Executive Directors appointed by the Board for a term of 2 years. During FY 1978 it met approximately monthly. The work of the JAC was facilitated by its use of three subcommittees which did preliminary review work on some of the documents and reports that came to the JAC.

The JAC indicates that it gave priority to satisfying itself that IBRD's operations evaluation and internal audit were adequate and efficient. It conferred with the top officials of each organization, reviewed their annual work programs, their procedures and standards, samples of their reports, and the progress of their work. With respect to OED, the sample was 24 PPARs and one general evaluation. With respect to IAD, the sample was two internal audit reports.

In October 1978, the JAC summarized its FY 1978 activity in a report to the Executive Directors. The report highlights (a) JAC contacts with the external auditors, (b) its general conclusions that the operations evaluation function and the internal audit function were adequate and efficient, (c) its work on the financial and operational data book as a means of insuring an adequate flow of financial information to the Executive Directors, and (d) its feeling that there needs to be continued consideration of the Bank's procedure for allocating currencies among borrowers. At its meeting of October 31, 1978, the Executive Directors endorsed the conclusions and recommendations of the JAC report.

In the prior year, October 1977, JAC similarly made a rather routine report to the Board covering, inter alia, the review of 23 PPARs with general commendatory remarks concerning the overall quality of OED's work in reporting upon the selected group of projects. This report to the Board was at some variance with the memoranda prepared by the working group appointed by JAC to review the PPARs in that considerable critical comments were made to JAC by that working group, such as:

(a) Initial project objectives had been overly general or difficult to apply in measuring performance;

(b) Bank objectives were not clearly articulated or realistically defined;

(c) None of the PPARs took particular account of the perception of the borrower of the project's success or failure--the only borrower reactions expressed were those positive to the Bank;

(d) The rate-of-return analysis was unsatisfactory;

(e) In two of the projects, institution-building components of the loans were largely unsuccessful;

(f) Procurement difficulties resulted in a completely unsuccessful component with a large increase in the number of locally procured equipment--the disagreement between IDA and the borrower over sources of supply were not provided either by the Project Completion Report or by the PPAR;

(g) In a PPAR in which it was concluded the borrower could continue successfully without further help or guidance from the Bank, two further Bank loans were made to the same institution;

(h) In two PPARs, no reasons were provided for extending closing dates and/or cancelling portions of the loan;

(i) Despite initial determination that the project was of doubtful economic viability, the Bank seems to have become involved in the project mostly due to considerable pressure from the local government;

(j) Notwithstanding supervision visits of semiannual regularity, supervision remained devoid of the particular attention warranted by the difficult and risky undertaking;

(k) The Project Completion Report showed that small farmers obtained most of the benefits from the project, whereas they received only 10 percent of the project funds; and

(l) The Bank's involvement with the borrower beyond providing financial assistance had only a marginal impact during the period of the first loan--it would have been helpful if the PPAR disclosing such situation had been available prior to presentation and approval of the second loan.

Given the nature of a multilateral institution, political considerations in carefully selecting language for reporting to avoid giving anyone offense is understandable. Yet, accountability procedures simply do not work if the plain critical findings are not permitted to clearly surface so that lessons learned can be applied to policy changes.

C. Inter-American Development Bank

1. General Institutional Procedures

In broad terms, IDB's system of management controls is similar to that of the World Bank though distinctive differences appear. Among them are a greater use of resident field offices (one in each borrower country), submission of proposed loans to the Board of Executive Directors prior to negotiation of the loan, and a level of evaluation reviews attached directly to the Board of Executive Directors apart from management reviews.

The office of the President is supported by two advisory offices (External Relations Advisor and Controller), four predominantly executive departments (Operations, Finance, Project Analysis, and Economic and Social Development), and four support departments (Legal, Administrative, Secretariat, and Plans and Programs). The field offices report to the appropriate regional (geographic) divisions of the Operations Department and the monitoring and supervision of loan projects is a shared responsibility between headquarters and field staff.

Loan proposals are submitted initially to the Executive Directors for discussion with the Board members meeting first in their capacity as a Committee of the Whole for such purpose. In the event that Committee raises questions for management to respond to or suggests modifications, management thereupon may withdraw the loan in order to later respond to the questions raised as well as to consider any modifications proposed. Changes or modifications suggested by the Committee of the Whole may or may not be made by management and the proposed loan may or may not be ultimately presented to the Executive Directors meeting as a Board for formal approval, though the vast majority of loans considered by the Committee of the Whole are subsequently considered by the Board for formal approval. It is through such procedure that a U.S. veto of a soft loan, under the Fund for Special Operations, can be effected without being recorded as a veto, i.e., by such strong objection presented during the meeting of the Committee of the Whole that management withdraws the loan proposal and does not later present it for formal approval by the Board. Such occurrences are rare but allow the face-saving aspect of a member country not presented with formal rejection by the Board of a loan proposed for its benefit. Also, there is no clear record of such instances inasmuch as reasons why a loan originally discussed by the Committee of the Whole does not later appear in presentations to the Board are not recorded in the minutes of the meetings.

2. Internal Audit

The internal audit function for IDB is performed under the direction of an Auditor General whose office is a part of the Office of the Controller. In IDB, the Controller's role is different than in most organizations. His responsibilities are limited to three functions--the auditor general operation, the operations evaluation activity, and a management services effort. The Controller has no responsibilities in the areas of budgeting, accounting, financial reporting, or disbursement approvals.

The Office of the Auditor General is responsible for maintaining a program of audit and review of bank activities, including a review of the surveillance being exercised over loans and technical cooperation. Its main role is to ascertain that adequate procedures and controls exist to safeguard bank assets against loss, to assure reliable accounting records and reports, and to maximize the efficiency and economy of bank operations. It checks to see if the work of the different units is being performed in accordance with established policies, instructions, and procedures. It also conducts audits of the other units of the Office of the Controller. It issued 22 audit reports in 1976, 25 audit reports in 1977, and 15 audit reports in 1978. In IDB, the internal audit reports are not supplied or available to the Board of Executive Directors.

The Investigative Staff requested a representative sampling of internal audit reports (as had been supplied by the other IFIs) and were denied them on the premise that such documents are not available to the offices of the Executive Directors.

A listing of the titles of the audit reports issued over the last 3 years was supplied and the nature of the coverage of the 25 audit reports issued in 1977 might be broken down into the following categories:

Category	Number of Reports
Reviews of resident offices, including headquarters supplements thereto	12
Confidential special investigations	4
Financial, reconciliations, etc.	3
Physical property, administrative, and related services	3
Other	3
Total	25

With respect to the above listing, the Investigative Staff could not ascertain the nature of the confidential special investigations, except that they were done at the request of the Administrative Manager or the Executive Vice President.

It is not possible to form conclusive judgments about the adequacy of the internal audit function based on the limited information supplied and without seeing the internal audit reports and background data. Nevertheless, from the audit report titles it appears that the audit coverage of bank operations is quite limited. Obviously it does not cover borrower activities and it appears that the auditors do not do any investigative work on their own initiative.

It is difficult to see how the Board of Executive Directors can be adequately knowledgeable on bank operations without knowing what the internal auditors are auditing, what they are finding, what they are recommending, and what management is doing about the audit recommendations. There is also some question as to whether the Auditor General can carry out an appropriate role at his current level in the organization. As previously noted, the internal audit function should not report to an official with operating responsibilities.

With respect to the internal audit function, the IDB is quite different from IBRD and the ADB. In these two IFIs there are audit committees of board members who see such audit reports as they desire, enter into dialogue with the internal auditor, and render opinions on the function. There is no such audit committee in the IDB although the Board of Executive Directors has its Group of Controllers which could perform an appropriate review for the Board of the internal audit function. As will be pointed out in the discussion of activities of the Group of Controllers, they should be required by the Executive Directors to perform reviews of the effectiveness of both the internal audit and operations evaluations functions.

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3. Evaluation

The Operations Evaluation Office (OEO) conducts evaluations of completed loan projects and, like the Auditor General, is part of the Controller's office.

The origin of the evaluation office as a part of the management staff goes back to a report of the Group of Controllers which serves the Executive Directors and is distinct from the Controller's office. During an earlier study of the education sector, the Group found an absence of project evaluation in the bank and recommended the establishment of a formal project evaluation system to focus on the financial, administrative, technical, and socioeconomic impact of projects financed by the bank.

In November 1972, the Board adopted the Group's recommendation and instructed management to give priority to ex-post evaluation, to establish a system and criteria for projects to be selected, and to submit a yearly report to the Board on improvements and measures to implement a system of ex-post evaluation.

After considerable delay an Ex-Post Evaluation Office was staffed in September 1974 and became operational the following spring. Its role was to evaluate loan projects only; technical cooperation projects were not included. However, in February 1977 this office was redesignated as OEO and its orientation changed, including the addition of coverage of technical cooperation projects.

The extent of management's commitment to project evaluation as a management tool and for accountability purposes is unclear. Briefly put, the Board in November 1972 instructed management to give the function priority attention. Management then took 2 years to get the operation started and now, 6 years after the Board made its decision, only 11 project evaluation reports have been issued. Greater productivity is essential for the OEO function to make a useful contribution.

The evaluation reports produced by the OEO are not made available to the Board of Executive Directors. Such arrangement, which is different from the other large IFIs, denies the Board of Executive Directors important documents on project results which are essential to the Board in carrying out its role. The Investigative Staff requested copies of these evaluation reports but they were denied.

In the absence of any access to the loan evaluation reports by the Executive Directors, it appears that they should at least instruct their own Group of Controllers to conduct an examination of the manner in which OEO discharges its responsibilities to be informed as to whether the ex-post evaluation process is worthwhile. Besides the rather dilatory response of management in instituting the function, it apparently has other defects as observed in the prior discussion of the evaluation process in the World Bank; namely, that the only reviews made of the adequacy of supervision is some 3 to 6 years after the fact, without a procedure for outside objective review of implementing deficiencies in ongoing projects. Also, it would appear to be helpful to management to have sector and subsector reviews conducted, though that would not add to accountability if the results were not available to the Board.

4. Oversight Functions of Executive Directors

In March 1968, IDB's Board of Executive Directors established its own staff arm--the Group of Controllers (referred to as the Group)--to enable it to more fully assess the results of the bank's activities. As a dependency of the Board, the Group conducts reviews and evaluations of bank activities independent of management. The Group's charter directs it to make, on behalf of the Board, professional, objective, and analytical studies and appraisals of bank policies, programs, systems, procedures, and operations with a view toward identifying any significant problem areas that may exist and offering suggestions to the Board for improvements. The primary purpose of the reviews is to ascertain if the bank's activities are being conducted in a manner designed to attain the objectives intended, in an effective and efficient way, at the lowest reasonable cost.

The Group consists of three controllers who jointly administer a review and evaluation unit which has seven program analysts. Each controller has equal rank and each signs every report issued by the Group. Dissenting views are permitted. The three controllers are nominated by the member governments and are elected by the Board. Each serves for a 3-year, nonrenewable term. The Group is a review group only; it has no management or operating responsibilities in the bank. Discussions within and outside the bank indicate that over the years, the troika-type leadership arrangement (a ruling body of three equals) has become cumbersome and inefficient. Direction and responsiveness of the staff, timely reporting, and general productivity have suffered. Nevertheless, the Group has a valid and useful role and its charter complies with the thrust of U.S. Congressional legislation encouraging the establishment of an independent review and evaluation system within the IFIs. Past studies and recommendations by the Group, as approved by the Board and acted upon by management, have had a significant effect upon improving bank management and accountability. The appropriate role of the Group is a matter of periodic consideration by both IDB management and the Board of Executive Directors. It is the Investigative Staff's view that the Group should be strengthened and its productivity enhanced by a wider range of bank activities subjected to its evaluation and review processes.

The Group represents a different approach among the IFIs in that it is the principal element of a Board-imposed review and evaluation system. Pursuant to Board instructions, the Group makes selected studies of bank operations and submits reports of findings and recommendations to the Board. After obtaining management views thereon, the Board makes a decision to approve, modify, or disapprove each recommendation. The management is given responsibility for carrying out the Board's decisions and for reporting to the Board upon the actions taken.

In developing and refining the system, IDB took a different approach to the matter of evaluation of completed loan projects than the other major IFIs. The Group recommended, and the Board concurred, in the establishment of an operations evaluation function as part of the management structure rather than as a part of the Group itself or otherwise responsive to the Board. OEO's functions and its rather limited review, at this juncture, of completed loan projects were described in the preceding subsection of the report.

The functional statements make it clear that the Group and OEO are doing different things for different purposes. In light of the present organizational statements and arrangements, a logical sequence of events would be for the Group to include in its work plan a review of the efficiency and effectivenes of the project evaluation work carried on by OEO. Such a review would logically encompass whether OEO's approach to evaluation is well founded, whether its level of output is sufficient, and whether the quality of project evaluations is adequate. The Group might well perform some project evaluation work of its own to aid in making the above determinations or as part of a sector or subsector evaluation. The fact that the Group has not performed a review of an important function like operations evaluation represents a deficiency in review and evaluation coverage by the Group. This deficiency is exacerbated by the fact that OEO has been slow in getting started and has produced very few reports.

Annually, the Group submits a proposed work plan to the Board and then proceeds to perform those studies which the Board has approved after discussion of the work plan at a Board session. In recent years, the Group's study work has emphasized reviews of management systems and operations. In the past 3 calendar years, it has produced 11 reports. The general nature of its studies can be adduced from the study titles of the Group's reports issued over that period, as follows:

1976

Training Activities
Preliminary Report Regarding
  Procurement of Goods and Services
Consulting and Contractual Services

1977

Loan Application Appraisals
Loan Monitoring and Contractual Compliance
Technical Cooperation Overview
Loan Approvals Process
Preliminary Report on Study of
  Science and Technology Transfer

1978

Bidding and Procurement
Education Sector Operations
Rural Development and Multisector Lending

In general, the reports appear to be objective and of good quality. The subjects covered are comprehensively treated, well analyzed, and rationally presented in terms of findings, conclusions, and recommendations. The 1977 preliminary report on the study of Science and Technology Transfer is more of an "approach paper" than a review and evaluation report.

As a result of review of the 1977 report on Loan Monitoring and Contractual Compliance, a situation developed which demonstrates the cavalier attitude encountered at IDB by the Investigative Staff on the overall question of accountability. In the discussion of loan supervision earlier in the report, a study reported upon by the Group of Controllers of loan monitoring activities by IDB was commented upon. An example was cited in this study of a housing project in a Latin American country wherein conflicting supervision reports were received from missions sent to the project site, and later missions reported fewer housing units completed than had been reported by prior missions. Portions of the project were found to be incomplete or inadequate and disbursement of loan funds had been completed by IDB on the belief that the project was much more advanced than was the case. A separate special case report had been prepared by the Group of Controllers because of the seriousness of defects found and upon request for that special report it was found that U.S. Treasury had never received any copy, though it is customary for the U.S. Executive Director's office to forward to Treasury all reports submitted to the Executive Directors by the Group of Controllers. The office of the U.S. Executive Director initially denied the Investigative Staff's request (January 4, 1979) for the report, and when the request was reiterated specifically to the U.S. Executive Director, the report was ultimately received January 31, 1979, when it was found to have been reposing in the U.S. Executive Director's office all along. It was claimed that the initial denial was based upon information supplied by the Group of Controllers that the report was actually an internal memorandum and had not been distributed to all Executive Directors (in fact, it was characterized as an "interim memorandum" and had been distributed to all Executive Directors).

Upon delivering the requested report, the Alternate U.S. Director pointed out that it demonstrated a situation wherein management took "prompt corrective" action upon being informed of defects discovered in a project. The report disclosed weak and inadequate supervision of the housing project and when the deficiencies of the project were brought to management's attention, steps were taken to (a) request the local Minister of Finance to personally intervene in December 1974; (b) tighten supervision with new regulations issued in December 1974; (c) send a special supervisory mission in March 1975; and (d) reformulate the project in April 1976. Under that reformulation, the changes made were to scale down the number of housing units to be constructed from 2,090 to 1,302; increase the total overall average cost per housing unit from $4,600 to $5,700; eliminate the requirement in the original agreement with respect to savings and loan and the secondary mortgage market; increase the maximum amount of credits to be granted to any single beneficiary from $4,500 to $7,200; and increase the maximum family income level of qualifying beneficiaries from $220 per month to $400 per month.

D. Asian Development Bank

1. General Institutional Procedures

ADB is in a period of realignment of its organizational arrangements. For many years, the management side of the bank's operations was highly centralized in the Office of the Vice President with tight centralized control on all phases of operations. Growing concern over lack of delegation, frustration with functions that did not receive front-office emphasis, bottleneck problems, and general criticism of the "one-man rule" concept has resulted in recent organizational and operational changes. Some of these changes were effected before the Investigative Staff's visit in mid-1978 and some more recently. The changes have produced greater emphasis on more modern methods, delegation, loan implementation, project completion reports, evaluation, and internal audit.

The President is now supported by two Vice Presidents--one for Operations and Projects and the other for Finance and Administration. There are six operating departments, i.e., Operations, Projects I, Projects II, Administration, Controller, and Treasurer. There are also seven office entities, i.e., Secretary, General Counsel, Central Projects, Economics, Information, Post Evaluation, and Internal Audit.

The management control activities are centralized in the headquarters office in Manila. There are no field offices. Bank personnel from the various departments and offices perform considerable travel to the member countries in the course of carrying out their functions. ADB's management control practices relative to the making and implementation of loans are closely parallel to those described in the earlier discussion of the World Bank. In general, ADB's management control system appears to be based on reasonable principles. However, there is no program of recurring detached reviews by the bank to determine whether the principles, processes, and procedures are being executed efficiently and effectively by the various bank departments. Nor is there any selective review, by personnel detached from day-to-day project supervision activities, to see whether borrowers are complying with the terms of the agreements and are executing project activities in an efficient and effective manner with respect to ongoing projects during implementation.

2. Internal Audit

The internal audit function is performed by the Office of the Internal Auditor (OIA) whose director now reports to the President. The organizational arrangements are relatively recent. Prior to 1977, OIA had been severely limited in authority and was actually barred from examining many activities in the bank. In 1976, the President appointed a high-level staff committee to examine the role of OIA and the subject also was reviewed with the Board of Executive Directors. These initiatives resulted in significant changes in the internal audit function in June 1977. The role of the Internal Auditor was redefined and steps taken to strengthen and improve the audit function. The position was upgraded and terms of reference issued giving the Internal Auditor greater authority and full access to bank records in the conduct of his duties. The audit staff was increased to 15 positions and OIA started to play an entirely different role.

The new functional responsibilities of OIA include the following major tasks: (a) to conduct internal audits for determining whether the accounts and records of the bank conform with established policies and procedures and accepted accounting principles; (b) to determine that internal accounting, financial, and operating controls are effective; (c) to assure that established policies and regulations are properly carried out and that adequate protection and safeguards exist over bank assets; and (d) to advise the President and departments and offices on the financial and accounting measures necessary to insure that loan and technical assistance agreements are satisfactorily implemented.

OIA prepares an annual program consisting of regular audits of a recurring type and special audits, the latter being reviews of specific areas of operation or of problem areas. The program for FY 1978 indicated that the greatest amount of audit time would be spent on (a) audit assistance to the external auditors, (b) loan disbursements and repayments, (c) bank account reconciliations, (d) technical assistance disbursements, (e) administrative expenses, and (f) payroll. At the time, special audits were not firmly programmed but the leading candidates were staff benefits, travel expenses, and consultant contracts.

