

Cato Institute Policy Analysis No. 215: The World Bank's Finances: An International S&L Crisis

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Executive Summary

The World Bank, which is celebrating its 50th anniversary this year, has long enjoyed a sound financial reputation. But its AAA credit rating is not justified. Because of the perverse incentives under which the World Bank operates, the quality of its loan portfolio has diminished significantly, and because the bank is backed by rich-country governments, its irresponsible lending exposes Western taxpayers to a possible World Bank bailout on a scale comparable to the U.S. savings-and-loan bailout. That would leave taxpayers in the industrialized countries on the hook for \$100 billion; U.S. citizens would be liable for nearly \$30 billion.

The World Bank and Western governments have used various techniques to create the appearance of a fiscally sound institution. During the debt crisis of the 1980s, for example, borrowing countries paid their old debts through more borrowing from the World Bank. That practice of "round-tripping" money helped bail out many private-sector creditors but worsened the bank's financial position. Loans from rich countries' bilateral aid agencies and from the International Development Association (the World Bank's concessionary loan window) also have helped to keep the World Bank afloat. Even though the bank is now being paid back more than it lends, its meager loan-loss provisions and confidential notes suggest that there is ample reason for concern.

Bank reform will not solve the institution's problems. It must be shut down. There are at least five ways to do that: dissolution according to the bank's articles of agreement; privatization; selling its assets; swapping bank debts for equity; and unilateral withdrawal by individual countries. Closing the World Bank now would be less damaging than waiting for its collapse.

Introduction

The U.S. government and other Western governments that jointly own the World Bank with Third World governments have chosen to turn a blind eye to the perverse set of financial incentives and responsibilities on which the institution rests. As did the U.S. savings and loans, the World Bank--the single largest source of development finance for Third World leaders and, according to Standard and Poor's, itself "one of the world's largest borrowers"--has played financial charades to hide irresponsible lending and to appear fiscally sound.[1]

Because of the industrialized countries' uncritical support, and because of its own iron-clad constitution, the bank faces little or no incentive to behave responsibly. That spells tragedy for people in the developing world affected by the

bank's uneconomic "development" projects--and hardship for Western taxpayers who unwittingly hold the world's riskiest loan portfolio and \$100 billion in liabilities.[2] The damage of a possible collapse could be diminished were political leaders in the industrialized countries willing to face up (earlier rather than later) to the bank's shaky financial status.

Cracks in the World Bank's Financial Edifice

In 1985 two World Bank agencies, the International Bank for Reconstruction and Development (IBRD), which operates on a nearly commercial basis, and the International Development Association (IDA), the World Bank's concessionary loan wing, approved a \$450-million loan to help India finance a massive irrigation-hydroelectric scheme on the Narmada River. With over 3,000 dams and a labyrinth of canals that would forcibly displace over 1 million people, the project offended almost everyone.

Public outrage within India over the World Bank's stubborn support for the megaproject led to a "Quit India" campaign--a revival of Gandhi's campaign against British colonial rule--to expel the World Bank. International outrage over the project, meanwhile, was threatening the World Bank's bid for an \$18-billion capital fix for IDA from the Western countries that periodically refill the association's coffers. Both Finland and Canada cut their contributions, and the U.S. Congress--the World Bank's biggest benefactor--was threatening to withhold its hefty 20 percent share of IDA's budget.[3] An independent project review, financed by the World Bank itself to quell critics, back fired: it confirmed that the project would perform poorly and impoverish some 240,000 people whose land would be swallowed up by the dam complex.[4] The project--and especially Sardar Sarovar, the largest of the Narmada dams--had become an albatross around the World Bank's neck.

But the World Bank could not walk away from the project without offending the Indian government. Faced with a balance-of-payments crisis and public opposition to its economic reform package, the Indian government was also furious with foreign environmentalists' meddling in its sovereign affairs and with the World Bank over Sardar Sarovar. In a daring game of financial brinkmanship, India threatened to default on its World Bank debts if the bank stopped supporting the dam.[5] As the World Bank's biggest borrower, the Indian government had it over a barrel: an Indian default would put 15 percent of the World Bank's entire portfolio in the limbo of nonaccrual status, threatening the IBRD with its first annual loss.[6]

The World Bank clumsily capitulated in March 1993. After nearly a decade of controversy, and after India had failed to satisfy the loan's requirement for a comprehensive resettlement plan, the bank canceled the remaining \$170 million in disbursements for Sardar Sarovar to appease its critics. Almost simultaneously, to please its client state, the World Bank proffered India over 10 times as much as the canceled loan, half of it not pegged to specific projects with their potential for embarrassment but for the general purposes of the Indian government.[7] The Indians won that showdown with the bank, which could not risk the unknown world that lay beyond a major borrower's going into arrears.

The Bank from Bretton Woods

Buckling to pressure over a dam project seemed uncharacteristic of the World Bank, an institution considered the world's most unflappable financier. With a reputation for imposing discipline on its borrowers, for cool-headed, unsentimental economic analysis, and with an unshakable AAA credit rating, the World Bank, particularly the IBRD, had always seemed the most prudent of financial institutions.

