Calendar No. 844

106TH CONGRESS
2d Session

SENATE

REPORT
106–425

THE INTERNATIONAL DEBT FORGIVENESS AND INTERNATIONAL FINANCIAL INSTITUTIONS REFORM ACT OF 2000

SEPTEMBER 28 (legislative day, SEPTEMBER 22), 2000.—Ordered to be printed

Mr. HELMS, from the Committee on Foreign Relations, submitted the following

REPORT

[To accompany S. 3129]

The Committee on Foreign Relations, having had under consideration an original bill (S. 3129) provide for international debt forgiveness and the strengthening of anticorruption measures and accountability at international financial institutions, reports favorably thereon and recommends that the bill do pass.

CONTENTS

I. COMMITTEE ACTION

On March 23, 2000 the Committee unanimously ordered reported S. 2382, the Technical Assistance, Trade Promotion and Anti-Corruption Act of 2000. S. 2382 was reported and placed on the Senate Legislative Calendar on April 7, 2000, and subsequently referred to the Committee on Banking, Housing, and Urban Affairs pursuant to paragraph 1(j)(10) of rule XXV of the Standing Rules of the Senate on April 11, 2000. Paragraph 1(j)(10) of rule XXV of the Standing Rules of the Senate provides that, “at the request of the Committee on Banking, Housing, and Urban Affairs, any proposed legislation relating to [the International Monetary Fund] reported by the Committee on Foreign Relations shall be referred to the Committee on Banking, Housing, and Urban Affairs.” The Banking

79–010

Committee has taken no action on S. 2382 as of the writing of this report.

On Wednesday, June 28, 2000, the Committee on Foreign Relations considered and unanimously approved by voice vote the International Debt Forgiveness and International Financial Institutions Reform Act of 2000, which is identical to Title IV of S. 2382, the Technical Assistance, Trade Promotion, and Anti-Corruption Act of 2000.

II. Section-by-Section Analysis

Sec. 1. Short Title

This section provides the short title for the act will be "International Debt Forgiveness and International Financial Institutions Reform Act of 2000."

Sec. 2. Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative

This section provides authorization, as requested by the Administration, for full U.S. participation in the HIPC Trust Fund. The HIPC Initiative was established in 1996 and reformed and expanded in 1999, to provide debt relief to the world's poorest and most heavily indebted nations. Last year, the President asked Congress to appropriate funds for both multilateral (through the HIPC Trust Fund) and bilateral debt relief, and to authorize U.S. support for the IMF to draw on resources in a reserve account and to engage in an off-market revaluation of its gold holdings in order to raise the necessary resources for the Fund to extend debt relief under HIPC terms. In the Consolidated Appropriations Act for Fiscal Year 2000, Congress approved bilateral debt relief appropriations and authorized U.S. backing for the IMF proposals. Congress, however limited to 9/14ths the amount of the interest earnings raised through the investment of the IMF gold transactions that could be applied to HIPC debt relief and denied funding for the HIPC Trust Fund. The Administration has asked Congress this year to authorize these two remaining matters.

Subsection (a) repeals the 9/14th limitation enacted in 1999 as part of a new Section 62 of the Bretton Woods Agreement Act. This action will permit the U.S. Executive Director to the IMF to support the IMF use of the remaining 5/14ths of interest earnings derived from the investment of profits from the off-market sale of IMF gold for HIPC debt relief.

Subsection (b) authorizes $600 million for the period of fiscal year 2000 through 2003 for U.S. contributions to the HIPC Trust Fund.

Subsection (c) requires the Secretary of the Treasury to certify to Congress within 30 days of enactment of the Act that several requirements concerning the International Bank for Reconstruction and Development (IBRD) and the IMF have been satisfied. Both the Bank and Fund must have given the Comptroller General access to Bank and Fund information and documents allowing the GAO to audit and monitor Bank operations. The Treasury Secretary must also certify that the IBRD is implementing a number of policies to:

(1) suspend loans if funds are diverted for unintended purposes;

(2) ensure that Bank loans do not displace private sector financing;

(3) disburse loans (other than project loans) based on prior reforms or incrementally upon implementation of specific reforms instituted after the initial loan disbursement;

(4) minimize the number of projects that would displace people involuntarily, or that would have a negative impact on a people or culture of the area into which the displaced population is moved;

(5) promote open markets and trade liberalization in goods and services;

(6) concentrate Bank financing on economic and social programs and projects rather than short-term liquidity financing; and

(7) establish qualitative and quantitative indicators to measure progress toward country graduation from concessionary financing, together with an estimated timetable of which countries might graduate during the next 15 years. The intent is to indicate a category of borrowers who will not even be able to graduate in 15 years.