Since OIA is only at the end of the first year of its new charter, it is in a transition period. The work appears professional but seems to be mostly limited to financial and administrative matters, although the Internal Auditor is considering broader audits. Based on OIA's terms of reference in its functional statement and on discussions with the Board's Audit Committee, it does not appear that OIA will be charged with performing operational audits of bank activities or site audits of borrower activity.

Under the same rationale as already discussed under the review of the World Bank system of internal audit, the Investigative Staff believes OIA should conduct broad program audits of departments and operational activities of the bank. The need for operational auditing by OIA seems particularly important in ADB because there are no other detached regular reviews of management efficiency and effectiveness. In ADB, the President has delegated much responsibility, is operating over a wide geographic area, and would be well served by a unit detached from operating responsibility to provide an objective view on operations. Such use of internal audit reinforces accountability and stimulates management improvement.

Selected audits of project execution by the internal audit staff would add a needed focus to project monitoring. While bank personnel perform project supervision work, there is no objective review by personnel detached from the day-to-day operating channel. Such a review would be a different type of check on whether the borrower is carrying out the project in accordance with the terms of the agreement and if he is executing the project efficiently and effectively. The reviews also would audit whether the bank's project supervision work is adequate.

3. Evaluation

ADB post evaluation of completed projects started experimentally in 1973 and was formally approved by the Board in 1974. At the time of the Investigative Staff's visit to ADB headquarters in June 1978, the function was directed by a small group in the Economic Office; a month later, a new separate Post Evaluation Office (PEO) was established which reports to the President of the bank.

The primary responsibility of the new office is to perform independent post evaluations of bank-financed projects, sectors, or subsectors with a view to (a) improving the methodology of project appraisal, (b) providing objective assessments of the overall effectiveness of such projects, and (c) evaluating the development impact of bank lending in such sectors or subsectors. In addition, PEO monitors actions on its recommendations, assists the departments in the preparation of project completion reports, and assists member countries in establishing evaluation groups of their own.

Specific comment is not possible on the new office's approach or progress inasmuch as it was organized after the Investigative Staff's visit and has not yet established a track record. However, the placement of the function as a review arm of the President, detached from operating responsibility, is appropriate as is the main thrust of the new functional statement, except for placement of responsibility for participation in project completion with PEO. An aspect of accountability is lost when PEO is evaluating the adequacy of the project completion report it helped prepare. The PEO might assist in the establishment of the arrangements for an orderly approach to these reports but the responsibility for their preparation should be with the operating and projects people, with input from the borrower, as done at the World Bank.

Thus far, ADB evaluations have been limited to reviews of individual completed projects, though a broadening of scope of activity to include evaluations of sectors and subsectors was under consideration at the time of the Investigative Staff's visit. Selected reports were examined and found to be professional and of good quality. ADB has not evaluated every completed project but performs the post evaluation review and analysis upon selected projects among different sectors. At the time of the Investigative Staff's visit, 19 post evaluation project reviews had been completed. ADB has under consideration a proposal to expand production of such reviews, and possibly making a post evaluation review of every project, by adopting a practice of less intensive reviews except for the selection of an appropriate sampling each year for in-depth extensive review. All evaluation reports are submitted to the President and to the Executive Directors.

ADB in the past has utilized the services of external experts, largely from academic and research institutions, to perform post evaluations of projects, though most of the evaluations have been conducted internally by bank personnel. The external experts are nominated by management and approved by the Board of Executive Directors. They are provided guidelines and procedures to be followed and a study proposal, prepared by the evaluator, is reviewed with management before the study is undertaken. Though some disadvantages have been encountered, mainly stemming from insufficient orientation of bank policy and procedures, the results obtained have been beneficial with a broader approach to the evaluation unimpaired with concern over bureaucratic impediments. The reports submitted have been professional and objective.

As earlier commented upon in discussing other IFIs, the Investigative Staff believes that the evaluation function should be broadened beyond simply the evaluation of projects or sectors so as to encompass objective reviews of bank policies, procedures, and operating departments, with institutional mechanisms making such evaluations directly responsive to the Board of Executive Directors. Also, the process of review over individual loan projects should include objective analyses during the implementation stage of ongoing projects so as to detect weaknesses while corrective action can be taken and to influence policy in a more timely fashion.

4. Oversight Functions of Executive Directors

ADB's Board of Executive Directors established an Audit Committee of three Board members in June 1977. The Committee's function is (a) to advise on the selection of the bank's external auditors, (b) to discuss and review with them their reports, annual financial statements, and recommendations for internal controls, (c) to satisfy itself that the bank's internal audit and post evaluation activities are adequate and efficient, and (d) to inquire into matters of specific concern to the Committee.

The Audit Committee has been active and successful in the recent strengthening of both the internal audit function and the post evaluation function. ADB has placed both of these functions within management, reporting directly to the President, complemented by the Board's Audit Committee which serves as a link between management and the Board with respect to their activities.

While there should be more direct control by the Board over these activities, perhaps through an oversight secretariat directly within the Board, accountability of management to the Board within ADB is enhanced subtly by a noninstitutionalized advantage not apparent in the other IFIs. This advantage is the informal and free interchange of activity and bank documents between the Board and management with considerably less compartmentalization than is evident among the other IFIs. Whether the cause is the smaller size of the bank than the World Bank or IDB or is the influence of the Asian culture and perceptions of participatory management concepts, the result of greater access to documents and management activity by the Board is a healthy one.

E. African Development Fund

AfDF is the newest of the IFIs to which the United States is a contributor. It was established in November 1972 and commenced operations in August 1973. It is centrally controlled with headquarters in Abidjan, Ivory Coast.

AfDF has a Board of Executive Directors in residence in Abidjan, Ivory Coast, which is distinct from the AfDB Board. It does not have a management staff of its own as the management staff of AfDB performs all management and administrative functions for the Fund. Accordingly, discussions herein relating to management structure and administrative activities refer to the organizational structure of AfDB as it is superimposed over the operations of AfDF. Operations are carried on in temporary office space; a new building, which will house both the Bank and the Fund, is nearing completion.

The present organizational and operational arrangements stem from new administrative instructions issued by the President in March and September 1977. Currently, there are vice presidents for administration, planning, finance, and operations. Each vice president is supported by appropriate departments and divisions. The operations area includes an Operations Department and a Projects Department. The Legal Department, the Controller Division, and the Treasury Division are all part of the finance area.

With respect to overall accountability, AfDF has a system of management controls generally patterned along the lines of the other IFIs. It includes a number of headquarters controlled and operated techniques such as overall program planning and budgeting, project selection and preparation, project appraisal, loan agreement documentation, and project supervision. However, neither AfDB nor AfDF has any detached review mechanism--i.e., any internal audit or evaluation activity conducted by employees detached from day-to-day operating responsibilities. Some experimental work has been started with respect to evaluation of completed projects but as yet there is no evaluation function. A decision has been made to institute an internal audit function but it is not yet operative. Also, there has not been established any institutionalized oversight mechanism within the Board of Executive Directors.

With respect to project execution and monitoring thereof, the problems in Africa are exacerbated because of the narrower spectrum from which to recruit experienced professionals as well as the more limited institutional capacity of the borrowing LDCs. In recognition of these problems, AfDF has employed the technical assistance technique as a means of strengthening both itself and borrower executing agencies. It is a continuing effort and the Fund is benefiting from such efforts.

To strengthen accountability, AfDF took a progressive step in 1977 when it engaged a firm of external consultants (Price Waterhouse Associates) to review various aspects of its disbursement and control procedures. The review included consideration of the problems of recipient countries in satisfying the requirements of the Fund. The Price Waterhouse report has been issued and contains a number of critical findings and many constructive recommendations which are quite broad in nature. As a result of consideration of the report by the Board and by top management, a task force team has been created to implement the recommendations. The team is operating under the guidance of the Vice President for Finance. It consists of a Price Waterhouse consultant and four bank employees from different departments. The team started in August 1978 and expects to complete its work in one year. Pursuant to recommendations in the report, a separate consultant provided by Price Waterhouse is providing guidance on the establishment of an internal audit department, its characteristics, terms of reference, manual, and a proposed first-year program. It is envisioned that the internal auditor will report directly to the President and will conduct financial audits not only of the bank/fund activities but also of borrowers' records.

Pursuant to AfDF's charter provision for a comprehensive and continuing review of completed projects, programs, and activities, a First Review Committee of four independent experts was established in 1977 and submitted its report in April 1978. The report is a comprehensive document reviewing the Fund's role, lending policies, investment procedures, administrative costs, organization and management, and the administrative structure of the bank. The conclusions and recommendations in the report cover all the main areas of AfDF operations plus some membership and replenishment aspects. One of the findings was that the information available in project files is insufficient for an adequate evaluation to be undertaken upon completion of the project. The recommendation was that AfDF undertake evaluation of completed projects, create sufficient information during the course of project execution to enable subsequent evaluation, and devise criteria and methods for the conduct of evaluations. The task force team pursuing the Price Waterhouse report recommendations is studying a proper approach in establishing an evaluation methodology and staff to carry it out. AfDF's activities are so recently inaugurated that none of its loan projects have yet been completed.

To study and implement, where appropriate, the recommendations in the aforementioned reviews conducted by outside experts, the Board of Executive Directors has established a steering committee and management has established a committee composed of vice presidents and department heads, both of which are working closely together to resolve the various policy issues.

V. ADMINISTRATIVE PRACTICES, STAFFING, AND REMUNERATION

This section of the report deals with the World Bank, IDB, and ADB. AfDF is not included because all administrative costs and staff support for AfDF is borne by AfDB.

A. Administrative Budgets and Procedures

Administrative budgets distributing anticipated operating costs over a variety of expense categories are formulated annually (the World Bank operates on a fiscal year from July 1 to June 30, while both IDB and ADB operate on a calendar year) by the managements of each of the IFIs with little or no participation by the Executive Directors. Following management's preparation, the budgets are presented to the Boards of Executive Directors for review, discussion, appropriate comments, and approval.

Since IFI administrative expenses are paid out of IFI earnings and not the contributions of member governments, the net effect is that all administrative costs are actually borne by borrowers rather than donors. Such method of covering administrative costs, accompanied by the fact that the IFIs do not pay dividends from earnings on the funds invested by member governments, creates an atmosphere of disinterest on the part of donor countries concerning IFI administrative expenses, and borrower countries are not in a comfortable position to challenge IFI management on the proposed budgets. An official of one of the IFIs stated that without a need to account to stockholders for dividends or to governmental authorities with legislative budgetary controls, there is a lack of any natural brake on the administrative budget and greater "freedom to maneuver" on the part of bank management. However, management prides itself on its efficiency and cost-effective analyses of programs so that it believes internal disciplines serve as well as such natural brakes.

A comparison is set forth in Table 3 that follows of the FY 1978 administrative budgets of the World Bank (IBRD/IDA), IDB, and ADB by broad expense categories. This comparison shows that personal services, consultants, and contractual services for all of the IFIs account for about 75 percent of the administrative budgets. The table follows (dollars in thousands):

Table 3

Expense Category	IBRD/IDA Amount	IBRD/IDA Percent	IDB Amount	IDB Percent	ADB Amount	ADB Percent
Personal Services	$164,100	68.4%	$50,374	73.7%	$18,174	70.0%
Operational Travel	27,550	11.5	2,588	3.8	2,204	8.5
Representation	685	.3	--	--	69	.3
Consultants	15,954	6.6	--	--	1,620	6.2
Consultants/ Contractual Services	--	--	2,692	3.9	--	--
Contractual Services	7,152	3.0	--	--	700	2.7
Communications-- Direct Charges	2,271	.9	--	--	--	--
Overhead	33,197	13.8	11,483	16.8	2,890	11.1
Unallocated Bank-Wide Program	--	--	223	.3	--	--
General Contingency	-- 1/	--	685	1.0	300	1.2
Gross Total	$250,909	--	$68,045	--	$25,957	--
Institute for the Integration of Latin America	--	--	350	.5	--	--
Less: Reimbursements	(10,914)	(4.5)	--	--	--	--
Net Total	$239,995	100 %	$68,395	100 %	$25,957	100 %

1/ Original IBRD/IDA budget had a $2 million general contingency provided which was absorbed among other expense categories during the year.

The World Bank's FY 1979 administrative budget (year ending June 30, 1979) is $253.3 million cast in 1978 dollars, or an increase in real terms of 8 percent. Part of this increase is attributed to a direct correlation with the type of projects, i.e., greater overhead is applicable to the so-called "new style" loans. Projects dealing with irrigation, health, education, rural development, and urban renewal are more complex and riskier, from an economic payback prognosis standpoint, and therefore require more staff time to analyze. They also involve smaller amounts of money per loan; hence, more loans are required to commit available funds. The change in emphasis of the IFIs' lending programs is reported to have significantly increased the administrative cost per dollar of loan commitment.

Table 4, illustrating IFI operational indicators, shows administrative costs as a percentage of loans approved to be 2.9 percent at the World Bank, 3.4 percent at IDB, and 2.5 percent at ADB. This relationship, while used by the institutions to illustrate that the administrative expense per dollar lent is relatively low, is a questionable indicator of the institution's efficiency since the IFIs are working with extremely large transactions which commit on the average in excess of $20 million per transaction (World Bank--$36 million; IDB--$20.1 million; and ADB--$20.2 million).

While none of the indicators shown in Table 4 can be measured against any established or presumed optimum, they are interesting in comparing one IFI against the others. From a composite of all the indicators, it is apparent that ADB operates more austerely. Table 4 follows:

Table 4

OPERATIONAL INDICATORS

	1978 Budgets		
	IBRD/IDA	IDB	ADB
Administrative Budget (000's)	$ 239,995	$ 68,395	$ 25,957
Amount of Loan Commitments (000's)	$ 8,400,000	$ 2,010,000	$ 1,050,000
Average Commitment	$36,000,000	$20,100,000	$20,200,000
Number of Projects/ Loans Approved	233	100	52
Projects Under Supervision	1,281	490	230
Gross Income (millions)	$ 2,018.8	$ 470.4	$ 187.1
Professional Staff	2,321	926	345
Support Staff	2,152	691	551
Total Staff	4,473	1,617	896
Administrative Expenses as a Percent of Loans Approved	2.9%	3.4%	2.5%
Professional Positions Per Loan	10.0	9.3	6.6
Administrative Expenses Per Approved Project	$ 1,030,021	$ 683,950	$ 499,173
Administrative Expense Per Professional Position	$ 103,402	$ 73,861	$ 75,238
Administrative Expense Per Project, Both New and Under Supervision	$ 158,517	$ 115,924	$ 92,046
Professional Staff as a Percent of Total Staff	51.9%	57.3%	38.5%
Gross Income Per $ of Administrative Expense	$ 8.41	$ 6.88	$ 7.21

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A senior World Bank official stated the World Bank management, and undoubtedly that of the other IFIs, is operating under a fallacious impression that there should be a direct correlation between the size of the bank's staff and the amount of money lent, pointing out that the Export-Import Bank of Japan with 700 employees handles more loans than the World Bank does with 4,500 employees. Another IFI official observed that there are no rational tools with which to measure the need for increased operational work. For operating departments, it is most difficult to arrive at measures of productivity and cost effectiveness; within the support departments it is much easier to measure productivity and therefore gauge budgetary needs.

There are no current studies of the Bank's administrative costs now underway or recently completed except the joint World Bank/IMF compensation study, termed the "Kafka" study. Within the World Bank, the Programming and Budgeting Department serves top management in a review and policy examination function and annually performs studies to address bank policy and means of saving costs for the bank. During the previous fiscal year, they performed studies of bank travel policy; the potential for making greater use of local employees within borrowing countries; study of the bank's research activities emphasizing holding down the costs of these activities; and a study of the cost of manpower expended on projects that never reach fruition. It was this last study that led to the decision for management to recommend a reduction of its lending for tourism projects and to gradually phase them out except for exceptional circumstances or by lending through ICIs.

Reprogramming

Within each of the IFIs, administrative budgets serve as a framework for control of operational expenses with varying degrees of rigidity and each permits reprogramming of budgeted funds to some extent.

Currently, there are no specific constraints within the World Bank prohibiting management from reprogramming administrative expenses from one category to another without Board approval. When an overage occurs, it is transferred to liquid assets and reserves by management; shortages on the other hand have to be funded by a Board amendment to the administrative budget. In reviewing the FY 1978 Operating and Administrative Budget, one Executive Director suggested the budget be submitted by categories that could not be reprogrammed without Board approval. The President noted the suggestion and stated it should be considered.

ADB requires management to obtain Board approval for transfers between major headings or when transfers between line items under major headings involve basic principles, policy, or sensitive items, such as representation expenditures. Otherwise, management is authorized to make transfers between items falling within a main heading. Funds budgeted as contingencies are available for the President to use as he sees fit. If funds other than those budgeted are necessary, no expenditures can be made without a supplementary budget prepared by management and approved by the Board of Executive Directors.

The IDB Board of Executive Directors authorizes management to shift funds between the 16 budgetary categories should it be necessary to cover unforeseen expenses in excess of the amounts allocated up to 2 percent of the amount authorized for any budget category, provided the amount transferred is not in excess of 10 percent of the total already authorized for the category to which the transfer is made.

IBRD Transfers to IDA in Lieu of Dividends

Since FY 1964, the World Bank has annually approved transfers from IBRD net income to IDA resources totaling $1.225 billion as of June 30, 1978. The World Bank annual financial statements at June 30, 1978, show that the IBRD still owes $734,503,000 to IDA as a result of these "approved transfers."

The Executive Directors are required to make the annual decision on allocation of IBRD net income to the Bank general reserve and to recommend to the Board of Governors how much, if any, to transfer by grant to IDA. Since 1969, the annual transfers have been either $100 million or $110 million.

Initially, in order to meet IDA cash requirements, "approved transfers" from IBRD were drawn on a pro rata basis with donor replenishment contributions. The World Bank accounts for each replenishment separately and there have been five replenishments; hence, there are five sets of records. Within each replenishment record, loans are recorded as commitments (obligations) with the commitment ceiling in each set of records being the replenishment plus the "approved transfer" authority.

In 1974, at management's recommendation and with Board approval, the transfer procedure was changed to draw on IBRD transfers last rather than on a pro rata basis in meeting disbursements on IDA commitments. This change in system does not alter the annual approval of transfer of funds from IBRD to IDA but does cause IDA to utilize the total amount of specific replenishment pledges from donors before drawing on

IBRD approved transfer authority for disbursements applicable to that replenishment period. With the slowdown of disbursements, IDA has not used up prior replenishment authority and so has not needed yet to have the $734.5 million transferred to its books. By retaining custody of these funds, IBRD is able to accrue income on the undrawn portion to the extent it remains a part of IBRD's invested funds.

A senior World Bank official noted that there has been pressure by several large donor country members to show greater annual increases in profits by not transferring earnings to IDA and to declare actual dividends. The donors applying pressure also feel that current IBRD lending rates are too low and should be raised to generate profits in excess of the $200 to $250 million that has been earned annually by IBRD in recent years. These donors believe bond buyers should be able to see rising profits. The official observed that by declaring dividends there might be greater cost consciousness and control over administrative expenses, although he believes the World Bank does very well in applying quality control to administrative expenses.

Treasury and the IFI Budgets

Treasury takes the position concerning IFI administrative budgets that while funds for administrative expenses come from interest and service charges paid by borrowers, they are nevertheless concerned that these public funds are administered properly. Each U.S. Executive Director forwards a copy of the IFI administrative budget to Treasury for review. Treasury is particularly interested in and has examined in detail salaries, first class travel, annual meeting costs, and employee benefits. The U.S. has taken issue with these administrative expenses through both the Governors and Executive Directors and changes have been made or, as in the case of salaries and benefits discussed later, studies are underway dealing with possible change.