Established 50 years ago at Bretton Woods, New Hampshire, by John Maynard Keynes and the world's leaders, the IBRD finances its \$16-billion annual lending operations primarily from borrowings that are 100 percent backed by its member governments. Such bond-rating institutions as Standard and Poor's, which rates IBRD bonds AAA, credit "strong membership support" with "virtually eliminating the possibility of insolvency." [8] The IBRD then lends money--\$103 billion is now outstanding--to developing countries at just below commercial interest rates.[9]

In contrast to the IBRD's near-commercial loans, IDA provides "soft loans"--long-term loans (35 to 40 years) at no interest (but with a 0.75 percent annual "service charge") to the bank's poorer members. Unlike those of the IBRD, IDA's lending operations--about \$6 billion annually, \$56 billion total--are funded by triennial grants from its rich-country members.[10]

Although the IBRD and IDA are two legally and financially distinct entities, they are known colloquially as the "World Bank": they publish one joint annual report, and the staff who prepare loans and the executive directors who approve them are identical. Over the years, 62 countries have borrowed from both IDA and the IBRD, and some projects, such as Sardar Sarovar, received financing from both. Because capital infusions to IDA are regular and more frequent than those to the IBRD, they more often attract public ire. But IBRD-created taxpayer liabilities, which are hidden from public view, exceed IDA replenishments. The U.S. Treasury's backing of the IBRD--approximately \$28 billion (compared to \$20 billion in IDA contributions since 1960)--has not been supported with appropriations since 1981, despite the sizable liability should the IBRD's borrowers, who defaulted on their commercial bank loans in the 1980s, do so with IBRD loans.[11]

The IBRD spares no effort to dispel worry over defaults. In its Information Statement (a prospectus for potential bond purchasers), the IBRD reassures investors that it "does not make loans which, in its opinion, cannot be justified on economic grounds." It boasts of having "never written off any of its outstanding loans," nor will it reschedule loans as have other, by implication less adroit, financiers.[12] And, the IBRD is quick to point out, its "preferred-creditor" status ensures that it gets paid back first, ahead of all other creditors.

All those factors contribute to the IBRD's blue-chip reputation. As Standard and Poor's quarterly credit report explains, "both borrowing and nonborrowing member countries have powerful incentives to support the bank. Borrowing countries treat the bank as a preferred creditor to safeguard access to financing from the World Bank Group. . . . Nonborrowing countries enhance their relationships with developing countries by supporting the bank, and they may help develop new markets for their own exports in the process." [13] All World Bank loans carry sovereign guarantees.

No factor contributes more to the IBRD's blue-chip status than do pledges, by the IBRD's rich-country members, to repay bondholders should the IBRD's Third World borrowers default. IBRD loans can therefore be money losers without affecting the IBRD's credit rating. Money-losing loans, as it turns out, have been the order of the day.

"Steady and Pervasive" Decline in Bank's Loan Portfolio

Evidence gathered by internal reviews, independent critiques, and an army of concerned citizens from around the world gives the lie to IBRD claims of supporting only economically viable projects.

The first outside, independent assessment of a World Bank project ever done--of India's Sardar Sarovar dam and irrigation complex--documented year after year of bureaucratic deception, incompetence, and negligence.[14] Engineering studies to determine the dam's viability were never completed, and when it came to environmental matters, the review team accused the World Bank of "gross delinquency." The review team also rejected the argument that Sardar Sarovar was atypical, stating that "the problems besetting the Sardar Sarovar Projects are more the rule than the exception [for] resettlement operations supported by the Bank in India." In general, the review team concluded, "assertions have been substituted for analysis." [15]

A flood of more damning evidence soon followed the review team's findings. In 1992 a leaked internal report, commissioned by World Bank president Lewis Preston to investigate project quality, confirmed that the problems plaguing the Sardar Sarovar project were bank-wide.

That report, prepared by high-ranking World Bank official Willi Wapenhans, found over one-third of the World Bank's \$140 billion in projects to be failing and that deterioration of the bank's loan portfolio was "steady and pervasive." [16] "The portfolio is under pressure," and "this pressure is not temporary; it is attributable to deep-rooted problems," the report explained.[17] In a June 1992 presentation to members of the World Bank's Board of Executive Directors, Wapenhans declared, "There is reason to be concerned!" [18]

Among Wapenhans's "deep-rooted problems" were the World Bank's "systematic and growing bias towards excessively optimistic rate of return expectations at appraisal" and an "approval culture" in which "staff perceive appraisals as marketing devices for securing loan approval (and achieving personal recognition)." "Appraisal," observed Wapenhans with dismay, "becomes advocacy." [19]

What critics had long suspected was now confirmed at the World Bank's most senior level--the bank's investment analysis was shoddy, biased, and in some cases cooked to make unsustainable projects appear viable. Instead of detached economics' calling the shots, everything was seen through rose-colored glasses by bureaucrats and borrowers out to build empires.

Wapenhans also found that the World Bank fails to carry out projects properly; he described borrowers' noncompliance with legal loan covenants, especially financial covenants (such as failure to undertake proper financial audits), as "gross" and "overwhelming." [20] Between 1967 and 1989, for example, borrowers had complied with only 25 percent of the financial covenants for the bank's water-supply projects.