The Treasury Secretary must further certify that the IMF is also implementing policies to:

(1) suspend financing if funds are diverted for unintended purposes;

(2) ensure that IMF financing normally serves as a catalyst for, and does not displace private sector financing;

(3) disburse financing based on prior reforms or incrementally upon implementation of specific reforms instituted after the initial disbursement;

(4) promote open markets and trade liberalization in goods and services;

(5) concentrate IMF financing primarily on short-term balance of payments financing; and

(6) to use, in conjunction with the IBRD, qualitative and quantitative indicators to measure progress toward country graduation from concessionary financing, together with an estimated timetable of which countries might graduate during the next 15 years. The intent is to indicate a category of borrowers who will not even be able to graduate in 15 years.

In the event that the Treasury Secretary is unable to certify that all of the these requirements have been satisfied, the Secretary must report to the Committees within 30 days of enactment of this Act on the progress, if any, the IBRD and IMF have made in granting access to the Comptroller General or in implementing the required policies. If the Comptroller General is subsequently denied access to Bank and Fund information and documents after the Treasury Secretary has either certified or reported to Congress regarding the requirements of this subsection, or 30 days after enactment of this Act, whichever is earlier, the Comptroller General must report this situation to the Committees and the Secretary.

The Committee is concerned that many governments receiving assistance from the International Monetary Fund and the World

Bank are mistreating foreign investors and tolerate corruption to such an extent that it distorts economic development. These actions undermine many of the objectives that IMF and World Bank lending are designed to promote. Consequently, the Committee recommends that the Administration urge both the IMF and the World Bank to make it clear to recipient governments that future assistance will be jeopardized if they do not act in a timely manner to resolve trade and investment disputes and to reduce, and eventually eliminate, corruption.

Sec. 3. Strengthening Procedures for Monitoring Use of Funds by Multilateral Development Banks

The purpose of this section is to strengthen U.S. policy and influence at the multilateral development banks (MDB) to improve MDB procedures and management controls over how funds are utilized by borrowers. The intent is to ensure that MDB loans are used for their intended purposes and comply with conditions set out in the loans. The Treasury Secretary, when requested, must make available to appropriate Congressional committees Bank information regarding MDB compliance with these conditions. The material may be submitted on a confidential basis if necessary. If the Secretary cannot obtain the necessary information within 30 days of a Congressional request, he must report to the Committees within another 30 days why the material cannot be acquired. Within six months of the enactment of this Act, the Treasury Secretary must report to the appropriate Congressional committees with an evaluation of the extent to which MDBs are achieving the goals set out in this section. The report will specifically address progress made by each multilateral development bank in improving monitoring and auditing operations in order to curtail bribery and corruption, developing priorities for allocating anti-corruption aid, implementing country-specific anti-corruption programs, identifying and disciplining employees suspected of corrupt activities, and harmonizing procurement practices among all such banks.

Sec. 4. Reports on Policies, Operations, and Management of International Financial Institutions

This section creates four new reporting requirements and amends an existing requirement regarding various aspects of multilateral development bank (MDB) operations that are to be transmitted to appropriate Congressional committees. Subsection (a) requires the Comptroller General to submit an annual report regarding the sufficiency of audits of the financial operations of each MDB conducted by persons or entities outside the bank.

Subsection (b) calls for an annual report from the Treasury Secretary addressing how borrowing countries have improved governance and anti-corruption standards, and how projects funded by the World Bank's International Development Association (IDA) contribute to the eventual graduation of a representative sample of borrowing nations from reliance on IDA financing.

Subsection (c) amends Section 1705 of the International Financial Institutions Act by adding to an existing annual report regarding the IMF a requirement for a discussion of the progress made by the Fund in adopting and implementing the policies outlined in Section 401(c).

Subsection (d) requires from the Treasury Secretary a report within 90 days of enactment of this Act concerning the history of debt relief programs led by, or coordinated with international financial institutions (IFIs). In particular, the report must address how poor countries and the poorest segments of their population have benefitted from debt relief, and whether debt relief has contributed to a country graduating from reliance on concessionary financing and international development assistance.

Subsection (e) calls for the Comptroller General to prepare within six months of enactment of this Act a report listing the salaries, benefits, and operating expense account of each IFI for the previous fiscal year.