According to Treasury, most other governments have little or no interest in the IFIs' administrative costs, salary levels, and travel costs. Several other member countries, in light of U.S. interest in reducing salary levels of IFIs, have expressed concern over keeping salary levels high in order to attract high quality people from their countries to serve, particularly in light of the inflation and devaluation of the dollar as compared to their native currencies.

IFI Travel

Both the World Bank and IDB have announced more restrictive air travel policies during 1978. An official of the World Bank noted that prior to the change in its first class travel policy, it considered itself vulnerable, and justifiably so, to criticism. In February 1978, the World Bank announced that all travel in the short zone (flights under 9 hours) would be economy class and in the long zone (travel to points south of Colombia and to Asia, Africa, and Turkey) would be first class. The class of travel is related to fatigue and not rank; under the new policy, all bank personnel will travel the same class for the same distances. The number of stopovers authorized for lengthy trips has been reduced in the new travel policy. Exceptions to the policy on economy-class travel relate to health, space availability, and excessive travel during a 12-month period.

ADB is reviewing its travel policy although its current policy is restrictive, allowing first-class travel only for the President, Vice President, Board of Directors, and 20 senior staffers. The current IDB travel policy permits first-class travel for only the President, Executive Vice President, and Executive Directors.

B. Staffing Patterns and Remuneration

1. Staffing

As stated earlier, personnel costs, including consultants and/or contractual services, account for approximately 75 percent of IFI administrative costs. IFI personal services, excluding consultants and contractual services, represent 68.4 percent of the World Bank administrative budget, 73.7 percent of IDB's, and 70.0 percent of ADB's administrative budget. The following table illustrates the number of employees, both professional and supporting, budgeted for by each of the IFIs for the most current year for which data were available.

	Authorized Positions		
	Professional	Supporting	Total
World Bank--FY 1979 ------	2410	2259	4669
IDB--FY 1979 (excluding Board of Directors and Group of Controllers) --------	938	691	1629
ADB--FY 1978 -------------	345	551	896

The IFI staffs are composed of personnel from each member government, with only a few countries not having any nationals employed. None of the IFIs admit to operating a quota system for staffing but rather refer to an informal system of employment percentages. The U.S. Treasury favors such system and contends that the United States receives a higher percentage of jobs than its percentage of investment in the IFIs and, in addition, receives over 50 percent of the consultant work.

Internal guidelines are followed that impose ceilings on personnel from specific countries that are somewhat in line with their contributions. The present ceiling on U.S. national employees at the World Bank is 27 percent of the total personnel. Currently, the World Bank has all the U.S. and British employees appropriate under the ceilings and is trying to recruit mainly from LDCs.

All staff positions have a probationary period and, according to Treasury and Bank officials, the World Bank does fire people if they prove incompetent during the probationary period regardless of their country or origin.

The World Bank (IBRD/IDA) as of December 31, 1977, had 2,255 professional employees of which 576, or 25.5 percent, were U.S. nationals. Total staffing, including 2,024 nonprofessionals, was 4,279, of which 1,182, or 27.6 percent, were U.S. nationals. IFC as of December 31, 1977, had 253 employees of which 61, or 24.1 percent, were U.S. nationals. The percentage of U.S. contributions to IBRD, IDA, and IFC as of June 30, 1978, was 25.5, 28.4, and 37.6, respectively.

As of February 17, 1978, IDB had a total of 1,609 employees, distributed as follows:

	Total	U.S. Nationals	
		Number	Percent of Total
Professionals:			
International	827	197	23.8
Local Field	79	--	
	906	197	21.7
Nonprofessional:			
International	516	51	9.9
Local Field	187	--	
	703	51	7.3
Total Staff	1,609	248	15.4

U.S. participation in IDB Ordinary and Interregional Capital as of June 30, 1978, was 34.8 percent and in the FSO was 66.4 percent.

As of March 1, 1978, ADB had a total staffing of 845, composed of 338 professionals and a supporting staff of 507. Of the professionals, 31, or 9.2 percent, are U.S. nationals and there are no U.S. nationals among the supporting staff so that overall U.S. participation is 3.7 percent. Virtually all supporting staff are Philippine nationals. The U.S. subscription to the ADB as of May 31, 1978, was 9.35 percent.

As can be seen, the percent of U.S. employment in both the World Bank Group and ADB is similar to the U.S. investment. This is not so in IDB where the United States has contributed 34.8 percent of the Ordinary and Interregional Capital and 66.4 percent of the FSO while U.S. nationals represent 15.4 percent of the total staff and only 23.8 percent of the international professional positions as of February 17, 1978.

Treasury officials noted that staffing needs are a management function of the IFIs and it is impossible for Treasury to determine the numbers of personnel required by the IFIs. However, Treasury claims to make comparisons between IFIs and to have them justify personnel levels through the U.S. Executive Directors who are expected to take up concerns during the annual budget reviews by the Board of Executive Directors. These officials noted that for the past 3 or 4 years, overall personnel levels at IDB had been high in ratio to the other banks but the current level now is more in line with the other IFIs.

Field Operations

Both the World Bank and ADB operate under similar theories of centralized management with staff members making frequent field trips to supervise projects as well as to perform other tasks as required, while IDB places more responsibility on resident representatives in borrowing countries. As of February 23, 1978, IDB had representatives in 23 Central and South American countries as well as representatives with the Institute for Latin American Integration and representatives located in France and the United Kingdom. Most IDB field representatives are located in the capital cities of the borrowing countries.

The IDB field office function is described as being oriented 80 to 90 percent toward loan administration rather than identifying, preparing, or evaluating projects. Responsibilities assigned to field offices include providing technical information and assistance during implementation as well as reviews of: bid calls (and certification that they are fair); project design; disbursement procedures, including overseeing that project bills are submitted to IDB headquarters for prompt payment; disbursement reconciliation; borrower-provided audit reports; and work performed by engineers.

IDB field offices were once perceived as no more than mailboxes, but during the 1970's there was a thrust within the bank on project surveillance which resulted in a reorganization of the operations department, under which field offices are located, with more emphasis placed on field offices and their role in project monitoring. The IDB Group of Controllers is now in the process of examining the role of the IDB field office and field representatives.

A senior IDB official noted that the quality of field office personnel is improving. In the past, members of the IDB Board of Executive Directors while serving on the Board were reported often to have shopped for their next job as a headquarters or field employee of IDB. Such practice has been partially changed in that Executive Directors can no longer accept an IDB position within one year after leaving the Board.

While World Bank operations are highly centralized, they also maintain field offices which are located in 28 countries outside the United States with 417 such authorized positions for 1979, including 136 professionals.

Within the World Bank, there are differences of opinion as to the merit of assigning permanent personnel overseas. One opinion is that both appraisal and supervision are enhanced where World Bank representatives are present in the borrowing country by better defining projects and ensuring closer supervision by the borrower. Another opinion is that placing one representative in the field is not cost-effective in that it equates to a loss of one and one-half professionals in Washington. A further opinion is that the nature of the project and the degree of difficulty associated with its implementation should determine the type of supervision afforded the project, i.e., whether it is monitored from headquarters or the field.

During its field visits, the Investigative Staff met with both IDB and World Bank representatives where present. In each case the representatives and their staffs appeared familiar with the loans and with the borrower's problems in executing the projects. In several situations, IFI representatives accompanied Investigative Staff members on project visits and in each case were known to project personnel. In several projects visited by the Investigative Staff, the IFI field representatives had played a role in suggesting solutions to problems faced by the executing agencies.

2. Salaries

In response to Congressional interest and the publicizing of IFI salaries resulting from Congressional hearings, the Executive Branch has made an effort to effect changes in the World Bank and IDB compensation programs as well as in the method of tax reimbursement to U.S. nationals. Problems at ADB differ and are discussed separately.

The question of excessive compensation among IFIs is not new; in January 1976, the Comptroller General of the United States issued a report entitled, "Tax-Free Salaries of the International Development Banks Exceed Those of All Member Governments." This report found that in 1974 the average professional salaries adjusted for tax-free status and allowances were $35,286 at the World Bank and $33,120 at IDB, compared to the U.S. Civil Service average which was $20,283. GAO also surveyed selected international departments of U.S. banks and reported that professional staffs there earned average salaries of $30,000. GAO, among other things, recommended that U.S. Treasury officials, "develop policy positions concerning appropriate salary levels for the development banks."

The compensation issue raised by the United States has resulted in considerable discussion and study within the World Bank and IDB. One official noted that World Bank management expects some salary adjustments in both directions (upward and downward) as a result of current efforts to adjust the salary structure. Current salaries are considered by this official to be excessive at the lower professional levels and throughout the nonprofessional staff, but not at the upper professional staff levels.

The United States was instrumental in obtaining a study of compensation principles and structure of the IMF and the World Bank by private consultants (Coopers & Lybrand Associates, Limited and Towers, Perrin, Forster & Crosby) which resulted in a January 1978 report to the Governments of France, Germany, Japan, the United Kingdom, and the United States. This study did not propose changing the current philosophy of maintaining absolute equity in compensation among staff members of different nationalities. It did, however, recognize inequities in the current system of computing the reimbursement for taxes that results in overcompensation, which the U.S. Congress had been aware of prior to the study.

Coopers & Lybrand in part recommended:

(a) Compensation should be based on comparisons with market rates which apply in a single country whose compensation levels will enable the Fund and the Bank to recruit and retain staff from the great majority of countries.

(b) That the United States private sector be used as a basis for comparison for the professional staff and suggested the Washington, D.C., quality private sector for the support staff.

(c) Executive Directors' compensation possibly should be based on a sample of those diplomatic staff in Washington from major countries who have similar status as their Executive Directors.

(d) Salary structure should be expressed in gross terms and expatriate staff should be paid net, using average deductions and key family characteristics so as to reduce the gross salary scale.

(e) Review of the extent to which expatriate allowances are now appropriate and adequate as well as a review of the current arrangements for social security for both U.S. nationals and expatriates.

(f) Compensation be reviewed every 3 years with comparator organizations for both professional and support staff.

In the annual World Bank compensation review as of March 1, 1978, management proposed to the Executive Directors a net salary increase for all staff below the President and Senior Vice President equivalent to the percentage rise in the Washington Consumer Price Index for the 12 months February 1977 to February 1978. This increase was then anticipated to be approximately 7 percent. Following discussion and separate consultations by the U.S. Executive Director with his counterparts, the Board in May 1978 voted (a 51 percent majority) to limit the cost-of-living raise to 3.5 percent. The question concerning the other half of the proposed raise was deferred until completion of an internal study, with the proviso of backdating it if it were later approved. The World Bank action was followed by IDB which limited its annual cost-of-living raise to 3.5 percent at that time.

Upon encountering delay in completion of the internal study and submission of report thereof, the Executive Directors approved management's request in the Fall of 1978 to grant the other half (3.5 percent) of the previously recommended

7 percent cost-of-living increase, backdating its effect to March 1, 1978. IDB followed similar action, backdating the raise for IDB employees to June 1, 1978.

A Joint Committee on Staff Compensation Issues (referred to as the Kafka Committee) was established in July 1977, as proposed by management. Its report to the Boards of Directors of the World Bank and IMF was not completed and issued until January 1979. The committee, chaired by Alexandre Kafka, an IMF Executive Director, was composed of 15 members--5 from each Board, plus 5 outside experts.

The Kafka Committee recommended that professional compensation of the World Bank and IMF be based on a sample of U.S. Civil Service and private sector compensation, with equal weight given both sectors. Preliminarily, the midpoint of each Bank and Fund salary range should be equal to the established U.S. Civil Service and private sector base; then there should be added a 10 percent premium to the Bank and Fund pay scales to assure quality and to attract employees from other high-salaried countries. It was recommended that Bank and Fund fringe benefits should retain the same relationship to salaries as exist within the U.S. Civil Service and private sector. The Kafka Committee made further recommendations concerning tax reimbursement which are discussed in a later section of the report dealing with that topic. Other recommendations made were: no general expatriation allowance at the present time; a settling-in and termination grant; present relocation assistance should be extended to local nationals who were recruited in Washington; support staff salaries should be set at 5 percent above selected agencies in the U.S. Civil Service for the average of each salary range.

Concerning retirement benefits, the Kafka Committee proposed re-examination of the present method of determining the pensionable base and suggested either a formula based on the tax codes in a number of countries, with "grossing-up" based on average deductions for the United States tax code and comparable methods in other cases, or a system based solely on the United States tax code and average deductions. The term "grossing-up" refers to a computation by which a salary net of any income tax is converted to a gross salary including income tax.

At the time of the writing of this report, the World Bank and IMF Executive Directors had received the Kafka Committee report for consideration but had not acted on its recommendations. It is expected that whatever action is taken, IDB will follow the decision of the World Bank since IDB management and the IDB Board of Executive Directors have been awaiting the results of the Kafka Committee study before making any changes in the IDB compensation policy.

The Kafka Committee study and report did not establish the base salaries applicable to IFI grades, i.e., the determination of an appropriate amalgam of civil service and private sector remuneration was not established as comparators with the IFI grade structures. Such step remains to be performed by the World Bank and/or IDB.

One comparator worthy of consideration is the annual study performed by the Office of Personnel Management (OPM), formerly the Civil Service Commission, of appropriate private sector salaries as a guide to the President in making recommendations for adjustments to civil service salaries. OPM utilizes groupings of various professions, e.g. accountants, chemists, engineers, etc., to arrive at a private sector average for comparable work to that performed by personnel holding the various professional civil service grades. The private enterprise payline shown below results from the survey of average annual salaries of private sector positions comparable to civil service positions and the weighting of these surveyed positions by the relative number of similar civil service positions by grade. Using this survey of selected grades, a computer trend line is established to arrive at the GS-16 through 18 private enterprise payline. Without regard to statutory ceilings, by which civil service actual grades currently are compressed at the upper levels, and without attempting final judgments on which IFI level compares to which civil service level, set out below for 1977 (the latest period for which complete IFI data is available) are the OPM findings on private sector levels; the government levels in effect without compression of ceilings; and the World Bank levels in effect:

Table 5

Civil Service Grade Levels		Private Enterprise Payline	World Bank Levels	
Grade	Salary at Maximum		Grade	Salary at Maximum
Executive Level:				
I	$66,000	--	President	$116,050
II	57,500	--	Senior Vice President	106,950
III	52,500	--		
IV	50,000	--	Professional: Q	97,320
V	47,500	--		
General Schedule:				
18	58,245	$61,394	P	89,570
17	56,324	54,379	O	86,470
16	53,735	47,628	N	74,960
15	47,025	41,248	M	64,560
14	39,975	35,324	L	54,390
13	33,825	29,913	K	43,450
12	28,444	25,047	J	33,940
			NonProfessional:	
11	23,739	20,739	I	30,440
10	21,604	18,793	H	30,440
9	19,617	16,980	G	25,940
8	17,757	15,299	F	22,030
7	16,035	13,746	E	22,030
6	14,431	12,317	D	18,750
5	12,947	11,005	C	16,610
4	11,575	9,805	B	15,150
3	10,306	8,711	A	13,060
2	9,150	7,718		
1	8,082	6,819		

At an April 1978 World Bank Board meeting, following the Board decision to limit the then cost-of-living raise to 3.5 percent, two Executive Directors suggested that it would be helpful if the United States authorities could make it known that although they believed staff salaries were too high, they would not make a decision until all the evidence had been examined by the Kafka Committee and that, when the Committee submitted its report, the United States would not bring undue political pressure on anyone to influence the Board's decision on the Kafka Committee's report and recommendations. The Investigative Staff was advised that current United States efforts to alter IFIs and IMF compensation policies have had a polarizing effect of strengthening nationalistic feelings and of creating pro-United States and anti-United States factions in each of the institutions.

Senior IFI officials advised the Investigative Staff that attempts to compare staff members' salaries prior to joining the banks with bank starting salaries is fraught with problems that must be dealt with on an individual basis. In many countries, salaries are not as significant a portion of total compensation as they are in the United States. For example, one bank executive in his prior employment had a chauffeur and household help furnished. In some countries, all education is provided free of charge through college years; in addition, medical and retirement programs are often subsidized to greater extents than is the case in the IFIs.

Personnel who continue to have expenses to meet in their home countries, such as family obligations, have been affected by the declining value of the U.S. dollar in world markets. On the other hand, many staff recruited from LDCs are receiving substantially greater total remuneration than was the case in their prior employment within the LDC.

There is, of course, nothing more natural or more to the employees' interests than combatting trends and efforts to scale down salaries or to hold them level until inflation has accomplished a similar result. From reviewing minutes of Board minutes, it is apparent that the United States is not alone in efforts to hold down salary increases until lower comparable grade levels are reached. At the same time, it is apparent that the issue is an emotional one. It cannot now be discerned whether adoption of the Kafka Committee recommendations and a further study to set scales will result in an overall reduction or increase of salaries; very likely, it will result in the increase of some levels and the reduction of others.

World Bank Salary Scale

IFIs operate structured personnel systems which contain separate graded scales for professional and support personnel. In the World Bank, there are eight professional grades with the entry level being grade J and the highest level grade Q, exclusive of the top officers.

The following table illustrates World Bank net salaries as well as the taxable gross equivalents by grade following the March 1, 1977, cost-of-living salary adjustment. The minimum amount shown opposite each grade is the bottom step of the grade, the maximum amount being the top of the grade. Included in the net salary amounts is a dependency allowance applicable to non-U.S. citizens more fully explained in a later section dealing with fringe benefits. Also shown are the total number of employees and the number of United States nationals onboard as of December 31, 1977 (later statistics not available).

Table 6

THE WORLD BANK SALARY SCALE FOLLOWING
MARCH 1, 1977 ADJUSTMENT

IBRD Level	Net Salaries 2/ Minimum	Net Salaries 2/ Maximum	Taxable Gross Equivalent 3/ Minimum	Taxable Gross Equivalent 3/ Maximum	Number of Employees 5/ Total	Number of Employees 5/ U.S. Nationals
Management:						
President	--	$60,000	—	$116,050	1	1
Sr. Vice President	—	58,030	—	106,950	1	1
Executive Directors 1/	—	47,605	—	83,830	20	1
Alternate Executive Directors 1/	—	37,658	—	61,730	20	1
Professionals:						
Q (Vice Presidents)	$45,900	53,680	$80,000	97,320	15	4
P	41,980	50,190	71,320	89,570	49	16
O	40,420	48,810	67,840	86,470	71	21
N	35,220	43,610	56,310	74,960	221	61
M	29,970	38,940	44,980	64,560	446	115
L	25,130	34,360	35,530	54,390	917	209
K	20,650	29,210	27,320	43,450	356	91
J	16,640	24,320	20,880	33,940	138	52
					2,276	576
Nonprofessionals: 4/						
H	13,680	19,810	18,750	30,440	71	19
I	12,540	19,810	16,880	30,440	400	119
G	11,920	17,620	15,900	25,940	106	21
E	10,530	15,540	13,730	22,030	359	79
F	9,150	15,540	11,730	22,030	98	35
D	9,150	13,680	11,730	18,750	703	203
C	8,530	12,360	10,850	16,610	192	86
B	7,800	11,450	9,810	15,150	61	31
A	7,800	10,070	9,810	13,060	34	7
					2,024	606
				Total	4,279	1,182

1/ Salaries for Executive Directors and Alternate Executive Directors became effective after the Board of Governors vote in November 1976.

2/ Salary paid non-U.S. citizens including dependency allowance consisting of (1) for spouse--$530 plus 1.5 percent of salary over $10,000, (2) for each child--$420. For presentation purposes we have assumed a spouse and two children.

3/ Salary paid U.S. citizens assuming spouse and two dependents; D.C. residence, and is "grossed-up" by IBRD using standard deductions, to cover Federal and State income taxes and social security taxes.