The World Bank's failure to live by its own creed of economic efficiency became front-page news. Bank projects might be reputed to ravage the earth's environment, but the public believed their economics justified them. For the first time, a comprehensive study of World Bank projects had been conducted, and by the bank's own analysis, here was evidence that its loans contributed, not to the wealth of nations, but to their impoverishment. [21]

Impoverished nations, Wapenhans would have understood, make poor credit risks, which renders the World Bank's portfolio suspect. The state of the World Bank's own affairs, however, could not be attributed to the impoverishment of its clientele; its financial disarray was entirely of its own making.

Structural Adjustment Loans: Ponzi Writ Large

Charles Ponzi attained immortality in the 1920s through a financing concept now known as the Ponzi scheme, by which the Boston financier attracted millions of dollars by promising investors a 50 percent profit in 90 days.

"Widows, orphans and even staid financiers rushed to press their money into his eager palm," according to Life. Ponzi, who kept his investors' money in wastepaper baskets, paid off his investors promptly--sometimes in 45 days instead of the promised 90 days. "In a few months he took in \$15 million and became the best-known financier in the country. Then the bubble burst. It was discovered that Ponzi was not making a fortune by juggling International Postal Union reply coupons, as he said, but was simply paying off his early investors with money collected from late-comers." When arrested, Ponzi owed gullible investors approximately \$7 million but had only \$4 million in assets. No one knew the exact numbers because Ponzi never kept any books. [22]

The technique of paying off old debts with new borrowings, or otherwise obfuscating puffed-up asset values, generally enjoys a limited life. But its attraction may be irresistible: as long as new money satisfies old obligations, a lender's operations will appear financially solid. The World Bank is well schooled in the technique; its tools are "adjustment loans."

When Third World countries began to default on their loans in the early 1980s, the World Bank shifted its lending to keep creditors--including itself--at bay. Instead of funding only specific projects, the World Bank began providing what are known as "adjustment loans." Third World countries receive those loans to pay for imports, even routine imports such as oil, in order to free other monies to repay debts. The adjustment money thus makes a round trip--from the World Bank in Washington to a Third World country and then back to the West, where much of it repays various creditors.

Those loans now represent approximately one-fifth of the World Bank's portfolio. In principle, they are supposed to help Third World countries make market-oriented adjustments to their economies; in practice, even the World Bank is at a loss to explain how those loans help Third World economies "adjust."

During the Brazilian debt crisis in 1986, the IBRD lent Brazil \$500 million, purportedly to adjust its electric-power sector. But according to leaked minutes of an Executive Board meeting, one executive director was distressed that the loan "oozed of balance of payments support." [23]

Ponzi's spirit was alive and well and operating on a global scale. So were other techniques, all of which contributed to the deterioration of the World Bank's portfolio.

Converting Private to Public Debt: The Baker and Brady Plans

To stem the Third World's debt crisis, the United States enlisted the World Bank and the International Monetary Fund (IMF) to administer its debt-workout plans, relieving commercial banks of the need to privately resolve their delinquent debts with Third World borrowers.[24]

From 1985 to 1988, under Secretary of the U.S. Treasury James A. Baker's plan to replace private with public debt, commercial banks were repaid \$17 billion more per year from the Third World than they lent, while government sources (including the World Bank, the IMF, and rich governments) paid out \$700 million per year more than they received.[25] That "slow transfer of relative LDC [less developed country] debt exposure from the commercial banks to Western taxpayers" was accomplished "by using international institutions," says the Cato Institute's Melanie Tammen.[26] "As LDCs' private bankers increasingly pull the plug, the IMF and the World Bank are opening the spigot." [27]

"While all money is fungible, this nonproject-related assistance is highly fungible. Indeed, the amount of a policy-based loan (or package of them) is determined solely by the size of a debtor nation's financing gap in a given period--a clear signal that the funds are largely used for private debt service." [28]

To pay for the private-sector bailout, in 1988 IBRD shareholders contributed \$75 billion--the IBRD's largest ever general capital increase. Debt expert Jeffrey Sachs, an adviser to Third World governments and international financial agencies, called the increase an "explicit taxpayer contribution" to commercial bank interest payments.[29] Although the World Bank had not written off outstanding loans, Sachs stated that "so far, the official creditors (i.e., the taxpayers) have not suffered explicit losses, but rather losses that are implicit in new loans to uncredit-worthy borrowers." [30]

Through those round-trip loans, Third World countries got deeper into debt; the World Bank held more of that debt, since it lent more new money than it received; and the private banks--the Chase Manhattans, Lloyds, and Deutsche Banks--were owed less, since old loans were being repaid while new loans were not extended. Round-trip loans thus transferred the Third World's debt from the private sector to the public sector.