Sec. 5. Repeal of Bilateral Funding for International Financial Institutions

This section repeals Sec. 209(d) of the Foreign Assistance Act of 1961 (FAA). Enacted in 1971, Sec. 209(d) authorizes the President to transfer bilateral economic aid funds provided under part I of the FAA to the World Bank, the Asian Development Bank, and other MDBs to enable these organizations to make loans to foreign countries. Prior to 1971, Sec. 205 of the FAA, until repealed in 1971, had permitted the transfer of 10 percent of bilateral economic aid to MDBs. These transfer authorities, however, have not been operative since 1970. Beginning with the Foreign Assistance Appropriations Act, 1970, Congress annually has included a provision prohibiting the use of bilateral economic assistance for transfer to MDBs under the provisions of first, Sec. 205 of the FAA, and from 1971 on, under Sec. 209(d). In short, Sec. 405 repeals an authority that has been blocked by Congress for 30 years.

Sec. 6. Definitions

This section defines seven terms used in this title: appropriate Congressional committees, Bank, Comptroller General, Fund, international financial institutions (IFIs), multilateral development banks (MDBs), and Secretary. Appropriate Congressional committees include the Senate Foreign Relations and Appropriations Committees, and the House International Relations and Appropriations Committees. The Bank refers to the World Bank's International Bank for Reconstruction and Development (IBRD), while IFIs include the IMF and multilateral development banks. The term MDBs refers to the three major facilities of the World Bank, and the regional banks operating in Asia, Latin America, Africa, Eastern Europe, the Middle East, and North America. The Secretary refers to the Secretary of the Treasury.

III. Cost Estimate

In accordance with rule XXVI, paragraph 11(a) of the Standing Rules of the Senate, the committee provides the following estimate of the cost of this legislation prepared by the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 29, 2000.

Hon. JESSE HELMS,
Chairman, U.S. Senate Committee on Foreign Relations,
Washington, DC.

DEAR MR. CHAIRMAN:
The Congressional Budget Office has prepared the enclosed cost estimate for the International Debt Forgiveness and International Financial Institutions Reform Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Joseph C. Whitehill.

Sincerely,

DAN L. CRIPPEN, *Director.*

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

Summary

The International Debt Forgiveness and International Financial Institutions Reform Act of 2000 would authorize $600 million over the 2000–2003 period to pay a portion of the cost of reducing the debt that highly indebted poor countries (HIPC) owe to multilateral development banks. In addition, the bill would require new reports on the operations of international financial institutions. Assuming the appropriation of the authorized amount, CBO estimates that implementing the bill would cost $590 million over the 2001–2005 period.

The bill would permit the International Monetary Fund (IMF) to use all of its earnings from the investment of the net proceeds from revaluing part of its gold holdings for debt relief to HIPC courtries. That would lower the IMF's net income and could lower its interest payments to the U.S. Treasury. Based on information from the Treasury Department, CBO does not expect that to occur. Because it could affect direct spending, the bill would be subject to pay-as-you-go procedures.

The International Debt Forgiveness and International Financial Institutions Reform Act of 2000 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated Cost to the Federal Government

The estimated budgetary impact of the bill is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

Spending Subject to Appropriation
By Fiscal Year, in Millions of Dollars

	2000	2001	2002	2003	2004	2005
Estimated Authorization Level	0	200	200	200	0	0
Estimated Outlays	0	50	120	190	150	80

Basis of Estimate

The bill would affect spending subject to appropriation and direct spending. For this estimate, CBO assumes that the bill will be enacted by the start of fiscal year 2001 and that the full amount of the authorized funds will be appropriated over a three-year period.

Spending Subject to Appropriation. The bill would authorize the appropriation of $600 million over the 2000–2003 period for a contribution to a HIPC trust fund. That trust fund would be managed by the World Bank to compensate the various multilateral development banks for a portion of the cost of reducing their loans to certain countries under a proposal announced in June 1999, at a summit in Cologne, Germany.

While the authorization would be available in fiscal year 2000, none of the supplemental appropriations bills as passed by the two houses of Congress as of this date have included funding for this year. CBO assumes that the contribution under the bill would be funded over a three-year period with the first installment in fiscal year 2001. We also assume that the contribution would be provided as a letter of credit issued to the HIPC trust fund at the time a country and its creditors agree upon a plan for debt relief and poverty reduction and that the outlay would occur when the country satisfies all conditions in the plan.

CBO estimates that the additional reporting requirements would cost less than $500,000 each year, assuming the appropriation of the necessary funds.

Direct Spending Public Law 106–113 authorized the U.S. Executive Director of the IMF to vote for the Fund's plan to revalue a portion of its gold holdings and to transfer resources held in a special reserve account to a trust fund to be used for debt relief. That law permits the IMF to use only 9/14 of such earnings for debt relief. The bill would strike that restriction, but CBO does not expect that change to have a budgetary impact

The revaluation and transactions with member countries will lower the TMF's net income by an estimated $120 million a year. Lower income for the IMF could affect the U.S.. budget if the IMF should lower the rate of interest that it pays on the U.S. reserve position in the Fund. Based on information from the Treasury Department, CBO assumes the United States would oppose reducing the rate of remuneration.