4/ Assuming D.C. residence, one exemption, standard deductions and no dependency allowances.

5/ Numbers of employees are as of December 31, 1977.

The taxable gross equivalent columns in the foregoing table represents the hypothetical average for "grossing-up" employees' salaries to a level reflecting gross salary prior to deduction for U.S. Federal and State income taxes. In actual practice, the World Bank and IDB compute a tax reimbursement payment for each U.S. employee predicated on the individual's status with respect to exemptions and residence. A standard deduction is utilized. Average amounts of such tax reimbursement payments to individual U.S. employees were sought by the Investigative Staff but the most current information pertaining to tax reimbursement by grade that the World Bank was able to provide came from a 1976 outside consultant study report on tax reimbursement. The following table illustrates average tax reimbursements to offset income tax liability for various ranges of net taxable compensation received by U.S. employees from the World Bank during 1976. This table shows that during 1976, 48 percent of these employees (including professonal and support) received tax reimbursements in excess of $10,000 added to net taxable compensation of over $20,000.

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Table 7

Net Taxable Compensation	Average Tax Reimbursement	Number Of Staff	Cumulative Percentage of Staff Receiving Reimbursement
Over $40,000	$35,115	55	6
$35,000 to $40,000	26,023	69	15
$30,000 to $35,000	19,882	106	27
$25,000 to $30,000	14,730	92	38
$20,000 to $25,000	10,997	89	48
$15,000 to $20,000	7,165	134	64
$12,500 to $15,000	4,488	99	75
$10,000 to $12,500	2,993	141	92
$ 8,500 to $10,000	2,216	66	99
Below $8,500	1,630	5	100

Effective in April 1978, the World Bank President's net salary was raised to $78,000 per annum, from the $60,000 shown on the earlier table. Justification for this raise is based on two circumstances--one is that there had been a ceiling on the President's salary for 5 years, precluding annual cost-of-living raises; and the second reason is that the new IMF Managing Director was retained at a net salary of $78,000. The IMF Managing Director is not an American, hence he is not reimbursed for U.S. income taxes. The World Bank President, an American, is reimbursed for income taxes by having his salary grossed-up, using average tax deductions rather than using a standard deduction. The result is an equivalent gross salary (before taxes) of $125,000 per annum, at present.

IDB Salary Scale

At IDB there are nine professional grades (I through IX) with IX being the entry level. There are also managers and deputy managers above the numbered grades.

The following table illustrates IDB net salaries, including a $1,475 dependency allowance for non-U.S. employees at management and professional grades, as well as the taxable gross equivalents by grade as of March 1, 1978. Also shown are the total number of employees as of February 17, 1978, and the number of U.S. nationals onboard as of February 23, 1978.

Table 8

INTER-AMERICAN DEVELOPMENT BANK
SALARY SCALE AS OF MARCH 1, 1978

Level	Net Salaries Minimum	Net Salaries Maximum	Gross Salaries Minimum	Gross Salaries Maximum	Number of Employees Total 1/	Number of Employees U.S. Nationals
Management: 2/						
President	—	$55,000	—	5/	1	—
Executive Vice President	—	50,475	—	$91,000	1	1
Executive Directors	—	44,985	—	78,200	11	1
Alternate Executive Directors	—	35,675	—	57,600	11	1
Manager 3/	$44,772	44,965	77,710	78,150	8	2
Deputy Managers	43,666	44,965	75,220	78,150	15	5
Professionals: 2/						
I	35,316	42,769	56,720	73,230	35	13
II	31,305	41,143	49,730	69,680	37	10
III	27,618	39,269	40,440	65,510	94	39
IV	24,290	34,887	34,020	55,760	145	36
V	21,484	30,862	28,860	46,960	105	27
VI	19,001	27,242	24,710	39,720	61	19
VII	17,054	24,454	21,610	34,360	42	14
VIII	15,056	21,794	19,030	29,400	38	10
IX	13,811	19,575	16,810	25,620	39	6
					643	184
Nonprofessionals: 4/						
X	11,039	16,330	14,970	23,490	130	20
XI	9,861	14,550	12,750	20,260	155	14
XII	8,770	12,893	11,200	17,460	131	4
XIII	7,771	11,573	9,770	15,350	87	9
XIV	6,904	10,140	8,490	13,160	5	1
XV	6,187	9,138	7,490	11,720	8	3
					516	51
Total Headquarters					1,159	235
International Field Staff (professional)					184	13
Local Field Staff (professional)					79	—
Administrative					187	—
Total					1,609	248

1/ Total staffing figures as of February 17, 1978, and U.S. nationals as of February 23, 1978.

2/ Assuming D.C. residence, four exemptions, standard deductions. Dependency allowance of $1,475 unless noted otherwise is included in both net and grossed-up salaries.

3/ Included in the Manager and Deputy Manager range are two individuals with the titles of Senior Manager and Senior Deputy Manager.

4/ Assuming D.C. residence, one exemption, standard deductions, and no dependency allowance.

5/ Position held by non-American not subject to U.S. tax schedule.

ADB Salary Scale

ADB has seven professional grades (I through VII) with entry at grade I; within each grade are five graduations or quintiles.

The following table illustrates ADB salaries by grade as of March 1, 1978, including a dependency allowance of $1,550 for management and professional staff using the assumption of a family of four, where applicable. Also shown are the total number of employees and U.S. nationals as of March 1, 1978. Only actual salaries are shown on the table inasmuch as ADB has no procedures for "grossing-up" or for reimbursing any employee an amount equivalent to his income tax liability.

Table 9

ASIAN DEVELOPMENT BANK
SALARY SCALE AS OF MARCH 1, 1978

Level	Minimum	Maximum	Number of Employees Total	U.S. Nationals
Management: 1/				
President	--	$54,000	1	--
Vice President	--	49,050	1	--
Executive Directors 2/	--	42,350	12	1
Alternate Executive Directors	--	36,550	12	1
Professionals: 1/				
VII	$38,560	42,170	9	1
VI	36,250	41,110	13	1
V	32,345	38,630	28	2
IV	28,242	36,249	60	3
III	23,990	32,345	83	9
II	20,692	28,242	109	13
I	10,454	23,990	10	0
			338	31
Nonprofessionals:				
8	4,173	6,975	24	--
7	3,383	5,671	10	--
6	2,816	4,597	62	--
5	2,378	3,778	54	--
4	2,059	3,124	62	--
3	1,759	2,560	81	--
2	1,557	2,160	188	--
1	1,345	1,874	26	--
			507	
		Total	845	31

1/ These individuals may also receive a dependency allowance; for presentation purposes we have included $1,550 per annum for a family of four.

2/ Under the provisions of Section 3-B of the Asian Development Bank Act, the U.S. Executive Director is entitled to compensation and allowances equal to those authorized for a Chief of Mission, Class 2, within the meaning of the Foreign Service Act of 1946. The U.S. Executive Director is entitled to receive the difference between the $52,500 salary of a Chief of Mission, and the ADB's salary for an Executive Director ($40,800). He also has a residence provided by the U.S. Treasury Department.

3. Personnel Recruitment

There are approximately 250 professional employees hired by the World Bank annually via two avenues of recruitment. About 50 professionals are hired annually in the young professional category at an average age of 27 years with the equivalent of a masters degree and little actual professional experience. The second recruitment program is aimed at professionals in midcareer and purportedly results in hiring approximately 200 persons, or 80 percent of the annual professional recruitment. Employees hired at midcareer average 40 years of age, with experience depending on the discipline; namely, 15 to 20 years for technical specialists, 10 to 15 years for financial analysts, and 5 to 15 years for economists.

The World Bank feels the nature of the mission makes it necessary to recruit large numbers of professionals in midcareer in order that the Bank provide experienced field personnel for dealing with borrowers at the highest levels.

Upon receipt of applications for employment, the World Bank reviews the applicant's background and training, placing particular emphasis on experience. Prospective employees are then interviewed in both the field and headquarters. In the agriculture and transportation areas, there are selection committees that review applicants. Applicants from LDCs are generally known to the World Bank staff which is factored into the decisionmaking process--favorable references provided by persons other than World Bank staff are discounted. The only exception is in the young professional program where the applicant lacks experience and selections are made from top graduate schools around the world. The professors of these applicants frequently provide good, objective descriptions of the candidates and rank one recommended student against another, as well as comparing current students to previously recommended graduates.

Statistics furnished by the World Bank show the following professional recruitment by age group:

Age	Percent Hired for the Period 1972 Through 1978
21 to 30	29.4
31 to 40	39.6
41 to 50	21.6
51 and over	9.4
	100.0

The World Bank justifies, in part, premium salaries based on hiring professionals at midcareer, although the above recruitment statistics for the last 7 years reveal that 69 percent of new professional employees during that period were under age 41 at time of hire.

C. Cost and Nature of Fringe Benefits

Fringe benefits in the World Bank represent 25.5 percent of the FY 1979 administrative budget, and 23.0 percent and 19.4 percent, respectively, of the IDB and ADB administrative budgets. These benefits as a percentage of net direct salary were compared at the World Bank by Hewitt Associates with those of private organizations in the United States, France, Brazil, and Germany and with those of public organizations in Canada, Germany, and the United States. The following table (containing percentages from the Hewitt report) compares benefits as a percent of net direct remuneration:

Table 10

	World Bank Grade				
	J	K	L	M	N
World Bank	43.3	42.2	42.0	42.0	41.8
Private Organizations					
Brazil	66.4	66.0	64.9	50.3	64.1
France	35.8	36.4	35.4	34.0	32.5
Germany	35.0	28.7	30.5	31.7	34.4
United States	40.1	34.9	33.8	31.8	30.0
Public Organizations					
Canada	37.4	38.9	37.0	37.8	35.6
Germany	66.5	60.4	59.6	59.6	59.0
United States	40.4	41.9	39.9	39.3	43.1

Thus, the package of fringe benefits at the World Bank, according to the Hewitt report, most closely approximates that of the U.S. public organizations in terms of ratio to direct salary remuneration.

Benefits in the World Bank Group administrative budget for FY 1979 are $74,201,000 including IFC. IBRD/IDA benefits totaling $69,674,000 represent 37 percent of total personnel costs for FY 1979 of $186,836,000, or, put another way, the fringe benefits represent 59 percent of the remaining (direct) personnel costs in the budget of $117,162,000. The higher ratio than shown in the Hewitt report is because as one goes down the salary scale into the nonprofessional grouping, the ratio of benefits to salary grows larger.

The World Bank administrative budget provides a list of fringe benefits with the corresponding budgeted costs for FY 1979, as follows (in thousands):

Benefits	Amount	Percent of Total
Post Allowance and Local Staff Costs	$ 5,999	8
Dependency Allowance	5,021	7
Retirement	32,207	43
Tax Reimbursement	20,817	28
Health Services	4,540	6
Education Grants	2,612	4
Other	3,005	4
Total	$74,201	100

IDB budgeted for benefit costs of $17,224,200 during FY 1979, or 45 percent of the remaining compensation costs of $38,301,000. The following schedule itemizes these benefits except that the $3.8 million in benefits provided to personnel in field offices was not separately itemized.

Benefits	Amount (000)	Percent of Total
Tax Reimbursement -------------------	$ 3,622.7	21
Dependency Allowance ----------------	1,057.1	6
Retirement Contributions ------------	4,982.4	29
Life and Medical Insurance ----------	1,899.0	11
Home Leave Travel -------------------	892.9	5
Travel Benefit Program --------------	90.0	1
Staff Development -------------------	377.8	2
Education Allowance -----------------	236.8	1
Other Benefits ----------------------	310.8	2
Total Headquarters Benefits ----	$13,469.5	--
Field Office Benefits ---------------	3,754.7	22
Total -------------------------	$17,224.2	100

ADB benefits are $5,045,000 in the FY 1978 administrative budget, or 38.4 percent of the remaining personnel costs of $13,129,000. The cost of benefits to ADB is significantly reduced by the absence of tax reimbursements such as are included in the World Bank and IDB benefits programs. The following schedule itemizes FY 1978 budgeted benefit costs of ADB:

Benefits	Amount (000)	Percent of Total
Retirement ----------------------------	$2,025	40
Life and Medical Insurance -----------	384	8
Education Grants --------------------	553	11
Dependency Allowance ----------------	735	15
Rental Subsidy ----------------------	318	6
Home Leave --------------------------	542	11
Welfare and Recreation --------------	45	1
Staff Development -------------------	65	1
Staff Benefits Total ----------------	$4,667	--
Board of Directors and Supporting Staff Benefits ----------	378	7
Total ---------------------------	$5,045	100

1. Retirement

IFI contributions to employees' pension plans represent the largest single benefit cost at each bank--43 percent at the World Bank, 29 percent at IDB, and 40 percent at ADB. The following schedule compares both employers' and employees' contribution rates of the World Bank, IDB, ADB, and the United States civil service, showing the salary scale on which the contribution is based (net or gross):

Institution	Employee	Employer	Total
World Bank --------------	7% gross	14% gross	21% gross
Inter-American Development Bank ------	7 2/3% net	15 1/3% net	23% net
Asian Development Bank --	9 1/3% net	18 2/3% net	28% net
U.S. Civil Service ------	7% gross	7% gross	14% gross

Pensions under each of the IFI retirement plans differ in either the method and/or the base used in determining the annual pension income. The World Bank plan is based on 2 percent of gross salary per year of service. For purpose of determination of retirement pension, all employees of the World Bank have their salary "grossed-up" under the same premise as used for fixing a gross taxable salary for U.S. employees because the retirement pensions of virtually all former World Bank employees are subject to income taxes in their home countries, and employees of all other nationalities are thereby kept on an equitable footing with U.S. employees.

IDB's plan is based on 2.5 percent of net salary per year of service which, according to the Treasury Department, is roughly equivalent to 2 percent of gross income. The ADB plan is based on 2 percent of net salary and thus is the least generous of the three IFI systems. (As will be seen in the discussion of tax reimbursements, there is no grossing-up of salary for U.S. employees at ADB and no provision for tax reimbursement.)

2. Tax Reimbursement

Each of the IFIs has been organized with the intent of equalizing or eliminating the effects of assorted tax structures on staff members in order that employees' remuneration be equitable. The Articles of Agreement preclude member governments from taxing staff members' bank compensation except for the member countries' own nationals. In the World Bank and IDB, most countries have waived the right to tax their own nationals. The United States, France, and the United Kingdom have retained the right to tax their own nationals employed by the IFIs when actually working in their native country; further, the United States taxes its nationals wherever they reside. This leaves the United States with the vast majority of taxed nationals employed by the IFIs. A system for tax reimbursements has been devised by the World Bank and IDB to offset the effect of income taxes in order to maintain equity of compensation among employees.

Tax reimbursement is accomplished by "grossing-up" the salaries of employees subject to income tax to a hypothetical figure which, after tax, would produce the same net salary as paid all other employees. The amount an employee's salary is grossed-up currently is based on an assumption that employees use standard deductions in arriving at their tax liabilities. Theoretically, after payment of taxes using standard deductions, the employee is left with the intended equivalent salary which is suppose to be net of taxes. The difference between net and gross salary is paid the employee as a tax reimbursement.

For the most part, those receiving tax reimbursements based on standard deductions are, in fact, being overpaid in comparison with their fellow employees who are nationals of countries that do not extract income tax. An Arthur Andersen & Company 1976 study found that while the tax reimbursement system is based on the use of standard deductions, 74 percent of eligible staff members claimed itemized deductions to produce a lower actual tax. Nearly 50 percent of those eligible for reimbursement received reimbursement in excess of their actual taxes paid on total family income with the average amount of such excess reimbursement being over $2,300. The Joint Committee on Staff Compensation Issues, in light of the above finding, concluded that the present system of tax reimbursement is inadequate and should be changed.

The provision for tax reimbursement for FY 1979 at the World Bank is $20.8 million, or 28 percent of the benefits budgeted; at IDB it is $3.6 million, or 21 percent of the total benefits in the FY 1979 budget.

ADB Tax Situation

The Articles of Agreement of ADB contain no provision for the Bank to reimburse employees for taxes paid on their salaries and benefits. Currently, nationals of both the United States and the Philippines are required to pay income taxes on their ADB earnings. The difference in treatment between U.S. nationals employed by ADB and those employed by the World Bank and IDB was not a serious problem until recent changes in the U.S. tax code. Previously, the exclusion of $20,000 to $25,000 of foreign-earned income resulted in minimal tax liability for U.S. staff members of ADB. The most recent tax code change--the Tax Treatment Extension Act of 1977--eliminates the partial exclusion of foreign-earned income and has had the effect of significantly reducing "take-home" incomes of the U.S. staff members of ADB. The Tax Treatment Extension Act of 1977, which removes the specific dollar exclusion from overseas incomes, does allow for exclusion of certain expatriate allowances such as home leave, education allowances, and rent in excess of 20 percent of gross income.

Inequities result not only in the pay of U.S. nationals employed by ADB compared with their counterparts in the bank but also compared with other U.S. Government employees in Manila. Treasury provided the following comparison of income of U.S. staff members of ADB with that of non-U.S. ADB employees and with official U.S. Government employees residing in Manila. This comparison is between an ADB Grade II and a U.S. Government employee earning the same base salary, after implementing the effects of the Tax Treatment Extension Act of 1977:

	ADB U.S. Staff	ADB Non-U.S. Staff	U.S. Government Employee--Manila
Base Salary -------------	$28,080	$28,080	$28,000
Dependents Allowance ----	1,550	1,550	--
Post Allowance ----------	--	--	2,800
Rent Subsidy ------------	2,737	2,737	11,500 1/
Total Income ------------	$32,367	$32,367	$42,300
Tax ---------------------	3,990	--	4,975
Take-Home Income --------	$28,377	$32,367	$37,325

1/ The illustration assumes payment of actual rent plus utilities of $11,500 per year.

The severity of the tax problem facing U.S. nationals employed by ADB was most recently presented to Treasury in a December 1978 letter from an ADB Vice President. This letter notes that the American ADB staff is seriously affected by the most recent revision to the U.S. tax code and unfortunately it is expected that 11 American professional staff members will depart the bank by mid-1979 as a result of sharply reduced incomes.

It should be noted that a precedence has been established by the State Department for the U.S. Government to subsidize the cost of U.S. nationals' taxes in international organizations. The State Department includes "Tax Equalization Adjustments" as a budget line-item which are designed to reimburse international organizations for the taxes of U.S. national employees with such funds used in turn to reimburse those employees. The following is a partial listing of international organizations having a line-item for tax equalization in the State Department budget for FY 1979:

United Nations
United Nations Educational, Scientific and Cultural Organization
International Civil Aviation Organization
World Health Organization
Food and Agriculture Organization of the United Nations
International Telecommunications Union
World Meteorological Organization
Inter-Governmental Maritime Consultative Organization

World Intellectual Property Organization
International Atomic Energy Agency
Inter-American Institute of Agricultural Sciences
Pan American Health Organization
Organization of American States
Organization of Economic Cooperation and Development
The Hague Conference on Private International Law
Customs Cooperation Council
General Agreement on Tariffs and Trade
International Cotton Advisory Committee

It would appear, with the above U.S. Government tax reimbursement procedure and the World Bank and IDB tax reimbursement systems, that U.S. nationals employed by ADB are the only American overseas employees of international organizations who are not reimbursed for their taxes.

To date, Treasury has not proposed or recommended to the Congress a solution to the tax effect on the salaries of the U.S. staff in ADB. It would appear that Treasury should give consideration to inclusion of the tax reimbursement in their budget or the budget of the State Department as is done for approximately 20 other international organizations, or else seek amendment to the ADB charter to achieve conformity with treatment accorded by the other IFIs, thereby making the salaries of the ADB American employees competitive with other international employees albeit still less than the salaries of the World Bank and IDB.