Treasury Secretary Baker's successor, Nicholas Brady, continued the strategy of strengthening private banks at the expense of the portfolios of international institutions. Since March 1989 the IBRD has lent \$3.3 billion under the "Brady plan" to help restructure over half the developing countries' total commercial bank debt.[31] Under the Brady plan, commercial banks reduce either the outstanding principal or the amount of interest payable on their sovereign loans. The discounted principal and interest payments (converted into "Brady bonds") are then secured by U.S. Treasury bonds purchased with money borrowed from the IBRD, the IMF, and some bilateral contributors, such as Japan. The Brady plan has also provided IBRD loans to enable Third World countries to buy back their now-discounted commercial debt on secondary markets.[32]

The conversion of private bank debts to debts owed to multilateral institutions is only building up to a new debt crisis, which could force World Bank asset write-downs. One senior bank official, concerned about its risky portfolio, privately conceded to the International Economy in 1989 that, given increased overall lending to the highly indebted countries and the emphasis on adjustment loans, "there's little doubt that the overall risk to the Bank and Fund has gone up. Anyone who says otherwise is a liar or a fool or maybe both." [33]

World Bank management is prepared to go still further in shifting private-sector risk to the public sector. During recent 50th anniversary celebrations, Preston indicated that the bank might guarantee commercial bank loans against losses caused by regulatory changes in borrowing Third World nations.[34]

Despite the rash of bad news about the World Bank's mismanaged projects and its increasing vulnerability to high-risk debtors, the IBRD's AAA credit rating remains unscathed. (IDA, which does not raise funds in capital markets, has no credit rating.) Any other bank with such a disastrous portfolio would soon see its credit rating slashed and its investors flee. But the World Bank is unlike any other bank.

A Quiet World Bank Bailout

Rather than a financial powerhouse governed by market discipline and exercising investment prowess, the World Bank is a financial cripple propped up by state guarantees and disguised government bailouts.

Because all World Bank loans have sovereign guarantees from borrowing governments, the World Bank does not depend on the viability of the projects being financed. "With such a setup," says long-time bank critic Bruce Rich in his recent book *Mortgaging the Earth*, "it makes no difference whether the projects the Bank lends for are well managed or mismanaged, or whether some or all of the money disappears." [35]

The sovereign guarantees, in turn, are bolstered by routine transfers from the rich countries, disguising the fact that the World Bank, with the riskiest loan portfolio in the world, is a financial house of cards that could crumble at the slightest tremor.

Having seen to the bailout of the private banks, and to maintain the disguise, the World Bank's members now need to bail out the World Bank itself--a situation that sends all concerned into denial.

Taxpayers Pay for the Bank's Preferred-Creditor Status

A 1992 investigation by the Canadian auditor general (a parliamentary watchdog over government expenditures) of the World Bank and four smaller regional development banks concluded that taxpayers have indeed been paying for the World Bank's ineptitude. Maintaining the preferred-creditor status of the development banks--the linchpin of their AAA credit ratings--said the auditor general, "is not cost free to countries like Canada." [36]

Not only has the IBRD maintained its status by round-tripping loans, but as the Canadian auditor general observed, the donor countries have been offering debt relief indirectly through the Paris Club.

The Paris Club, IDA, and Other Friends of the Bank

The Paris Club is a regular rendezvous of lending and borrowing nations, hosted by the French finance ministry, to renegotiate Third World debts to government lenders. While the World Bank does not participate in those negotiations, its rich-country members protect it by directing their own lending institutions (aid agencies such as the U.S. Agency for International Development and export credit agencies such as the Export-Import Bank of the United States) to reschedule or forgive the debts of Third World countries in danger of defaulting on World Bank debts. The hundreds of billions in rescheduled debts and the \$12.5 billion in bilateral debts actually forgiven by the rich countries since 1982 have thus become important safety valves protecting the IBRD from loan defaults. [37]

Another IBRD rescuer--one even more inbred than the Paris Club--is the IDA, its sister organization at the World Bank. That rich-country-financed foreign aid agency helps to keep the IBRD solvent by keeping borrowers flush in foreign exchange, enabling them to service their IBRD debts. In 1989 that practice was formalized under the whimsically named "Fifth Dimension" program, through which IDA has lent \$625.4 million interest free to "ease the debt service burden" of its borrowers' outstanding IBRD debts. According to the World Bank's World Debt Tables, "This has amounted to over 90 percent of the interest due on loans contracted by these countries from the IBRD." [38]

Since the World Bank--to protect its blue-chip reputation--forbids round-trip loans to pull chronic debtors out of arrears, its rich members do the job instead. In 1990 a "support group" of creditor countries, worried that the mounting arrears of various small borrowers would weaken the credibility of the World Bank and the IMF, pooled millions of dollars to pay off Guyana's World Bank and IMF arrears, thus restoring Guyana's good standing with both institutions. [39] Similar packages have been marshaled since: France recently paid Cameroon's debt service arrears to the World Bank, and in 1993, for the same purpose, the United States and Japan gave Peru a bridging loan. [40]

Third World debtors have "often been supported through bilateral and multilateral programs to enable them to service their debts with the World Bank," said Canada's auditor general, suggesting that a taxpayer bailout has been quietly operating to keep a financial crisis from the World Bank's doorstep. But, he added, "one must ask whether these flows can be maintained indefinitely." [41]

The Bank's Net Transfer Trap

In the real world of international finance, banks lend money to borrowers, who are then expected to repay the principal, with interest; if borrowers fail to repay more than they borrow, or if lenders suspect such intentions, there is great cause for concern.

The World Bank understands that banking truism and tirelessly explains it to the foreign aid lobby, development groups, and the press, who often do not understand. The following exchange at a press conference, which took place during the World Bank's 1988 annual meeting in Berlin, between a reporter and Ernest Stern, the man who many believe runs the IBRD, summarizes the debate.