Pay-As-You-Go Considerations

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Although enacting this bill could affect direct spending by a significant amount, CBO does not expect that to occur.

Previous CBO Estimate

On April 6, 2000, CBO transmitted a cost estimate for S. 2382, the Technical Assistance, Trade Promotion, and Anti-Corruption Act of 2000. That bill contained the provisions of this bill, but the cost estimates are somewhat different. In estimating spending under the earlier bill, CBO assumed that $200 million of the proposed funding would be provided in a supplemental appropriation bill for 2000. This estimate assumes that funding would begin in

2001 because House- and Senate-passed supplemental bills do not currently contain such funding.

Intergovernmental and Private-Sector Impact

The International Debt Forgiveness and International Financial Institutions Reform Act of 2000 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate Prepared By

Federal costs: Joseph C. Whitehill.
Impact on state, local, and tribal governments: Leo Lex.
Impact on the private sector: Lauren Marks.

Estimate Approved By

Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

IV. Evaluation of Regulatory Impact

In accordance with rule XXVI, paragraph 11(b) of the Standing Rules of the Senate, the Committee has concluded that there is no regulatory impact from this legislation.

V. Changes in Existing Law

In compliance with paragraph 12 rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Foreign Assistance Act of 1961

* * * * * * *

SEC. 209. MULTILATERAL AND REGIONAL PROGRAMS.—(a) * * *

【(d) In furtherance of the provisions of subsection (a) of this section, any funds appropriated under this part I may be transferred by the President to the International Development Association, the International Bank for Reconstruction and Development, the International Finance Corporation, the Asian Development Bank or other multilateral lending institutions and multilateral organizations in which the United States participates for the purpose of providing funds to enable any such institution or organization to make loans to foreign countries.】

* * * * * * *

The International Financial Institutions Act

* * * * * * *

SEC. 1705. ANNUAL REPORT AND TESTIMONY ON THE STATE OF THE INTERNATIONAL FINANCIAL SYSTEM, IMF REFORM, AND COMPLIANCE WITH IMF AGREEMENTS.

(a) REPORTS.—Not later than October 1 of each year, the Secretary of the Treasury shall submit to the Committee on Banking and Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate a written report on

(1) the progress (if any) made by the United States Executive Director at the International Monetary Fund in influencing the International Monetary Fund to adopt the policies and reform its internal procedures in the manner described in section 262o-2 of this title*, and (2) the progress made by the International Monetary Fund in adopting and implementing the policies described in section 3(c)(1)(C) of the International Debt Forgiveness and International Financial Institutions Reform Act of 2000.*

* * * * * * *

The Bretton Woods Agreements Act

* * * * * * *

SEC. 62. APPROVAL OF CONTRIBUTIONS FOR DEBT REDUCTIONS FOR THE POOREST COUNTRIES.

For the purpose of mobilizing the resources of the Fund in order to help reduce poverty and improve the lives of residents of poor countries and, in particular, to allow those poor countries with unsustainable debt burdens to receive deeper, broader, and faster debt relief, without allowing gold to reach the open market or otherwise adversely affecting the market price of gold, the Secretary of the Treasury is authorized to instruct the United States Executive Director of the Fund to vote—

(1) to approve an arrangement whereby the Fund—

(A) sells a quantity of its gold at prevailing market prices to a member or members in nonpublic transactions sufficient to generate 2.226 billion Special Drawing Rights in profits on such sales;

(B) immediately after, and in conjunction with each such sale, accepts payment by such member or members of such gold to satisfy existing repurchase obligations of such member or members so that the Fund retains ownership of the gold at the conclusion of such payment; *and*

(C) uses the earnings on the investment of the profits of such sales through a separate subaccount, only for the purpose of providing debt relief from the Fund under the modified Heavily Indebted Poor Countries (HIPC) Initiative (as defined in section 1623 of the International Financial Institutions Act); and

[(D) shall not use more than 9/14 of the earnings on the investment of the profits of such sales; and]

(2) to support a decision that shall terminate the Special Contingency Account 2 (SCA–2) of the Fund so that the funds in the SCA–2 shall be made available to the poorest countries. Any funds attributable to the United States participation in SCA–2 shall be used only for debt relief from the Fund under the modified HIPC Initiative.

* * * * * * *

○