3. Dependency Allowance

Dependency allowances are designed to provide IFI staff members with additional net income on behalf of dependents which is intended to replicate the effect of various national income tax codes that result in married persons with dependents paying lower taxes than single persons; hence, having higher after-tax incomes.

At the World Bank, an employee whose spouse does not earn over $10,000 is entitled to $530 plus 1.5 percent of his regular salary in excess of $10,000. He is also entitled to a dependency allowance for each eligible child of $420 per annum. He is also able to claim $210 per annum for each eligible close relative (50 percent dependent) up to a maximum of two persons.

The IDB dependency allowance per annum is $675 for the spouse, $400 for each child, and $275 for each other eligible dependent. At ADB, professional staff members receive $750 per annum for spouses and $400 per annum for each other eligible dependent, and supporting staff members receive $110 for spouses and $90 for each other eligible dependent, with both professional and supporting staff limited to six dependents.

4. Leave Policies

Annual leave at both the World Bank and ADB is based on length of service as follows:

Length of Service	Number of Days Leave	
	World Bank	ADB
Less than 5 years --------------	26 days	24 days
5 to 10 years ------------------	28 days	26 days
10 or more years ---------------	30 days	28 days

Annual leave at IDB is 24 days regardless of length of service.

Both the World Bank and ADB provide staff members with 15 days sick leave per year while IDB does not specify a particular number of days but rather a reasonable period.

In addition to annual leave and sick leave, each of the IFIs provides their employees with maternity leave (6 weeks at ADB and 12 weeks at the World Bank and IDB).

Each of the IFIs pays for travel, but does not provide additional leave, to periodically allow staff members to return to their point of origin. Staff members at both the World Bank and IDB are eligible for such travel after 2 years of service and every 2 years thereafter. At ADB, staff members are entitled to the travel after 2 years of service and every 18 months thereafter.

5. Employee Financial Assistance

In addition to other benefits, IFI employees are entitled to salary advances and to loans for housing, education, furniture, and emergencies. As of June 30, 1978, World Bank employees had outstanding financial assistance loans and advances totaling $7.4 million which included 669 housing loans totaling $6.1 million. The remaining $1.3 million in financial assistance is composed of 262 other loans totaling $667,688 and staff salary advances of $626,026 for installation at the duty station, family emergencies, and study of staff members on leave without pay.

World Bank financial assistance is provided to staff members as either noninterest bearing advances or interest bearing loans. In response to a request of the Investigative

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Staff through the U.S. Executive Director, the World Bank provided a listing of loans made during FY 1977. This listing includes case numbers, amounts, repayment periods, rates of interest charged, and purpose of each loan authorized to staff members. The listing did not contain information pertaining to advances.

The World Bank also provided the Investigative Staff information from the Ninth Annual Report on the Operation of the Financial Assistance Policy for the period July 1, 1977, to June 30, 1978, which summarizes loans and advances by category during the period as well as presenting accumulated totals as of June 30, 1978. According to this report, there have been no delinquencies in financial assistance loans or advances. It is also reported that 91 percent of the advances and 90 percent of the loans were granted to other than U.S. citizens. The FY 1977 detail listing of 128 housing loans shows that 12 loans totaling $151,500, averaging $12,625, were made to U.S. citizens.

Table 11 that follows illustrates new loans for FY 1977 and FY 1978, new advances for FY 1978, and the cumulative outstanding balance of both loans and advances at June 30, 1978:

Table 11

LOANS AND ADVANCES MADE

	FY 1977 Number	FY 1977 Amount	FY 1978 Number	FY 1978 Amount	Balances Outstanding June 30, 1978 Number	Balances Outstanding June 30, 1978 Amount
Staff Loans (interest bearing):						
Housing	128	$2,009,950	158	$2,113,050	669	$6,118,450
Other	86	285,196	103	407,500	262	667,688
Total Staff Loans	214	$2,295,146	261	$2,520,550	931	$6,786,138
Staff Advances (noninterest bearing):						
Installation at Duty Station	NA	NA	128	$ 567,970	181	$ 432,452
Family Emergency	NA	NA	27	35,378	57	63,708
Study of Staff Member on Leave Without Pay	NA	NA	7	69,700	16	129,866
Total Financial Assistance			423	$3,193,598	1,185	$7,412,164

Housing loans are for a maximum period of 12 years and the interest rate is the same as the Federal Housing Administration mortgage rate in effect on the date the loan is approved. Loans other than for housing are for furniture, university education for children, and continuing education for staff members. Furniture loans are at an interest rate of 8 percent per annum and have a repayment period of up to 6 years. The loans for university education for dependent children are at an interest rate of 4 percent per annum for staff members in G-IV visa status and for the remaining staff members the rate is 8 percent per annum, all with a maximum repayment period of 6 years. The staff members' continuing education loans are intended for tuition and books and are provided at an interest rate of 4 percent per annum with a maximum repayment period of 6 years.

The primary purpose of the housing and furniture loans of the World Bank is to assist employees in purchasing their first house and furnishings in the Washington area. New employees normally do not have established credit upon arriving in Washington that would enable them to obtain loans on the open market. Another problem facing the IFI international employee is currency exchange restrictions in some countries that preclude citizens from removing funds from their native country.

IDB housing loans are made from the Staff Retirement Plan and as such are considered part of the investment portfolio of that plan. The outstanding balance of the housing loan program as of October 31, 1978, was $432,317.82, according to the IDB Personnel Director. IDB emergency loans are made in exceptional circumstances for reasons that are beyond the expectations of the personal family budget.

The IDB personnel manual states, "The Bank provides financial assistance to its employees, in the form of salary advances, for the purpose of giving economic help in handling obligations of an extraordinary nature involving the establishment of a new home or an emergency situation." Eligible employees are entitled to request up to 1 month's pay within a period of 1 year from the date of appointment or relocation to establish a new home when assigned to a new duty station. Regular employees are also eligible for salary advances in emergency situations created by extraordinary financial obligations which cannot be resolved through normal credit institutions. The amount of advance depends on the nature and circumstances of each request.

ADB makes special salary advances on compassionate grounds with the amount of the advance and the interest rate determined by months of service. An employee with 6 months' service may receive 1 month's salary repayable in 6 months at 5 percent per annum, with the total of such advances not exceeding 6 months' salary at any time. A staff member with more than 12 months' service may receive an advance of 2 months' salary repayable over 12 months at 5 percent per annum. After 24 months of service, a staff member may receive an advance of 2 months' salary and a further advance not exceeding 4 months' salary repayable in 30 months at the ADB ordinary capital lending rates in effect at the time.

ADB also makes advances to staff members to aid in their settling upon arrival at a new duty station. These advances may equal 3 months' salary, repayable over 18 months with interest at 5 percent per annum. An additional advance up to $2,000, repayable over 12 months at interest of 6 percent per annum, may also be made, as well as "special case" salary advances of up to $2,000, repayable in 36 months with interest at ADB's ordinary capital lending rate.

Other Benefits

Each of the IFIs have life, disability, and medical insurance programs that are to some degree financed by the institutions. They also maintain health rooms or clinics for the treatment of employees on official duty.

Education grants or allowances are provided to employees of each of the IFIs for eligible dependent children through the age of 24, if otherwise qualified. These grants are designed to assist in the education of expatriate staff members' children in a manner to facilitate their eventual return to the staff member's native country.

IDB employees are eligible for education grants for primary, secondary, and college education of dependent children when assigned to a country different from their country of origin. Reimbursement consists of 75 percent of the cost including tuition, books, and transportation up to $1,500 per eligible dependent for each complete academic year. The rate of reimbursement drops to 50 percent when personnel are assigned to headquarters, with the same maximum limit of $1,500.

World Bank education benefits are provided to employees serving outside their country of origin for primary or secondary education of their children anywhere in the world. Higher education of dependent children is also provided for in a country other than the country where the employee's duty station is located. Reimbursement is 75 percent of the cost up to $2,000 per academic year; if the child is a student in other than the duty station, the reimbursement is 75 percent of the cost, plus board, up to a maximum per child of $2,500. Also provided by the World Bank are educational travel benefits which entitle a child outside the duty station at primary or secondary education level to make two round trips, usually between duty station and school, per academic year. In the case of higher education, one such round trip is authorized, plus one additional round trip for every 2 full consecutive academic years.

Educational benefits are provided by ADB to all professional staff members serving outside their home country. Grants are 75 percent of the actual cost of education per child, not to exceed $1,500 per child at the duty station and $2,500 per child outside the duty station. In addition, education travel grants provide the eligible child one round trip during the first service year, one during the second service year, and one every 2 years thereafter.

Another IFI benefit cost is staff development which provides for new employee orientation, material concerning duty posts, and both internal and external training.

Each of the IFIs provide funds for employee welfare and recreation; in the case of the World Bank, the budget includes a subsidy to the employee cafeteria and subsidized parking. IDB likewise subsidizes employee parking. At ADB, welfare and recreation is a line item in the budget and is described as providing employees with recreation opportunities as well as social functions during the year.

The World Bank provides a program under which the employee's spouse is entitled to accompany the staff member on a business trip at bank expense after the staff member has spent 150 days on official qualified operational travel outside the duty station in the first 3 years of employment, or if beyond the first 3 years, after 200 days of eligible travel has been accomplished during a given year. IDB has substituted its former spouse travel program with a travel benefit program which is also designed to take into consideration the hardships created by prolonged frequent travel. Under this program, after an employee has accumulated 200 days of eligible travel away from the duty station, he may receive $900 and 5 additional days of vacation. ADB does not have a "spouse travel" program.

VI. LOANS AFFECTING CERTAIN COMMODITIES

Increasing concern has been expressed by the Department of Agriculture and the U.S. Congress in recent years with respect to the assistance afforded by IFI lending for production of certain overcapacity commodities which could cause injury to U.S. producers. For example, in January 1976 the Department of Agriculture published a study forecasting future problems for the U.S. soybean producers arising from the growth of world production and export of palm oil and pointed up the impact thereupon of international financial assistance programs. Subsequent studies published by the Department of Agriculture in May 1976 and December 1977 both enlarged upon and modified conclusions reached in the earlier one.

In the IFI authorizing legislation passed October 3, 1977 (PL 95-118), there was included a provision that U.S. Executive Directors shall oppose in the IFIs any loan or other financial assistance for establishing or expanding production for export of palm oil, sugar, or citrus crops if such loan or assistance will cause injury to U.S. producers of the same, similar, or competing agricultural commodity. In the FY 1979 Appropriations Act for the IFIs, a broader proscription requires instructions be issued for use of the voice and vote of U.S. Executive Directors to the IFIs to oppose any assistance for the production of any commodity for export, if it is in surplus on world markets and if the assistance will cause substantial injury to United States producers of the same, similar, or competing commodity. Also, under that act the President is required to initiate international consultations to develop a viable standard governing the allocation of development assistance for the production and export of commodities, and to report back to the Congress by October 1979.

A. Implementation by Executive Branch

As reviewed in an earlier section of this report, an analysis is made by Treasury and other affected departments of each IFI loan proposed prior to presentation to the Boards of Executive Directors for recommendations, through the DCC, with respect to the position that should be taken by the U.S. Executive Director. In addition to the traditional criteria against which loan proposals are reviewed governing the economic viability of the project, its technical feasibility and contribution to the country's development priorities, soundness of the financial plan involved, etc., there has been added since enactment of the foregoing legislation, criteria governing commodities for export or adding to international trade requiring special analyses for potential injury to U.S. producers, with emphasis upon palm oil, sugar, and citrus products. Both Treasury and Agriculture Departments conduct such special analyses for determination of a recommended position for the U.S. Executive Director of the IFI to take. Officials of these departments made the following observations with respect to the three commodities:

(1) Sugar. Sugar is a commodity often in surplus on world markets due to its suppply characteristics relative to demand. The current International Sugar Agreement between producers and consumers became provisionally effective January 1, 1978. Its principal objective is to maintain the world sugar price in a range of $0.11 to $0.21 per pound through use of a flexible system of export quota allocations by country, stock accumulation, and release. The agreement is viewed as the vehicle for establishing and maintaining an internationally agreed sugar price through the system of export quotas. Inasmuch as the countries in the International Sugar Agreement would resist new entries representing any substantial production and in light of doubtful profitability given the current supply and demand situation, the Department of Agriculture does not anticipate heavy investment, whether financed by IFIs or otherwise, for world sugar production other than for domestic consumption. Both production and demand are forecast at an annual growth rate of about 3 percent in the next decade with developing countries accounting for most of the increase in both production and consumption. The decline in U.S. production in response to reduced sugar prices in 1976-1977, and the noncompetitive labor costs of U.S. producers, indicate a probable increase in U.S. sugar imports over the next few years.

(2) Citrus. The United States is the largest market for citrus fruits and is largely self-sufficient in their production; only in the case of limes are imports significant. U.S. exports of citrus fruits are growing and the market is relatively stable. World demand and supply is forecast as growing at about a 3 percent rate through the 1980s with prices remaining relatively constant, although the growth rate of lemons and limes is expected to be considerably lower than that of other citrus fruits. Only some 20 percent of citrus production goes into international trade, 80 percent being consumed in the producing countries.

(3) Palm Oil. Most fats and oils are either joint products or byproducts of processing and, as a result, supply may depend to a large extent on

demand for the primary product rather than on the oil demand. Soybean oil is a valuable joint product with meal (livestock feed) and plays a more direct role in the demand for soybeans than does a lesser byproduct, though meal is the key factor in the crush levels of domestic soybean production. While the quality of soft oils (such as soybean) is superior in vegetable oil mixtures, hard oils (such as palm oil) will remain competitive because of the price advantage due to low costs of production. As consumption of fats and oils in the developed countries is approaching saturation levels, the long-term price outlook of palm oil and other oils will largely depend upon the capability of developing countries to absorb the increasing supplies. Malaysia accounts for some 73 percent of the world palm oil export market and has gained dramatically in its share of U.S. imports of palm oil. It is expected to increase production by more than double in the 1975-1985 period with domestic consumption absorbing only about 5 percent of the increase. Nevertheless, Department of Agriculture officials advise that foreign soybean production, such as increasing Brazil production of soybeans, is a greater threat to U.S. producers than the increasing level of palm oil production, because of the impact upon meal prices as well as on oil prices.

During FY 1978, 15 instances arose in loan projects presented by the IFIs requiring special analyses by Treasury and Agriculture Departments because all or a portion of the project involved one of the three cited commodities. A summary of these projects, showing the finding and resultant instruction for voting by the U.S. Executive Director, is set forth on the following page:

Table 12

LOANS FOR PALM OIL, SUGAR AND CITRUS
OCTOBER 1977 - SEPTEMBER 1978
($ Millions)

IFI	Country	Commodity	Total Loan	Amount of Loan for Commodity	Date Approved	U.S. Vote	Reason
IBRD	Indonesia	Palm oil, rubber	$65.0	$15.0	11/15/77	Yes	Mostly for domestic consumption; Indonesia is also expected to lose her relative share of the export market.
IFC	Swaziland	Sugar	8.4	8.4	11/29/77	No	It was not believed that Swaziland could increase its export quota sufficient to insure the viability of the project.
IDB	Mexico	Citrus, cotton, vegetables	60.0	2.2	12/15/77	Yes	Mostly for domestic consumption.
IBRD	Cameroon	Palm oil, rubber	15.0	2.0	12/27/77	Yes	Mostly for domestic consumption.
IBRD	Jamaica	Sugar	18.0	18.0	2/7/78	Yes	Rehabilitation of mill machinery, no increase in sugar production.
IBRD	Malaysia	Palm oil, rubber, copra	26.0	3.0	2/21/78	No	Output all for export, project would lead to further pressure on prices.
IBRD	Philippines	Sugar	65.0	—	2/28/78	Yes	All for domestic consumption.
AfDF)	Zaire	Palm oil	6.1	6.1	2/27/78	Yes	Zaire is losing its export market both in absolute and relative terms.
IDA)			9.0	9.0	5/2/78		
IBRD	Brazil	Citrus	24.0	24.0	3/23/78	Yes	All for domestic consumption.
IBRD	Mexico	Palm oil	56.0	2.0	4/25/78	Yes	All for domestic consumption.
IFC	Egypt	Sugar	23.0	23.0	5/16/78	Yes	All for domestic consumption.
IBRD	Nigeria	Palm oil	30.0	10.0	6/6/78	Yes	All for domestic consumption.
IBRD	Brazil	Citrus, tobacco, maize, beans	37.0	13.0	6/6/78	Yes	All for domestic consumption.
IBRD	Portugal	Citrus	70.0	—	6/20/78	Yes	All for domestic consumption.
ADB	Burma	Sugar	31.5	—	8/22/78	Yes	All for domestic consumption.

As can be seen, there have been but two instances when analyses by Treasury and Agriculture Departments and consideration by NAC resulted in an instruction to the U.S. Executive Director to oppose the project. Neither, of course, resulted in disapproval of the loan. In reviewing the documentation of each of the analyses conducted, it was found that thorough and probative reviews were made by Treasury and Agriculture personnel.

In the case of the sugar project in Swaziland, it was pointed out that Swaziland would have to obtain an additional quota under the International Sugar Agreement to export the output of the project which was doubtful with other developing countries vying for shares of the hardship quota available in 1979. The project was for a new sugar mill to produce 120,000 metric tons for export. The threat to U.S. producers was not expected to be substantial in light of the then impending International Sugar Agreement, but the potential financial losses to Swaziland made the loan a financial risk which could have been reduced by expanding existing mills rather than constructing a new one in a period when the world sugar market was entering a depressed period. It was also pointed out that the high cost ($41,000) per job created by the project suggested that alternative investment possibilities should have been reviewed before putting the project forward.

The other negative voting instruction was for a project in Malaysia of which $3 million was for facilities that would increase palm oil production by 1990 by 14,000 metric tons, all of which was for export. It would contribute to the planned expansion of Malaysia's exports of palm oil which are expected to increase from 1.6 million metric tons in 1977 to 3.5-4.0 million metric tons by 1990. Because the additional export volume could result in downward pressure on oil prices with resulting adverse effects on U.S. producers of soybean oil and because the substantial increase in production in an already established industry represented a poor use of IFI resources, the United States opposed the loan.

The $60 million IDB loan to Mexico, shown on the foregoing chart which was not opposed by the United States, had both a sugar element and citrus element in it. Analysis showed that anticipated domestic consumption of sugar and citrus products was projected as greater than the added production supported by the loan. However, in analyzing the individual components, it was unclear that that would be so in the case of limes. Because of the relatively small market for limes, substantial import to the United States now from Mexico (believed to be around 25 percent), and the lack of reliable data from Mexico on citrus production for export, it was believed that injury to U.S. producers could result unless it was firmly established that none of the added lime production in the project would contribute to Mexico's exports to the United States. The U.S. Executive Director was instructed that he should not approve the loan unless he could be assured that the increased production was all for domestic consumption or, if there should be any increase in the export of limes, that any additional exports would not be directed at the U.S. market. The U.S. Executive Director at IDB obtained assurances from IDB management only that the increased production afforded by the project, including lime production, would be less than projected future domestic requirements. Both Agriculture and Treasury Department personnel agree that such assurance is vague and unenforceable and will not be monitored as it is not a part of the loan agreement. However, based on this assurance, no opposition was registered.