REPORTER: For the last couple of years or so, the Bank has been getting back more from past and present borrowers in interest and repayments than it has actually been relending. I know there are lots of complicated reasons for this, but can you say when, on present lending schedules, and repayment schedules, net transfers back to the Bank will come to an end?

STERN: The people who argue that there should always be positive net transfers not just net positive disbursements are, in my view, saying something very peculiar. To maintain positive net transfers means that you have to refinance the repayments of principal plus the interest payments. Since interest runs around 8 percent a year, it means that a country's debt will grow by 8 percent a year.

The reason I think this is peculiar is because if you do that, a country is destined for quick bankruptcy.[42]

That, explained another financial officer recently, is what happened to the American savings and loans.[43]

But the World Bank does not belong to the real world of international finance, and neither do its Third World clients. Despite the bank's official recognition of the way banking should work, and its claim to conform to those norms, the bank itself panics when its transfers turn negative (that is, when borrowers are repaying more than they are borrowing).[44]

Borrowers Balk

After 43 years of transferring more to its borrowers than its borrowers were paying back in principal and interest, the IBRD moved into uncharted territory in 1987 when net transfers turned negative. Because of the borrowing binge of the early 1980s, when positive net transfers reached all-time highs, very high debt repayments became due by the late 1980s. Debt forgiveness and reschedulings of various kinds, through various institutions, were then required to facilitate the IBRD's debt repayments, which by 1992 had increased sixfold over 1980 levels.[45]

Although those negative net transfers fit Stern's stated view of how the World Bank's operations should unfold, they nevertheless provoked fear. According to one senior financial officer, the "disturbing" day will come when borrowers may have a "diminished incentive to pay." [46] Indeed, many in charge at the IBRD share that fear. Confidential notes from a 1992 presentation to its Board of Executive Directors warned that "since 1980, there has been a significant deterioration in the quality of the portfolio," and "almost half of the projected increase in Bank exposure is to countries that are currently considered to be high risk." [47]

It is possible that a few of today's high risk countries could slide into nonaccrual over the next few years. . . .

The implications are clear. . . . The Bank should thus be prepared to support adjustment strongly and quickly, but also be ready to curtail support if the conditions for effective use of our resources are not met. There are clear risks to the Bank in implementing such a strategy. Where countries encounter difficulties in implementing reform, external financing pressures can quickly reach crisis proportions, and the Bank's preferred creditor status could come under stress. For the foreseeable future, the Bank's financial position will therefore continue to require an adequate capacity to withstand situations of temporary nonaccrual. . . .

. . . It is not possible to predict whether or where such a situation might trigger an arrears problem for the Bank. . . .

But there is always a likelihood of new countries falling into nonaccrual. This likelihood, while difficult to measure, must be taken into account in our loan loss provisions.[48]

The IBRD's loan-loss provisions would not go far in protecting the institution. At 3 percent of disbursed and outstanding loans (plus the present value of guarantees), they are meager compared to the 100 percent provisions set aside in 1989 by J. P. Morgan & Company when Preston was chairman.[49] The IBRD's loan-loss provisions exceed by roughly \$500 million the arrears portion of its portfolio.[50] But that portion is artificially low--a fiction of round-trip loans and other state bailouts that keep more debtors from going into arrears.

Indeed, it would take only one large debtor, such as India (which continues to receive positive net transfers from the IBRD and IDA combined), and a handful of smaller debtors defaulting on their loan repayments, and the unthinkable could happen: the IBRD would have to start calling on the capital of its member countries to meet its obligations to its bondholders.[51] Should taxpayers in member countries resist bailing out boondoggles, the bank's credit rating would be lowered, the cost to it of borrowing money would increase, and its Third World borrowers would begin to question the wisdom of more World Bank borrowing--and the wisdom of repaying their IBRD loans. The IBRD's financial stability would be put at risk.

That doomsday scenario is not remote but a constant worry. As Canada's auditor general explained, the World Bank's authority--as embodied in its preferred-creditor status--is fragile and not "based on a formal or legal subordination of the debts owed other creditors to the debts owed to the banks." Rather, the auditor general explained, its preferred-creditor status stems from "informal factors, like the willingness of the development banks to maintain a positive cash flow to their borrowing countries." [52] Absent that incentive, the World Bank worries that its most vulnerable--or most belligerent--borrowers will fall into arrears. In 1991, when the bank projected continuing negative flows (by roughly \$3 billion a year) for the first half of the 1990s, borrowers demanded a "comprehensive review" to find new ideas for viable investment projects.[53] A decade earlier, at the peak of the Third World's debt crisis, the planning director for the Haitian ministry of finance, Claude Grand-Pierre, said, "If we're not receiving fresh money, we can't pay," adding that his government felt no obligation to pay lending agencies that had cut Haiti off.[54]

Similarly, in explaining his government's September 1989 decision to miss a \$1.6-billion interest installment to private banks, Brazilian finance minister Mailson da Nobrega said, "Normal relations with creditors are our desire." Referring to some \$3 billion to \$4 billion in loans that had failed to materialize that year, he added, "This is a two-way street, in which debt payments should open the way for new resources." [55]

Over the World Bank's history, positive net cash flows have bolstered borrowing governments' willingness and ability to meet their debt service obligations; without a "positive cash flow"--to allow delinquent Third World debtors to receive more in new loans than they must pay back--many Third World countries simply would be unable to repay the World Bank. Without the promise of new and often larger loans, strapped debtor nations might renege on their promise to repay the World Bank first.

To steer as far from that cliff as possible, the World Bank provides adjustment loans and donor countries provide other refinancing vehicles, and uncreditworthy Third World countries get deeper into debt. Ironically, deepening Third World debt can alleviate the IBRD's woes: countries that slip into the basket-case category ("reverse graduates," in World Bank lingo) now become eligible for IDA support. In his 1988 press conference, Stern confirmed that although the IBRD may collect more than it lends when IBRD borrowers become reverse graduates, "this does not mean that these countries are net payors to the Bank Group." No. While the reverse graduates repaid the World Bank a little over \$300 million in principal and interest, they received over \$900 million in disbursements from IDA.[56]

In addition to the risk that debtor nations might go into arrears, negative net transfers also impose a heavy public relations penalty: when the world's largest aid agency draws in more capital than it doles out, press coverage sours. In a recent story marking the World Bank's golden anniversary, Time ran the caption "Bank 'Profiteering'?" over a chart that showed Third World repayments to the bank exceeding its disbursements to the Third World.[57]

The Lender of Last Resort: The Bank Keeps the Lemons

Negative net transfers also signify the bank's growing irrelevance. "Once the chief doctors to the world's ailing

economies," a recent column in the Wall Street Journal began, the World Bank and IMF are being surpassed by a surge in private financial activity that offers emerging Third World nations "a different--and often more efficient--funding option." [58] Last year foreign direct investment in developing countries climbed to more than \$56 billion--greater than the \$51 billion in official development assistance, and far greater than disbursements by the World Bank and the IMF--threatening to reduce the World Bank and the IMF to "high-priced extras." Even more significant, most of the private investment involves private Third World borrowers, signaling a shift away from lending to sovereigns. [59]

Preston concedes that the IBRD should not be lending money to the 20-odd countries in Latin America and East Asia to which the ballooning private capital flows have gone. But as the relatively "safe-bet economies" go elsewhere for their funds, the bank gets drawn deeper into the "financially precarious territory of African countries inching their way back from collapse and former Soviet states stranded somewhere between Communism and free enterprise." [60] That shift, the Journal columnist warns, would produce a riskier loan portfolio, "which the bank's member countries and bondholders should gird for."

An International Savings-and-Loan Debacle

U.S. taxpayers, already hit with the bailout of savings-and-loan deposit insurance, may also be stuck with a bailout of World Bank bonds. Federal guarantees give a cabal of government and IBRD officials the power to influence-peddle and gamble away taxpayers' money without fear of financial or legal reproach. If their loans to the Marcoses and Mobutus of the world end up in default, the governments of the IBRD's most creditworthy shareholders (of which the United States is the largest) will pay the bondholders back.

The IBRD's loose lending was disguised by good motives: cheap loans to poor countries for presumably worthwhile development projects. But in the case of both the S&Ls and the World Bank, says Paul Craig Roberts, former assistant secretary of the U.S. Treasury for economic policy, "the guarantees meant that no one had to behave responsibly because, in the end, it was only taxpayers' money." [61]

The IBRD's liabilities for its members' taxpayers now approach those of the S&Ls. [62] If the IBRD went belly-up, the U.S. Treasury would be on the hook for nearly \$30 billion, the G-7 countries for \$77 billion, and the industrialized countries for \$102 billion, which, not coincidentally, just about matches the bonds issued by the IBRD. [63]

"It is lucky for the World Bank officers that they are immune from prosecution," says Roberts. "If the same standards were applied to them as were applied to S&L executives and directors, they would be facing liability suits, shareholder outrage and possible criminal prosecution." [64]

Public Relations: The World Bank's Response to Unaccountable Lending

On September 21, 1992, over 600 citizen groups from 37 countries ran an ad in London's Financial Times condemning the World Bank for supporting India's Sardar Sarovar dam project. "If you do not [withdraw from Sardar Sarovar] we will call upon NGOs [nongovernmental organizations] and activists to put their weight behind a campaign to cut off funding to the Bank," the ad said. [65] The first target: the \$18-billion replenishment of IDA funds, the 10th replenishment, scheduled to be approved later that year.

The World Bank's public relations team went to work. Preston appealed to the bank's own group of nongovernmental organizations (known as the NGO-World Bank Committee) for support, while World Bank staff fanned out to lobby parliaments sympathetic to the citizen groups' charges.

The World Bank could see the writing on the wall. Angered citizens in both the borrowing and the lending countries were demanding that donor countries stop financing the institution. While scuttling IDA's 10th replenishment would not incapacitate the IBRD, it would indirectly harm the IBRD's financial standing by blocking large grants to distressed borrowers, such as India, with both IBRD and IDA debts. When the U.S. Congress--the World Bank's largest contributor and one of the few legislatures to attempt to curtail the World Bank's destructive forces--demanded specific reforms before handing over a \$3.75-billion contribution, the World Bank cobbled together a plan.