In reviewing all of the analyses, it is apparent that many uncertainties must be dealt with inasmuch as additional supplies financed by the IFI loans will not enter domestic or world markets for many years after the loan is approved. In the case of palm oil, for example, mature production will occur some 10 years after a loan is granted. Supply and demand trends and other market conditions cannot be forecast with certainty and potential injury to U.S. producers is difficult to measure. Both Agriculture and Treasury officials regard the IFIs as an inadequate forum in which to pursue efforts to protect U.S. producers because of the inability to clearly show present damage to U.S. producers that any individual project will cause and because of the ineffectiveness of portraying a protectionist attitude in these multilateral institutions while at the same time combatting similar attitudes in efforts to reach international trade agreements.

B. Effectiveness of Program in International Financial Institutions

Officials of the IFIs point out that although they are concerned with the wishes of the United States, the single most important donor, the IFIs traditionally have resisted any attempt by a single member to inject parochial or protectionist impediments to the question of who gets lending and for what. One official pointed out that if the IFIs bow to such pressures, numerous countries would begin interposing objections to safeguard their own interests, e.g. Brazil on loans involving coffee projects and Indonesia on those involving rubber--each being the leading world producer of these respective commodities. Review of the IFI pipelines showing projects being worked up indicates no curtailment of projects involving palm oil, sugar, or citrus products and officials of the IFIs confirm that such projects have not been withdrawn from the pipelines based on possible U.S. opposition.

Review of minutes of discussions of the two negative votes cast by the U.S. Executive Director in the previously-cited listing shows not only a lack of sympathy for the U.S. position of attempting to protect U.S. producers but a counter-productive reaction on the part of other Executive Directors. In each case, other Executive Directors chided the U.S. Executive Director for attempting to inject political and/or protectionist considerations into the loan discussion considering the broad purpose of efforts to aid the development potential of small, poor countries. Only when discussed from a broad economic viewpoint of IFI involvement in commodity projects wherein future world markets are uncertain, particularly with respect to sugar and palm oil, does there appear to be any receptivity by the other Executive Directors.

At the World Bank and ADB, there are no restrictive clauses in loan agreements routinely inserted affecting particular commodities. Officials at these IFIs advised that in light of world market projections, care is taken in working up projects involving palm oil and sugar to assure that projected world production is in line with projected increases in domestic consumption, particularly in the LDCs, to avoid a market imbalance that might adversely affect the economic viability of the project.

At IDB, a standard clause has been included in agriculture credit projects proscribing use of the loan resources to promote increased production of (1) coffee, bananas, or cacao, or (2) other products intended primarily for export wherein surpluses exist in the producing country or elsewhere in the world with the identification of such products to be the subject of agreement between the borrower and IDB. However, in a recent loan of $48 million to Mexico in November 1978 for irrigation rehabilitation, the foregoing clause was deleted from the loan agreement, over the protest of the U.S. Executive Director. At the time of the writing of this report, IDB management was reviewing its policy with respect to the above-cited clause but had not determined what change therein, if any, may be proposed.

In field visits to project sites, the Investigative Staff viewed two sugar projects (one in Africa and one in Asia) and six palm oil projects (five in Asia and one in Africa). All had been initiated prior to the legislative provision in October 1977 requiring special reviews of the three commodities. The sugar project and the palm oil project in Africa both are designed for increased export trade with the export markets lying in other African countries and in Europe. Four of the palm oil projects and the sugar project in Asia are planned for domestic consumption, replenishing and/or supplementing former productivity. The other palm oil project in Asia (Malaysia) is designed primarily for export to the United States.

Development officials of each of the countries involved were satisfied that the projects are or would be economically viable and would contribute to the development prospects of the LDCs.

VII. HUMAN RIGHTS

A. Background

Human rights have been described variously, depending on the speaker, but are broadly identified as those rights leading to individual freedoms, including freedom of choice in work, residence, and religion, and freedom from persecution outside the law.

The Secretary of State in April 1977 provided a definition of human rights as: the right to be free from government violation of the integrity of the person; the right to the fulfillment of such vital needs as food, shelter, health care, and education; and the right to enjoy civil and political liberties.

Public Law (PL) 95-118 dated October 3, 1977, Title VII, states that the United States in connection with its voice and vote in the IFIs shall advance the cause of human rights and should seek to channel assistance toward countries other than those whose governments engage in a consistent pattern of gross violations of internationally recognized human rights, such as torture or cruel, inhumane, or degrading treatment or punishment, prolonged detention without charges, or other flagrant denial of life, liberty, and the security of the person. The legislation states that in determining if a country is in gross violation of internationally recognized human rights, consideration be given to the extent of cooperation provided by the country in allowing an unimpeded investigation of alleged violations by appropriate international organizations. The U.S. Executive Directors are instructed to oppose any loan, extension of financial assistance, or any technical assistance to any country that has a consistent pattern of gross violations of human rights or provides refuge to individuals hijacking aircraft, unless such assistance is directed specifically to programs which serve basic human needs of the citizens of such country.

PL 95-148 dated October 31, 1977, the Foreign Assistance and Related Programs Appropriations Act for FY 1978, under general provisions, incorporates similar language; namely, that where other means have proven ineffective in promoting international human rights, and except where the President determines that the cause of international human rights is served more effectively by actions other than voting against such assistance or where the assistance is directed to programs that serve the basic needs of the impoverished majority of the country in question, U.S. Executive Directors should oppose loans and other financial or technical assistance to any country that persists in a systematic pattern of gross violations of fundamental human rights.

In addition to the above legislation, President Carter in response to Congressional interest in the human rights policies of recipient countries assured the Committee that he would direct the U.S. Executive Directors to oppose and vote against IFI loans to Angola, Cambodia, Cuba, Laos, Mozambique, Vietnam, and Uganda during FY 1978.

Similar language in authorization and appropriations legislation has appeared in recent years. In the FY 1979 Appropriations Act (PL 95-481), the provision applicable to human rights required the President to direct the U.S. Governor of each of the IFIs to propose and seek adoption of amendments to the charters of the respective institutions to establish human rights standards to be considered in connection with each application for assistance from the IFIs. A representative of Treasury (OASIA) advised that the U.S. Governor, pursuant to the foregoing legislation and, in fact, before that time, has been engaged in discussions with other IFI Governors as well as with other governmental representatives to seek support in proposing charter amendments. However, there is a strong body of opinion that a proposal to amend the charters would fail and that a more satisfactory solution may well result from an acceptance of the proposition that the human rights question really encompasses a basic economic consideration, which already is grounded in the charters as the real test of approval or disapproval of loan proposals. According to the Treasury representative, most IFI Governors are of the view that it will never be possible for all or a majority of member governments to agree on which countries should be denied loans on human rights grounds alone at any given time because other political and economic considerations with stronger weight will prevail on questions of loan approvals.

At the IDB annual meeting in May 1977, the Secretary of the Treasury announced that the United States believes that the right to have food, clothing, and shelter is intimately linked to the right to be free from arbitrary persecution outside the law and to the right of all people to live with a certain degree of security in their personal lives for themselves and their families. He further noted that the United States' human rights policy is not directed at any specific country but rather is based on the idea that economic and human rights are closely related. He added that the United States understands that in individual countries there are situations which can be improved only slowly; that we have to take into account, and will take into account in the case of a particular country, the degree to which we think the money will be used for constructive purposes to benefit the people in a way that helps increase and maintain economic rights.

In implementing the U.S. human rights program, missions have been sent to both Canada and Europe for discussions with high-level officials, explaining the United States' concerns with regard to human rights issues in IFI lending. The purpose of the consultations has been to cause other governments to instruct the various IFI Executive Directors representing the visited countries to oppose loans to human rights violators and to support the U.S. position on its human rights policy.

The Secretary of the Treasury in 1978 Congressional hearings testified that the Administration has conveyed the U.S. position on human rights to the Governors of the IDB, World Bank, and IMF and that the member governments and the bank managements understand the U.S. position on human rights issues. The ADB and AfDF have also been apprised of the U.S. human rights policy. The United States has attempted to delay consideration of loans to countries with serious and consistent human rights violations and finally to oppose these loans by either abstention or a negative vote. The Secretary has noted that the U.S. goal is not to stop lending to these countries but to improve the human rights conditions within them. During discussions with U.S. officials associated with the IFIs (Executive Directors and their Alternates), it was learned that there is concern on their part that the U.S. "no" vote in the IFIs may result in the same loss of face as a Soviet Union "no" vote in the United Nations Security Council.

B. <u>Interagency Group on Human Rights and Foreign Assistance</u>

The vast majority of borrowing countries assisted by the IFIs are not democracies and, to varying degrees, have been accused of human rights violations; thus, there remains the problem of categorizing the severity of the violations.

The Interagency Group on Human Rights and Foreign Assistance, chaired by Warren Christopher, Deputy Secretary of State, was created by National Security Council directive in April 1977 and is commonly known as the Christopher Group.

The Christopher Group reviews for human rights considerations all bilateral assistance under PL 480 and the Agency for International Development as well as the individual loan proposals of the IFIs prior to approval by the respective Boards. The Christopher Group acts in an advisory capacity to the Secretary of the Treasury concerning IFI loans.

Membership in the Christopher Group includes representatives of the Departments of State, Treasury, Defense, Commerce and Agriculture, and of the National Security Council staff. Others present as appropriate for consideration and discussions are representatives of the Export-Import Bank, Overseas Private

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Investment Corporation, Agency for International Development, and the U.S. IFI Executive Directors located in Washington, D.C. State Department membership is composed of several representatives, including the Assistant Secretary for the State Bureau of Human Rights and Humanitarian Affairs, the regional bureaus representing the countries whose loans are being considered, State Policy Planning, State Economic Bureau, and the State legal advisor.

While the Christopher Group monthly meetings are at the Assistant Secretary level, there is also a working group that meets every 10 days to 2 weeks at the office director level. The working group is composed of representatives from each of the member organizations and its meetings are cochaired by representatives of the State Economic Bureau and the office of the Deputy Secretary of State. On rare occasions, due to a fast-breaking situation or late arrival of loan documentation, it has been necessary to conduct telephone meetings of the working group.

The working group is responsible for reviewing IFI loans to be proposed as identified in the various pipeline reports of the IFIs by brief, summary descriptions. These reviews are normally performed about one month prior to the expected date of presentation of the loans to the respective Boards of Directors. At this stage in the project cycle, there is little documentation available to the working group, other than the intended borrowing country and the general nature of the loan. The working group is able with this information to recommend approval of loans to countries deemed to be without human rights problems. Loans destined to countries deemed human rights violators may have to be referred to the Christopher Group for discussion once the complete loan package is available.

Following its considerations, the working group sends an agenda to the Christopher Group containing descriptions of loans for its review and recommendations. The agenda is divided into two sections--the first contains loans recommended for approval by the working group, and the second section contains those loans requiring further discussion by the Christopher Group. The Christopher Group may ratify the working group's recommendations for loan approvals or hold additional discussions.

Normally, the Christopher Group, after ratification of the working group's recommendations for loan approvals, is required to discuss 6 to 10 proposed loans. As in the working group, the current situation with respect to the borrowing countries' human rights status is presented to the Christopher Group by the State Department Bureau of Human Rights and Humanitarian Affairs and the regional bureau representing the country applying for the IFI loan. It was reported by various officials involved in the process that the above two State Department bureaus tend to have differing views and the regional bureaus frequently find themselves cast in the role of country advocate, with the net result being a balancing of opinions with regard to the nature of the human rights conditions.

The State Department uses several sources of information in attempting to determine the actual human rights conditions in various countries including:

U.S. legations abroad, whose responsibility it is to report on human rights conditions;

U.S. Department of State experts in the human rights field;

Amnesty International;

International Commission of Jurists; and

U.S. Intelligence agencies.

Observations from the above sources are not considered the final word, but rather the Christopher Group makes an independent judgment after reviewing information from all sources. The Christopher Group has never dealt with the United Nations Commission on Human Rights nor does it consider it as a useful source of information on human rights conditions.

In arriving at its recommendations, the Christopher Group takes into consideration recent improvements or deterioration in the human rights conditions of the country applying for the IFI loan. Decisions of the Christopher Group are arrived at by consensus which is determined by the Chairman. There is no voting procedure or recording of the various opinions that are expressed. On occasion, the Christopher Group Chairman has held in abeyance the decision on a loan recommendation and subsequently has notified the participants as to the Group's consensus.

There are no formal minutes of the Christopher Group meetings, the only record being the conclusions reached, i.e., the recommendation as to approval or disapproval and, if disapproved, whether the U.S. Executive Director should abstain or vote "no" and whether he should make a comment concerning his vote. Following the Christopher Group meetings, a memorandum is prepared within Treasury which contains the findings of the Christopher Group concerning each loan. The Secretary of the Treasury, as the U.S. Governor to the IFIs, is ultimately responsible for instructing the U.S. Executive Directors how to vote on particular loans and whether to make any comment.

As a practical matter, the instruction is passed to the U.S. Executive Directors by OASIA based on findings of the Christopher Group on human rights questions and of DCC on economic or other questions; only in the extremely rare cases that the U.S. Executive Director appeals from the instruction given him, does the Secretary become involved.

The Christopher Group has been described as a forum for determining how human rights foreign policy considerations should be implemented. The Group looks for methods of implementing U.S. human rights policy that will lead to improvements in human rights conditions in borrowing countries.

Neither the Christopher Group nor any other Executive Branch agency has determined which countries have a consistent pattern of gross violations of human rights. The Department of State does not maintain a list of countries that are considered to be human rights violators but, in order to retain flexibility in U.S. human rights policy, judges the human rights conditions and developments in various countries upon the current situation at any given point in time.

In addition to not maintaining any human rights violator listing, neither the Department of State nor the Christopher Group has developed a standard of human rights behavior and there are no guidelines for gauging acceptable human rights conditions. Further, there is no criteria by which can be judged the extent a project meets basic human needs so as to outweigh the unacceptable human rights record of a country. As a result of the lack of clear criteria or guidelines on the joint questions of degree of human rights violations and the meeting of basic human needs of a proposed project, a Treasury official observed that the United States is "muddling through" in an inconsistent pattern in meeting the legislative requirements.

The State Department is concerned that it may get into a position where it loses its flexibility in applying human rights considerations. It is the application of this flexibility that is viewed by Treasury officials and by the IFIs as a lack of consistency in applying human rights considerations to loans of different countries. The Christopher Group has determined that the wording of PL 95-118 does not require the U.S. Executive Director to vote in favor of a loan because it meets basic human needs when a gross human rights violator is involved; he may be instructed to vote negatively solely on the basis of the human rights violations. Thus, a U.S. Executive Director may be instructed to oppose a loan to a human rights violator which meets basic human needs and on the same day to vote to approve a loan to another (lesser?) human rights violator which has no element of meeting basic human needs. The apparent capriciousness of such actions has resulted in criticisms of the U.S. position by other Executive Directors of the IFIs.

C. Implementation of Human Rights Policy in the IFIs

Following the Christopher Group's deliberations over prospective IFI loans and its subsequent recommendations, it is Treasury's responsibility to instruct the U.S. Executive Directors how to vote on each loan. Involved in the implementation of the United States human rights policy in the IFIs is the danger of politicization of the IFIs. Each of the IFI charters prohibits consideration of political issues in the approval of loans. The United States interprets this proscription to mean that the staff and officials of the banks are not to discriminate on political grounds but that the Executive Directors, as spokesmen for the various member governments, can take political factors into consideration. The U.S. position in the banks has been to downplay the political aspect of the human rights question and approach it as inseparable from the principle of extending economic development to all segments of a country's population.

Efforts to redirect or alter present IFI charter provisions, which would result in using other than economic criteria to evaluate projects and potential loans and to apply political judgments, would require functions and procedures currently beyond the IFIs' competence. In addition, changes of such nature would then require agreement of a majority of member countries as to what constitutes acceptable human rights conditions generally and by whose judicial standards that should be judged, as well as providing specific criteria and exceptions thereto which bank management could use to prepare loans. To date, the U.S. Executive Branch acting alone has been unable to devise criteria and guidelines by which such judgments can readily be formed.

The Executive Branch, in approaching ways and means to propose amendment to the IFI charters to accommodate human rights considerations, is apprehensive of opening a "Pandora's box" of other member countries then using the opportunity to inject other political considerations into charter amendments that would be contrary to U.S. interests. For example, in prior years, representatives of Arab member countries on the World Bank Board have attempted to block loans to Israel which the U.S. Executive Director quickly helped defeat as constituting an effort to inject political considerations into IFI lending rather than adhering to economic grounds as required by the charter.

With respect to the U.S. position that human rights questions are closely linked to economic considerations, the World Bank in recent years has refused to process loans to both Uganda and Cambodia based on a lack of confidence by the Bank in the overall policies of these two countries and the way their citizens are treated. The World Bank concluded that the situation in these countries was so extreme that it affected the economic viability of their development.

Generally, it is the position of management officials of the IFIs that, if human rights are a serious problem in a particular country, the plight of the needy is only compounded by refusing to assist in the country's development. The IFIs also feel that by making a loan they are not endorsing the political policies of the government and all members are aware that the loans made are based purely on economic considerations.

The IFI managements echoed the sentiments of many U.S. officials in drawing attention to the apparent inconsistencies of the U.S. human rights policies. One IFI official commented that it is far from clear that the United States actually wants to defeat loans but rather appears to want to send messages from time to time to particular governments using the IFIs as a forum to do so.