First, the bank feigned openness by introducing a new information policy to "significantly" increase available information.[66] But disclosure of virtually all bank documents will be left to the discretion of project proponents--the staff of the World Bank, its Board of Executive Directors, or borrowing governments--and be done according to arbitrary and legally unchallengeable procedures. The public cannot scrutinize appraisal reports until after a project's approval, making a mockery of the fundamental requirement for an informed debate about proposed projects. Other documents will be entirely off-limits; the clause in the World Bank's articles of agreement that makes bank archives "inviolable" remains intact, shielding its documents from scrutiny. The bank, not the public, continues to control ultimate disclosure decisions. U.S. taxpayers, as a result, have no right to know how their billions are being spent but are fully liable should the bank's spending decisions result in a \$30-billion bill.

To answer charges that Third World victims of World Bank projects have no recourse to justice, the Board of Executive Directors appointed a permanent "independent" inspection panel to receive complaints from parties claiming to be "materially affected" by the bank's failure to follow its own policies and procedures. But complainants will have no right to a hearing, no right to examine or cross-examine the evidence presented by World Bank management and the borrowing government, and no right to know the reasons for or to appeal a decision to reject their complaint, while World Bank management will have numerous, lengthy, and sometimes indefinite periods of time in which to respond in secret to complaints. The independent panel, in fact, is anything but--it is financed, staffed, and run entirely by the bank and "shall be subject to the requirements of the Bank's Articles of Agreement concerning their exclusive loyalty to the Bank." [67] Incredibly, that process has been lauded by most member governments. Only the United States withheld unrestrained endorsement; Congress approved the process on a wait-and-see basis. Though the inspection panel will not be governed by basic principles of due process, the World Bank will now be able to dress up its conclusions in the garb of "fair process."

In response to the damaging revelations of the Wapenhans report, the World Bank promises to root out the systematic obstacles in a country's economy that handicap World Bank projects and to design economic policies with country authorities to make bank projects work.[68] But the things that facilitate World Bank projects--monopoly structures, subsidies, and market distortions--are bad for the rest of the economy.

Over its history, the World Bank has demonstrated an uncanny ability to restore faltering public confidence. The bank reset the clock: it admitted its mistakes, introduced new policies, rewrote the rhetoric, and carried on until critics accumulated new evidence that the latest round of promises remain unfulfilled. Today, however, with the evidence against the World Bank so overwhelming, new techniques are needed. Rising to the challenge, the bank regrouped its public relations team in the President's Office; hired Mobil Oil media adviser Herb Schmertz to manage the press for its 50th anniversary celebrations; and to oversee public relations, hired Matt McHugh, a former representative from New York and member of the congressional subcommittee that appropriates U.S. funds for the World Bank. The strategy, according to a leaked bank memo reporting on a meeting between Preston and his vice presidents, is to "adopt a proactive approach to external communications." [69]

To accomplish their goal, they will assign individual senior managers as spokespeople to specific donor countries; "actively reac[h] out to under-exploited constituencies in developed countries, such as private sector industrialists or major academic centers"; use modern communications techniques such as mass media advertising; and identify 15 to 20 projects that show the bank in the best light, especially those with a "strong emphasis on poverty reduction, gender issues, and popular participation." [70]

As promised, with a burst of publicity to mark its 50th anniversary this past July, Preston launched a "vision" statement promising the bank would put more money into protecting the environment and helping people--everything from family planning to education--and less into the giant construction projects that had blackened the bank's reputation.[71] As the public relations plan prescribed, favorable projects were published in a brochure entitled "Making a Difference in People's Lives." One fairy-tale-like story describes how the bank reunited a Honduran street child with her abusive mother and encouraged them "to forgive each other for what had happened and to try and remember the good things about their relationship." [72]

While the fairy tales and fanfare will be intense during the 50th-year celebrations, the fundamental facts remain unchanged. Chief among them, the World Bank is above the law: the legal immunity of staff; the inviolable nature of

its documents; the unenforceability of its guidelines; the bizarre voting structure of its Board of Executive Directors (in which borrowers and lenders alike vote on loans, with some executive directors representing both yet being allowed to cast only one vote); the multilateral structure of the World Bank and the resultant demands of diplomacy; and the coinciding pork-barrel interests of member governments make democratization of the World Bank impossible.

Real reform is possible only in theory. For example, amending the World Bank's articles of agreement--its constitution--requires three-fifths of the members representing 85 percent of the total voting power. But roughly four-fifths of the members are borrowers, so the articles give them an iron grip on the bank's affairs and leave the lending countries emasculated.

In the final analysis, the process by which development decisions are made matters most, and in that regard, the World Bank has failed spectacularly. Because the bank's decisionmaking process is constitutionally unaccountable to, and unamendable by, those it is supposed to serve, the bank continues to approve large projects that rearrange nations' resources for the benefit of elites and to set economic policy without accountability to the citizens of the nations affected.