Since enactment of PL 95-118, the United States has opposed 45 loans to 14 countries on human rights grounds, while approving 35 loans to the same countries because (1) they met basic human needs, (2) human rights conditions had improved temporarily, or (3) the cause of human rights was deemed to be served more effectively by another course of action. The following schedule summarizes United States IFI voting, concerning those countries considered to be human rights violators at the time of the loan proposals, during the period October 3, 1977, to December 31, 1978:

Lending Institution	Votes Cast By U.S. Executive Director			
	Approval	Abstention	"No"	Total
World Bank	21	13	3	37
IDB	7	1	12	20
ADB	4	6	6	16
AfDF	3	2	2	7
Total Votes	35	22	23	80

Table 13 that follows lists the 14 countries to which the United States has opposed loans on human rights grounds from October 3, 1977, to December 31, 1978. This table includes all loans made by IFIs to these countries during that period and the nature of the U.S. vote on each loan. The listing does not include those countries with human rights problems for which the Christopher Group may have considered loan proposals but did not recommend opposing during the aforementioned period. The table is set forth on the following pages:

Table 13

Country	IFI	Loan Date	Project	U.S. Vote
Argentina	IDB	10/27/77	Gas Pipeline	No
"	IDB	11/3/77	Water Supply	Approved
"	IDB	11/3/77	Water Supply	Approved
"	IDB	12/1/77	Cellulose	No
"	IDB	12/8/77	Petrochemicals	No
"	IBRD	2/21/78	Grain Silos	Abstained
"	IFC	3/24/78	Cement Plant	Abstained
"	IFC	4/25/78	Pulp and Paper Plant	Abstained
"	IBRD	5/9/78	Agricultural Credit	Abstained
"	IFC	5/30/78	Polyethelene Plant	Abstained
"	IDB	12/14/78	Power	Abstained
Central African Empire	AfDF	10/20/77	Education	Abstained
"	AfDF	11/23/77	Health	Approved
"	AfDF	8/24/78	Roads	Approved
"	IDA	9/5/78	Highway	Approved
Chile	IDB	12/8/77	Roads	No
"	IDB	3/2/78	Water and Sewerage	No
"	IDB	3/2/78	Water and Sewerage	No
"	IDB	11/9/78	Industrial/Tourism	No
"	IDB	11/9/78	Agriculture	No
El Salvador	IDB	11/3/77	Electric Power	Approved
"	IDB	11/3/77	Electric Power	Approved
"	IDB	12/8/77	Education	Approved
"	IBRD	5/18/78	Industrial and Agricultural Training	Approved
"	IBRD	5/18/78	Telecommunications	Abstained
Equitorial Guinea	AfDF	11/22/78	Cocoa Rehabilitation	No
Guinea	AfDF	11/23/77	Kenaf Production	Abstained
"	IDA	9/12/78	Education	Approved
Korea	ADB	10/31/77	Roads	Approved
"	ADB	10/31/77	Asam Bay Power	Abstained
"	ADB	12/20/77	Regional Water Supply	Approved
"	ADB	12/22/77	Mineral Exploration	Abstained
"	IBRD	12/22/77	Agriculture	Approved
"	IBRD	12/27/77	Medium Industry Bank	Approved
"	IBRD	3/7/78	Electrification	Approved
"	ADB	3/16/78	Korean Development Bank	Approved
"	IBRD	3/30/78	Railroads	Approved
"	IBRD	5/23/78	Korean Development Bank	Approved
"	IFC	5/23/78	Korean Development Finance Corporation	Approved
"	IBRD	12/5/78	Korean Development Finance Corporation	Approved
"	IBRD	12/14/78	Roads	Approved

(Cont'd next page)

Country	IFI	Loan Date	Project	U.S. Vote
Lao, PDR	ADB	10/24/78	Forestry	No
"	ADB	12/22/78	Rural Electrification	Abstained
Mozambique	AfDF	2/10/78	Irrigation Study	No
Paraguay	IDB	11/3/77	Rural Water Supply	Approved
"	IDB	11/10/77	Rural Development	Approved
"	IBRD	12/13/77	Rural Water Supply	Approved
"	IBRD	3/7/78	Highways	No
"	IDB	3/23/78	Highways	No
"	IDB	5/25/78	Power	No
Philippines	ADB	11/29/77	Philippine Development Bank	Abstained
"	ADB	12/9/77	Hydropower	Abstained
"	IBRD	12/22/77	Small Tree Farming	Approved
"	IBRD	1/31/78	Private Development Corporation	Approved
"	IBRD	2/28/78	Irrigation	Approved
"	IBRD	3/21/78	Education	Approved
"	IBRD	4/4/78	Rural Electrification	Approved
"	IDA	4/11/78	Rural Infrastructure	Approved
"	IBRD	4/25/78	Private Investment Fund	Abstained
"	ADB	5/11/78	Irrigation	Approved
"	IBRD	5/11/78	Multipurpose Dam	Approved
"	IBRD	5/18/78	Philippine Development Bank	Abstained
"	IFC	6/27/78	Shipyard	Abstained
"	IBRD	7/25/78	Manila Water Supply	Approved
"	ADB	10/24/78	Coal Mine Technical Assistance	Abstained
"	IBRD	11/7/78	Agricultural	Approved
Uruguay	IDB	12/21/77	Water Supply	No
"	IDB	12/21/77	Roads	No
"	IBRD	6/13/78	Vocational Training	Approved
"	IFC	9/21/78	Acodike	Abstained
Vietnam	IDA	8/8/78	Irrigation	No
"	* ADB	8/8/78	Ho Chi Minh Power	No
"	* ADB	10/19/78	Go Cong Irrigation	No
"	* ADB	10/19/78	Bin Dinh Irrigation	No
"	* ADB	10/19/78	Tan An Irrigation	No
"	* ADB	10/24/78	Water Supply	No
Yemen, PDR	IDA	2/14/78	Agriculture	No
"	IDA	6/13/78	Power	Abstained
"	IDA	6/29/78	Water Supply	Abstained
"	IDA	12/14/78	Education	Abstained

* Reactivation of old loans which required Board approval.

Though the usual procedure at Board meetings on loan proposals is to signify approval of the loan by announced consensus, when an Executive Director desires his vote recorded formally, it is done. As has been pointed out earlier in the report, opposition by any Executive Director in any of the IFIs, in the form of abstention or a negative vote, has never resulted in formal disapproval of a loan proposed. Aside from the broader question of seeking some effective accommodation to the implementation of U.S. policy on human rights, the practical effect of individual U.S. opposition upon presentation of IFI loans to Executive Directors appears to be virtually nil. In FSO loans at the IDB, in which the United States has a veto, the veto power has not been used for human rights considerations or other reasons. However, a practical result in FSO loan proposals apparently has been to cause management to present loan proposals for countries with questionable human rights practices as ordinary capital loans rather than FSO loans.

In reviewing minutes of Board meetings at all of the IFIs, no impression can be gained that the cause of human rights is being advanced in the opposition expressed by the U.S. representative. The U.S. Executive Directors are chided by both management and other Executive Directors for attempting to interject United States political considerations currently in vogue in pursuit of its foreign policy objectives. As a result, the U.S. Executive Director at one IFI has based his stated opposition (pursuant to instructions to abstain or vote negatively) upon grounds other than human rights considerations--he has adopted a procedure of private discussions with the representative of the country seeking the loan concerning improvement of human rights conditions, rather than endure the censure associated with expressing such views openly at the Board meetings. If one of our purposes is to send messages to other governments by noting opposition to loans on human rights grounds, the foregoing practice does not constitute an extraordinarily strong message.

At the same time, however, support by some other governments of the U.S. position on human rights is evident in reviewing minutes of the Board meetings. Such support has not been sufficiently widespread among the members to result in the disapproval of any loan nor is there evidence of any groundswell of opinion moving toward such a result. On occasions, other governments have instructed the Executive Director representing their country to register opposition to a particular loan on human rights grounds. When there is an apparent lack of agreement on the part of several governments represented by one Executive Director, a difficulty is presented in casting the vote. For example, in one loan proposal in which one Executive Director represented a constituency including four governments that supplied an instruction--one government favored voting negatively, two others were in favor of abstaining, and a fourth favored approval--the Executive Director resolved his vote by abstaining.

As indicated in Table 13, the first instance of U.S. opposition to a proposed loan at the World Bank based on human rights grounds occurred on a project for the Peoples Democratic Republic of Yemen (South Yemen) on February 14, 1978, over 4 months after passage of PL 95-118. The two other "no" votes cast in the World Bank by the U.S. representative after the South Yemen vote involved a loan to Paraguay and one to Vietnam. The proposed loan to South Yemen was an agriculture loan which included basic human needs elements and was the first loan to South Yemen since before 1977. A senior official involved in implementing U.S. human rights policy advised that the Christopher Group's decision to recommend a "no" vote on the South Yemen loan resulted from a telephone meeting of the Christopher Group, since the Chairman was out of town when the decision was needed. The explanation of the "no" vote is that, while basic human needs were involved, the United States does not have diplomatic relations with South Yemen and therefore it is difficult to convey nuances or send diplomatic signals to its government concerning the serious human rights problems in South Yemen. Another senior official advised that the South Yemen "no" vote resulted, at least in part, from human rights advocates in the State Department hoping to "score political points" with the Congress during hearings which were about to commence.

As shown in Table 2 early in the report reflecting cumulative IFI lending to 99 LDCs, virtually all countries which have been charged as human rights violators by various authorities have been recipients of IFI lending. Moreover, the most recent pipeline reports of the IFIs show that, other than seven countries which have graduated from IFI lending (Republic of China, Gabon, Iraq, Israel, Malta, Spain, and Venezuela), all of these LDCs except Uganda currently have loan proposals in various stages of processing toward negotiation and approval within one or more of the IFIs. All of the 14 countries to which the U.S. representatives in the IFIs have registered disapproval on human rights grounds have additional loans being processed forward in the IFI pipelines. With the possible exception of Chile, none of the 14 have been openly characterized as gross and consistent violators of human rights in connection with opposition to loans recorded--as pointed out, the State Department and Christopher Group eschew such characterization as inconsistent with their policy of flexibility in approaching the human rights question on many fronts and in many forums. The effectiveness of practices adopted by the Executive Branch in the use of the IFIs as one such forum is most dubious.

VIII. ASSISTANCE TO THE POOR

For over 30 years now, many countries have benefited from significant amounts of modern bilateral and multilateral financial and technical assistance for development purposes. Progress has been made in accelerating economic and social development but that progress has not been sufficiently great, or sufficiently continuing in nature, to meet the needs of most of the developing nations.

One particularly slow-moving, difficult development area is the plight of the poor. Despite substantial external assistance and internal efforts, almost 800 million people still live in absolute poverty--about 40 percent of the developing world's total population. Distribution of land and income pass by this lower 40 percent with the result that they neither contribute to economic growth nor share in its benefits to any significant extent. Regardless of the reasons, poverty is still the largest and most elusive problem of the developing world, and the prophecy that we shall have the poor with us always has been fulfilled for 2,000 years.

In recent years, development planning has undergone considerable change in emphasis in strategy and approach to better meet the poverty issue. The present emphasis is on "new-style" projects in a major effort to reach the poor more directly. These new projects concentrate on improvements in fundamental things like food production, employment, income, health, shelter, rural development, and general human resource development, in an effort to more effectively meet the basic human needs of the poor.

Within the IFIs there are differing views and concerns as to what are the best strategies, methods, and mixes of development assistance to alleviate massive poverty. The broad concepts and issues are continually being discussed, weighed, and refined as the IFIs seek the best approaches to varying situations.

A. Lending Directions

Over the past 5 years, the IFIs have made an earnest effort to direct an increasingly larger share of their lending toward reaching the poorest people in the developing countries and improving their productivity and income levels. However commendable such initiatives may have been, much remains to be done. The IBRD President in September 1978 pointed out that even if the projected and optimistic growth rates in the developing world are achieved, some 600 million individuals at the end of the century will remain trapped in absolute poverty, a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency.

The Investigative Staff reviewed an abundance of evidence reflecting a clear awareness within the IFIs of the plight of the poor, as well as efforts to shift their lending not only toward the poorer developing countries but also toward reaching the poor elements in all of the LDCs. The evidence is clear insofar as the efforts that have been made are concerned--it is mixed with respect to results obtained.

Included among the changed directions in lending in recent years are:

(1) Changing the sectoral composition of lending to devote more toward those sectors which address basic human needs, e.g., agriculture, rural development, urban development, health, population, water and sewerage, low-cost housing and education;

(2) Designing projects so as to increase participation of low-income groups to make them more productive and require active involvement in the development process;

(3) Changing the emphasis of the more traditional projects to assure their impact is shared by the rural and urban poor as well as to enhance the productivity of small industries; and

(4) Utilizing IFI lending as leverage to increase assistance by local cost financing of borrower countries and by other bilateral donors to direct more resources toward the new-style projects.

The IFIs, led by the World Bank, began a sharp increase in lending for food production, agriculture, and rural development in the early 1970's, and such lending is continuing to increase. In FY 1978, the World Bank approved 88 projects in agriculture and rural development totalling $3.3 billion--a 42 percent increase in the amount of such lending over the previous year. Of its total agriculture and rural development lending, 53 percent was for rural development projects in which it is expected that some 7.2 million rural families will directly benefit. Of that number, some 67 percent are estimated to have incomes below the absolute or relative poverty level for their respective countries.

IDB lending for agriculture and other aspects of rural economic development in 1977 ($617 million) rose to 34 percent of total lending compared to 29 percent in 1973. IDB's sectoral goals for its lending program for the 1979-82 period show allocation of 40-50 percent of total lending for the rural and urban development sectors.

ADB tripled its agricultural lending from 1973 to 1976 to a total of $200 million which, in 1976, represented 26 percent of its total lending. In 1978, agriculture and agro-industry will account for 29 percent of ADB's total lending; its projected lending for 1979 shows that the agriculture and agro-industry sector will increase to 33 percent.

The AfDF's lending criteria favors the poorest landlocked countries and those having a per-capita income under $200 receive absolute priority in resource allocation. In 1975, 59 percent of AfDF's lending went to these countries; their share rose to 64 percent in 1977. Loans directly benefiting the poorest classes accounted for approximately 60 percent of AfDF's lending volume in 1977.

While it is evident that the IFIs are making a deliberate effort to channel a larger share of their resources to projects aimed at benefiting the poor, there are inherent problems in identifying and tailoring specific projects that are appropriate and that will actually benefit the poor in the borrower countries. The varying economic and social characteristics of the countries complicate the IFIs' tasks in designing and implementing the new-style projects that are intended to achieve acceptable rates of economic growth and at the same time alleviate oppressive conditions of poverty. Such efforts have to be viewed in the context that (1) the countries involved are the poorest of the developing countries, (2) the quality of their natural and human resources is poor and measures to improve them have been neglected, (3) their recent economic growth has been slow, (4) services and wealth are generally concentrated in urban areas, while the majority of the people in the countries are rural, (5) there is virtually an absence of population planning in most of the countries, and (6) the lack of institutional capability in administering the projects severely limits the absorptive capacities of many LDCs.

Though there is substantial evidence among the IFIs of the manner in which lending resources have been redirected and of the intended goals and objectives toward which projects are designed to reach poverty-stricken targets, there is no large body of evidence of results. The vast majority of the new-style projects initiated during the last 5 years are still under implementation and have been the ones that most frequently suffer from implementation delays. Thus, the post-evaluation process of any large segment of these projects or within any sector has not really begun--as earlier pointed out, current supervision reports of ongoing projects were not available to the Investigative Staff for review. Further, many of the new-style projects, such as those in population, nutrition, rural and urban development, etc., are designed to generate progressive improvements over a relatively long period within the framework of broad economic development of the country so that it will be some while before evaluators can truly come to grips with the total effect of offering new horizons for the poor within a country, region, or sector.

B. Visits to Projects Directed Toward the Poor

Of the 11 countries visited by the Investigative Staff, 5 were low-income countries and 6 middle-income countries (as indicated on Table 2 earlier in the report); 8 of the 11 qualified for soft lending. Of the projects selected for visit from review of headquarters documents, 36 were either designed primarily to benefit the poorest people of the country or contained substantial segments allegedly so directed. There were, of course, indirect benefits to help the poor involved in the other 30 projects, such as job creation and transport. Not repeated here are the earlier comments in the report on some of the visited projects describing the use of resources for over-designed construction or for excessive capital investment that might better have been used for more direct assistance to basic human needs. Many of the projects selected for visit began more than 5 years ago and thus, while providing an ample period for implementation, had their genesis prior to the emphasis upon new-style projects that was instituted in late 1973. Accordingly, a number had no direct emphasis upon aiding the poor and others were follow-on projects with efforts to redirect emphasis toward the poor which had not been a primary object of the original project.

In general, the 36 projects which were designed mainly to assist the poor or had substantial segments so designed were being diligently pursued by local project managers and staff toward the objectives set, and the failures encountered in meeting objectives, often resulting in a reduction of goals originally appraised, were outweighed by the accomplishments being achieved. Set forth hereinafter are brief sketches of representative projects visited illustrating both effective and flawed project design and implementation directed toward assistance to the poor.

(1) A project involving three successive loans for livestock and agriculture credit in a poor Latin American country was examined. The three loans were negotiated by IDA in 1970, 1973, and 1976 in the amounts of $2.6 million, $6.6 million, and $14 million, respectively. The first loan was for ranch and breeding stock improvements; the second for similar purposes plus construction of municipal abattoirs; and the third for cattle ranch improvements, rehabilitation of an

agrarian reform co-operative settlement, and development of small agro-industrial enterprises, covering rice and sugarcane development as well as cattle. All had technical assistance provisions. The first loan was fully disbursed in 1974; the second and third were in progress at the time of the Investigative Staff's visit. During the second loan, agrarian reform was instituted and $1 million of the loan was reprogrammed to begin the rehabilitation of a banana co-operative settlement--notice to the Executive Directors of this reprogramming was by an "if no objection" memorandum from the President.

The post-evaluation report of the first loan incorporated findings of a study by a consultant retained by the World Bank to review the project and this post-evaluation report submitted to the Executive Directors stated that the consultant's report was available--when requested by the Investigative Staff, it was denied on the premise that while available to an Executive Director for his own use, it could not be supplied for release to a representative of the U.S. Congress. It was obviously quite critical, based on the findings summarized in the formal post-evaluation report; namely, (1) the number of ranchers reached amounted to only 58 percent of the number originally planned; (2) 73 percent of the ranchers were absentee owners and had other sources of credit; (3) animal management by the subborrowers departed significantly from methods set forth in the appraisal report; (4) size of ranches aided and size of loans made were substantially greater (almost double) than anticipated in the project appraisal; (5) targets selected for assistance were the opposite of those involved in the agrarian reform movement with the result that the World Bank became identified as in opposition to agrarian reform; and (6) the project director was a former executive of the cattlemen's association.

Desk officers at the World Bank and project staff personnel in the country believed the post-evaluation report to have been unfair because the consultant study (on which the post-evaluation report was based) was performed by one who did not really understand the cattle business in the country and because the first loan was made in 1970 before World Bank emphasis was placed upon reaching the poor.

The Investigative Staff reviewed the three projects with the project personnel at the borrowing entity, its regional offices, the participating commercial banks, and visited subborrowers (ranchers and co-operatives). The local government onlends the IFI loan to the Central Bank at 2 percent; the Central Bank onlends to participating commercial banks at 6 percent; and the commercial banks onlend to ranchers and co-operatives at 11 percent (9 percent under first and second projects). Auditing arrangements are that in regular bank examinations, the government examiners will afford special attention to the portfolio of loans under the project.

The present project manager (original one replaced), who was most cooperative and knowledgeable, supplied data from analysis of records maintained to show subborrower profiles under the three projects, as follows:

	First Project	Second Project	Third Project (thus far)
Farmer loans:			
Number of loans processed --	78	283	17
Total amount of loans processed (millions) -----	$ 3.3	$ 7.1	$ 1.0
Average amount of loans ----	$ 42,326	$ 25,177	$ 59,318
Farmers with less than 50 hectares ----------------	2	33	2
Farmers with over 150 hectares ----------------	62	154	9
Average net worth at time of loan application ------	$182,000	$ 99,000	$105,000
Annual gross income per most recent report -------	$ 31,600	$ 14,300	not available
Co-operative Loans:			
Number of loans processed --	0	8	4
Total amount of loans processed (millions) -----	0	$ 1.2	$ 2.2
Average amount of loans ----	0	$155,000	$218,000

Of the rural poor in the country, 60 percent have per-capita income less than $100, of which half are less than $60. Local officials point out they have been unable to devise any program to reach such people and that instant projects were not designed for and cannot reach the rural poor who are landless or existing on one or two hectares. The subborrowers visited were relatively prosperous ranchers with well-managed farms who had increased beef or dairy production markedly

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through the loans under the project, as well as increasing their own farm employment, frequently by 50 percent. The projects have materially assisted in raising beef and milk production in the country's cattle industry. The commercial banks, of course, onlend only to farmers, ranchers, and co-operatives who can establish their creditworthiness. The farmers visited were utilizing the loan proceeds for the purposes for which made (fencing, pasture improvement, breeding cattle, etc.). Based on regional managers' records, only some 2 to 3 percent of the loans have been unfavorable--either failure to follow farm plans or failure to repay.

The co-operative visited operated a 5,000-acre banana plantation with membership of 1,300 families (largely the former employees of Standard Fruit Company which operated the plantation before the land invasion accompanying agrarian reform). There have been dramatic production increases and the project manager believes that after the 7-year loan is paid, the members of the co-operative will become relatively wealthy.

An officer of one of the participating commercial banks confidentially advised that though he personally knows of no corrupt practices involved in the project lending, corruption is rampant throughout the country and could well exist in IFI projects. A problem his bank has encountered in the sublending is the use of loan proceeds for purposes other than intended. He also advised that the ruling members of the co-operative operating the banana plantation and probably the governmental officials overseeing the operation will enrich themselves from the profits with the ordinary workers not really benefiting from the profits. With the poor growing poorer and IFI lending never really reaching them, he believes the country is trending toward revolution.

(2) The Investigative Staff visited a rural development project in another Latin American country which was being financed largely by an IBRD loan of $9.5 million. The project's total cost is $12.8 million and has the objective of raising the standard of living of subsistence farmers--those with an average of six hectares and the majority of whom are among the poorest 20 percent of the population within designated areas of two provinces--through higher income and improved health conditions. Its main thrust is to increase productivity of 4,000 farmers and to provide infrastructure and social services for all of the 10,000

rural families living in the project area. In terms of total people expected to benefit from the project, about 60,000 persons stand to benefit from the road improvements; 48,000 from health, potable water, and waste facilities; and 24,000 from on-farm investments and working capital.

The project was the first comprehensive effort to substantially improve traditional patterns of subsistence crop and livestock production among the small farmers in the area and it was expected to achieve positive results. Although the project was in the early phases of implementation at the time of the Investigative Staff's visit, it was encountering some delay in disbursements due to problems associated with the irrigation phase and full acceptance by the farmers themselves. On-site visits to two farms disclosed that funds borrowed under the project had been used by both farmers to purchase cows and to improve grain crops. One farmer who had two hectares of farmland had borrowed $300, and the other who had 10 hectares had received three loans totaling $1,050. Prior to the project, local lending institutions were unwilling to risk making loans to these farmers. A visit to one of the drilled wells disclosed that the irrigation problems encountered in the implementation of the project were largely due to lack of farmer interest in the irrigation scheme and in inability to obtain cooperation of nonparticipants in digging trenches necessary for the passage of the water to individual farms.

In addition to the two farm families and the well site, the experimental demonstration farm was visited, roads under construction were examined, and discussions had with local technical assistants involved in assisting the farmers under the project. Other than the problems encountered in implementing the irrigation element of the project, all persons contacted were enthusiastic over the benefits of the project and it was apparent that the poorest segments of the rural area involved were being reached and materially assisted.

(3) As a major component of a South American country's rural development program, IBRD negotiated a $52 million loan in December 1976 to finance 40 percent of the program's total cost. The objective is to raise the living standards in three selected rural areas by increasing productivity, output, and income of farm families, and by improving social services and facilities available to rural communities. It is directed toward assisting families with less than

20 hectares which, with few exceptions, represent families in the poorest 50 percent of the population. The loan proceeds are financing $27.6 million of the foreign exchange costs and $24.4 million of the local currency costs. The largest segment of the project is establishment of a revolving fund in a local intermediate credit institution for onlending to farmers for livestock, fruit trees, fertilizer, seeds, and other farm development at 15 percent interest if farmers have assets of less than $3,000 and at 19 percent interest if farmers have assets of between $3,000 and $15,000. (The World Bank loan is at 8.7 percent interest over a 17-year period.) The total project cost is $131 million, of which the local government is contributing $66 million. Another substantial part of the project is the social services provided, including furniture for 2,300 school classrooms, construction of and equipping 75 new health posts and improvement of 26 existing ones plus 17 hospitals, construction of latrines at local markets and other public places, expansion or improvement of 248 water supply systems, construction of 187 miles of new rural roads and improvement of 388 miles of existing roads, and investment in 22 electrification subprojects.

In addition to the assistance being provided by the IBRD loan, similar projects also in support of the country's rural development program are being financed in two other designated areas of the country by the IDB and the Canadian International Development Agency.

The Investigative Staff visited four of the rural areas where the projects being financed by the IBRD and IDB loans are being implemented. Administration of the projects is complex with several different local government departments involved in the total work; as a result, implementation had been substantially delayed at the time of the Investigative Staff's visit, with only about $2 million of the $52 million IBRD loan then disbursed. The project actually had gotten underway only a few months before our arrival. Local governmental officials gave assurance that administrative startup and budgetary problems had been resolved and that the project was moving forward among all segments of it. In meeting with local project staff and technical advisors at field sites, review of farm plans indicated that the principal targets for local lending were farmers with 3- to 10-hectare farms who were at or near the poverty level. A recently formed tomato farming co-operative composed of poor peasants was visited. Each farm recipient is being treated individually with technical land-use advice rendered coincidental to the loan to increase land productivity. The sublending interest rates are below the commercial market for farm loans and also are below the rate of inflation in the country. Control procedures etablished to follow up on agriculture credits and construction segments appeared to be adequate.

(4) A rural development project in an African country has been the recipient of three IDA credits--the first in 1968 for $6.0 million, the second in 1971 for $7.25 million, and the third in 1975 for $8.5 million, or a cumulative credit of $21.75 million. The project is in support of the country's primary social and economic objectives and was intended to raise agricultural productivity and increase rural incomes. To assist in achieving these goals, the credits had financed several integrated rural development schemes affecting an area of 640,000 acres and involving 100,000 rural families (500,000 persons). The third phase includes an additional 32,000 farmers who had not benefited directly from the earlier phases. The credit covered assistance in financing the construction of 15 unit centers; survey, demarcation, and registration of land; loans to farmers; livestock development; health facilities; and extension services.

Generally, the first two phases were successfully implemented within estimated costs as proposed in the project appraisal. Construction of unit centers, roads, diversion channels, boreholes, and marketing facilities proceeded either on or ahead of schedule and the area and number of farmers served by program infrastructure exceeded original estimates.

At this stage, the total project appears to be a success story in terms both of reaching the poor and adding to the country's development. An economist occupying an official position in the country observed that whereas the project presently presents the image of success, it cannot really be judged until 10 or 15 years have passed at which point one can evaluate whether the recipients of the benefits have demonstrated sufficient motivation to take real advantage of what has been provided them, not only in lifting themselves to a higher economic plateau but at the same time in making a real contribution to the economic wellbeing of the country.

(5) In one Asian country visited, a large rural development project was underway, designed to improve the

productivity and incomes of low-income, smallholder farmers through improved irrigation, road facilities, and agricultural supporting services. The total project cost is about $48 million, of which IBRD is providing $21 million. It is a 5-year project approved in mid-1976.

This project is located in the poorest state in the country. About 65 percent of the households in this state have per-capita incomes of less than one-quarter of the average per-capita income for the country. More specifically, the average per-capita income for the project area is equivalent to $89, about 36 percent of the locally established poverty line.

The irrigation improvement is providing protection from river flooding and drainage of localized monsoon flooding, as well as improved irrigation and drainage systems for the farmers. A unique feature of the tertiary distribution system is the introduction of glass-reinforced polyester flumes which integrate the use of a light, impact-resistant construction material with hardwood beams. The Investigative Staff observed these flumes being fabricated locally, mostly by women labor. The other project segments include small-scale irrigation, rural roads, agriculture extension, a farmers' development center, and a land development study.

Several areas and facilities were visited which were indicative of the initial work done in each of the main segments of the project. Project startup and other delays (land settlement ajudications, inter-department coordination, etc.) have been encountered and it is behind schedule. One official thought that the project would take 1 to 2 years longer than scheduled.

The project is targeted for poor rice farmers having an average farm size of two hectares. If successful, the project should provide increased crop yield, important flood control benefits, and increased economic returns for these farmers. At its present stage of implementation and from an overall standpoint, it appears that the project will meet its objective of reaching farmers at the poverty level.

(6) To view results of a project fully disbursed and completed, even though it began before the heavier emphasis upon reaching the poor, the Investigative Staff visited a completed irrigation project in an Asian country which had provided water to over 200,000 acres and was the key factor in changing production

in the area from a single rice crop to a double crop. The project total cost was $90.1 million, of which the IBRD provided $45 million of financing. The project was completed in October 1970, close to the original time schedule and cost estimates.

The project is located in the country's traditional rice bowl where there are about 51,000 farms of an average size of 4 acres. The primary purpose of the project was to install controlled irrigation to already settled smallholder farmlands to provide an off-season crop, thereby doubling rice paddy production and increasing farm income.

It was found that of the total acreage involved in the project, approximately one-third was farmed by tenant farmers and of the two-thirds owned by local farmers, the average farm size was 4.2 acres--80 percent of the farmers assisted owned less than 14 acres. The double cropping has increased production by 2.4 times since 1966, although weather conditions do not always allow double cropping every year. Of the farm families involved in the project, family income per annum ranged from $750 to $20,000, with the average $4,000; the poverty level for family income is $2,400 and one-third of the farm families were below that level.

The principal continuing problems now being faced are difficulties and delays in water distribution at the field level and problems at the dams which are requiring careful attention and repair work. The local development authority has been diligent in efforts to resolve these problems as well as developing plans for further improvements to the system.

(7) In one of the poorest Latin American countries, the Investigative Staff visited an education project wherein $6 million had been loaned in 1974 by the World Bank ($3 million hard loan and $3 million soft loan) with another $2.6 million in the project contributed by the local government. The World Bank's contribution represented all foreign exchange costs and about 60 percent of the local costs. A second loan of $5 million (soft window) was proceeding towards negotiation at the time of the visit. The first loan principally was for teacher training and construction or expansion of 4 normal schools, 12 rural training laboratories, 1 agricultural school, 3 agricultural training centers, and a vocational training center. In addition to discussions with local officials and reviewing records of the project, the Investigative Staff visited a normal school, the vocational training

center, the teacher training college, and a rural elementary school. The second project loan is primarily for rural school construction and establishment of double shifts for enhanced teacher remuneration.

The project had been initiated by USAID and preliminary planning performed by that agency with the World Bank taking over the project for funding and providing technical assistance for further planning. Such course of action is not unusual as USAID is lender of last resort and withdraws upon a determination by the local government to proceed with IFI funding.

The project was found to be well designed and closely supervised by the local project manager. Buildings and equipment were relatively austere. Sound procurement practices and controls over bidding approvals by the local government appeared to be effective. One aspect of the agricultural education and training programs was particularly impressive; namely, 1-week courses being offered rural adults in crop production techniques and home economics. At the vocational training center, 15 trades are taught and students drawn from three sources (1) teenagers with some work experience who earn a certificate entitling them to enter apprenticeship; (2) adults currently practicing their trade but possessing no certificate; and (3) persons of all ages with no trade experience of any kind (rural migrants to the city).

A relatively small cost overrun was experienced in construction costs (10 percent), though about one-half of that was absorbed in savings on equipment purchases. Supervision visits by World Bank personnel occurred approximately every 8 months and were commended by local officials for the assistance provided during the course of the project. The project is well designed, is being well implemented, and not only will reach the very poor but should contribute significantly to the long-range economic inprovement of the country.

(8) A water and sewerage improvement and expansion project in a major city of an Asian country was visited and planning and implementation reviewed with local officials. IBRD had made a loan of $26.6 million against the project's total cost of $46 million. Of that cost, $22 million was for the water segment, $22 million for sewage collection, and $2 million for storm drains.

The city has a population of 2.8 million, with a population density of 150 per acre. The underemployed and poor occupy large segments of the city. Currently, only 1.9 million residents receive piped-in water; the remaining 900,000 obtain their water from open and often polluted wells, a few private tubewells, or directly from the city's canals.

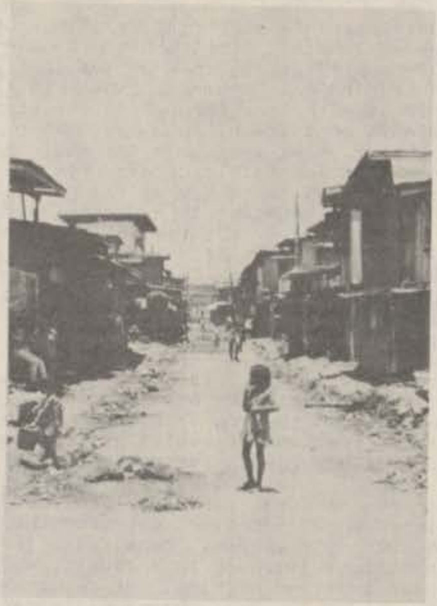
Sewage collection by a piped system began in the city in 1936 and is presently experiencing serious problems, including the existence of open sewerage drains in the city's streets. The system presently is available only to about one million of the city's residents. It is expected that the expansion under the project will allow the system to serve an additional million people. Currently, the city's sewage is discharged into a river in untreated form. Treatment is not proposed until a capability to handle the collection of the waste is established.

Work on the project is progressing satisfactorily and examination of the distribution of the water and sewerage systems showed that it incorporated service to the poorest sections of the city.

(9) An urban renewal and development project in an Asian country has been alluded to in earlier sections of the report to demonstrate points concerning weak supervision of loans and overoptimistic estimates in appraisal reports submitted to the Executive Directors. However, from the standpoint of an innovative project to reach the poorest of the poor, it appears to represent a high degree of success. The total cost of the project is $65 million, with the World Bank loan constituting $32 million of the cost. It is providing sites and services (water, sewerage, electricity, transport, school, health clinic and community center construction, and subdivision of lots) to one of Asia's worst slum districts of 180,000 squatters in a 450-acre area near a port facility (density of some 400 per acre). Cost recovery is through 25-year renewable leases, with option to purchase, plus collection for water, sewerage, and electricity. The median family income is approximately $600 with 6.5 members per family.

At the time of the Investigative Staff's visit, the project was well underway and the project manager appears dedicated to successful implementation of the project. There had been initial delays due to surveying and titling problems but costs were running about 10 percent below estimates and community leaders were enthusiastic over accomplishments. In designing the project so that each subsegment of squatters selected their own options for the type of reblocking, number of houses selected for displacement, and self-help improvement of houses, a constructive approach to reaching the poor is evident. Set forth on the following page is an illustration (photographs taken during Investigative Staff's visit) of a section of the area prior to improvement contrasted with a section after improvement.

URBAN DEVELOPMENT PROJECT



TYPICAL STREET BEFORE DEVELOPMENT

TYPICAL STREET AFTER DEVELOPMENT

C. General Observations

1. Nature of the Effort

Meaningful assistance to the destitute by financial institutions whose lending policies are grounded in providing financial and economic returns upon monies lent poses complex questions that have no easy answers. There is the matter of delivering assistance, either through welfare-type or self-sustaining economic activities, in a way that provides maximum benefits to the poor, sews the seeds for self-improvement, and does not place an impossible strain upon the resources of the borrowing entity for its share of the project so that the net result is counterproductive to economic development. There is also the problem of identifying the target population in reasonable specifics. The IFIs have several definitions, primarily based on income, but there are also special distinctions like the old, the sick, the undernourished, the illiterate, the disabled, the landless, the underemployed, the homeless, etc.

Fundamentally, poverty is a product of the economic, social, and political realities of a country. Improvement requires change and, in the long run, such change involves some form of redistribution of wealth and influence. While the IFIs can contribute toward improving the climate for such change, it is a long, slow process. In international forums, the emphasis on the need for additional resources to assist the less-developed world sometimes obscures the importance of the developing country's effort. Development is, of course, a phenomenon that is indigenous to a country and one which evolves only over a period of time. It requires sound, progressive economic and social policies, leadership, initiative, self-help measures, and sustained priority efforts within the country. Since the poor tend to be out of the mainstream of the country's economic affairs, and without influence, assistance has to be part of a very special commitment by local national leaders. Besides, corrective action may well require sensitive changes in policies, development strategies, attitudes, and approaches. IFI and other external assistance can help, but the effectiveness of such assistance is highly influenced by local factors and effort.

Since 1973, the IFIs have been emphasizing programs to alleviate absolute poverty while accelerating economic growth at the same time. There is no perfect understanding of the appropriate mix of types of projects or sector emphases to accomplish the greatest result and all of the IFIs are endeavoring to determine that mix. The World Bank leads in such efforts, with pilot and innovative projects that may have replicability in other countries.

The IFI efforts to monitor what is going on in a country, and in a project, are particularly important for the "new style" projects designed to benefit the poor. This is because such projects are more difficult to plan, manage, and execute efficiently and effectively. They are also more apt to be subject to whatever contravening forces may exist in an LDC. As has been noted, for new-style projects the IFI monitoring efforts need to be broader, more frequent, more imaginative, and more penetrating on the social aspects than is traditionally done on infrastructure projects. Some specific suggestions were made earlier in this report that might help in identifying project implementation difficulties which may slow down or reduce benefits intended for the poor; namely, selected operations audits of borrowers by IFI internal auditors, establishment of an inspection function in the IFIs, and selective evaluations of projects during project execution.

2. Insufficiency of Statistical Data

In IFI activities, the importance of statistics for information and analysis purposes is evident as investors and decisionmakers must frequently deal with summary data for a country, region, sector, or for all LDCs. Reports by IFI management to Executive Directors on proposed loans contain statistical annexes of economic indicators which usually reflect the distribution of income within the country among population groupings, such as the lowest 40 percent. The poorest segment of a country is most frequently categorized in terms of the lowest 40 percent. World Bank data indicates that among all of the LDCs, the lowest 40 percent of the population collectively receives 10 to 15 percent of national income. While no single generalization is wholly accurate, most studies of the economic plight of the poorest 40 percent of LDC population show that in many of the LDCs, their relative share of national income has remained stagnant or deteriorated over the past decade. IFI economists concur that the income share of the poorest 40 percent probably has worsened, but point out that it really is difficult to ascertain the truth of such broad conclusions because survey techniques among the LDCs are so inadequate and the statistical information supplied is so unreliable. It is not really possible to evaluate changes in the plight of the poor statistically or even to clearly identify the group representing the most destitute throughout the Third World.

Whereas the per-capita gross national product is the most commonly used measuring tool, it suffers from limitations in measuring relative conditions constituting poverty, and IFI officials agree that no reliable measuring device has been discovered by which the broad effectiveness of IFI lending to aid the poor can be reliably measured. The distribution of income based upon gross national product is a weak tool itself because of the incomplete data assembled from refusals of some countries to supply such data and because of the variety of survey parameters used to gather the data among the LDCs. Moreover, merely measuring the relative distribution of income from year to year does not disclose the extent to which well-intentioned and expensive development assistance has produced significant benefits for the poorest of the poor, or the reasons why it has failed to do so. One official observed that there are about as many income distribution indexes as there are statisticians.

While individual programs dealing with increasing agricultural productivity and improving nutrition, health, and education are more readily measurable in their specific impact upon target groups, comprehensive survey systems for each country geared to social indicators that meet basic human needs would be difficult to organize globally and costly to administer. The World Bank continues to strive to develop better and more reliable measuring devices, recognizing that any which are developed must in the final analysis rely considerably upon the statistic-gathering capabilities and candid disclosures of individual countries.

The Overseas Development Council in 1978 published a study of an approach to measuring relative conditions of the world's poor by gathering data upon and assigning relative weights to three indices; namely, life expectancy at age one, infant mortality, and basic literacy. The resultant indicator, characterized as the "Physical Qualify of Life Index," was put forth as describing the meeting of the most basic of human needs, i.e., living longer, having one's children live, and meeting a desire for literacy as a means of greater social participation. The development of the index was premised upon the suppositions that (a) a large proportion of the human race will live with very low per-capita incomes for decades to come, and (b) there is no automatic connection between income and the life-quality results that can be attained. The study and its results have met with resistance in the development community--the index is regarded as not being a sufficiently accurate measurement tool to gauge the plight of the poor.

A former IFI official noted that new-style projects involve heavier reliance and dependence upon cooperating country bureaucratic channels than heretofore. He felt that development planners may be getting overcommitted to policies wherein too much is attempted through local government regulation and involvement. His concern is that the average new-style project embodies approaches that evidence a general distrust of competitive market forces (which usually have been effective in democratic countries), and thus may be an inefficient method of transferring resources for development purposes. In his view, a lot of money is being spent on new-style projects, but there exists no real proof that the poorest of the poor are being reached or that the long-range goals are being achieved.

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