The World Bank's single most destructive accomplishment has perhaps been to free Third World governments from the need to deal with their own people, thereby undermining the growth of democratic institutions and legitimate tax regimes throughout the Third World. As Chinese dissident Fang Lizhi said in arguing for the withdrawal of World Bank loans and credits from China, "We must make our government realize that it is economically dependent on its citizens." [73] Two months after making that statement, Fang was forced to seek asylum in the U.S. Embassy for his part in the democracy movement. China has since become the World Bank's biggest annual borrower.

Ending the World Bank Legacy

For 50 years World Bank investments have destroyed environments, distorted economies, broken lives, and built up \$100 billion in contingent liabilities for the world's taxpayers. For almost as long citizens have attempted and failed to reform the bank, confirming that it is constitutionally unaccountable and incapable, however good its intentions, of contributing to the development of nations. On its 50th anniversary shareholders should take stock, assume responsibility, and end the World Bank's operations. There are many ways to do that.

Dissolution According to the World Bank's Articles of Agreement

In 1944 the founding fathers of the Bretton Woods institutions spelled out how the IBRD would be created and how it should be dissolved. According to the articles of agreement, a majority of the governors, exercising a majority of the total voting power, can shut down the IBRD's operations. [74] But it would be nearly impossible to convince a majority of the member countries to agree to do so because borrowers, each with one vote, outnumber lenders six to one.

Borrowing countries will resist dismantling the IBRD as long as they can refinance and service old bank loans with new ones at the financial risk of the rich countries. Rich-country members, meanwhile, have an incentive to prop up the IBRD to avoid taxing their citizens an additional \$100 billion to cover the liabilities incurred in their names.

Privatizing the World Bank

Before the World Bank could be privatized, its house would need to be put in order. Its assets--the portfolio of often worthless loans carried on its books at full value-- would need to be written down to market value. Its payroll--which at an average of \$123,300 per person is the world's most expensive--would need to be put on a commercial footing (employees are also pampered with perks, including tax-free income).

The slimmed-down bank would then need to find a market niche--a commercially needed service that commercial banks have somehow missed. Perhaps its well-connected staff would provide that niche, or perhaps the world truly needs a bank in the business of servicing deadbeat nations. More likely, however, without a political agenda, the World Bank has no *raison d'être*.

Shutting Down the World Bank

The World Bank's shareholders could shut down the IBRD by selling its assets on the secondary market for sovereign Third World loans and retiring some of its obligations to bondholders with the proceeds. The balance of its liabilities would have to be met by calling in the capital, or guarantees, of shareholder governments.

Swapping World Bank Debts for Equity

In 1989 Roberts proposed that the World Bank swap its outstanding loans for equity in enterprises in the borrower nations, then resell those equity holdings to private investors, domestic or foreign.[75] The bank would use the proceeds to redeem its outstanding bonds. If the bank could not fully retire its outstanding bonds, the rich donor countries would assume the liability by taking the residual bonds and exchanging them for their own government bonds.

But Third World governments would have good political reasons to avoid turning over their industrial enterprises to Western capitalists: the citizenry would often vigorously resist such takeovers with cries of loss of sovereignty and fears of corrupt giveaways.

Third World governments would also resist a World Bank debt-for-equity swap for economic reasons: knowing that their World Bank debts would fetch a fraction of their face value on the open market without the rich countries' guarantees, Third World governments would rather sell their assets for full value, use the proceeds to buy back their devalued World Bank debts, and keep the difference. (Many Third World countries are actively buying back their private- sector debt at a discount, often with World Bank loans designed for that very purpose.)[76]

Recommendation

All of those methods for suspending the World Bank's operations are theoretically possible, even desirable, as a way of minimizing taxpayers' liability. But each would be practically impossible, since a majority of the bank's governors, exercising a majority of the total voting power, would have to agree.

The most plausible scenario for the World Bank's demise would involve a unilateral withdrawal by a major country, the United States being the most likely candidate. Should the United States become tired of endlessly pledging more money to the IBRD's Third World debtors to induce them to honor old debts, it could cap its liability by withdrawing its membership. According to the articles of agreement, when a government withdraws its membership it remains liable for its "contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the Bank." [77]

The government of the United States and other governments should bail out now because the IBRD represents a growing taxpayer liability. As they did for the savings- and-loan institutions, taxpayer guarantees for failing bank investments grow by the day: in a typical year, the IBRD saddles unwitting taxpayers with another \$4 billion to \$5 billion in contingent liabilities. Over the next decade, the IBRD and IDA together plan to lend an additional \$200 billion.[78]

One country's withdrawal could start a stampede: other countries might decide to bail out, too, since they would otherwise be forced to assume a greater share of the liability for the IBRD's ongoing operations and since, over time, they would be taking over the liabilities of departing members. For example, if the United States withdrew its membership, U.S. taxpayers would, at the first instance, be liable for the \$30 billion in liabilities incurred before its withdrawal. But as new loans replaced old ones, and new bonds were issued to finance them, U.S. taxpayers would shed their bank liabilities and the remaining shareholders would assume them.

A U.S. withdrawal might well cause the remaining shareholders to demand a realistic asset valuation and write-downs to determine the value at which to redeem U.S. shares, instead of trying to maintain a financial fiction at their taxpayers' expense. Then negotiations over how to dispose of the World Bank, its assets, and its liabilities, would become productive.

Notes

[1] Quote from Standard and Poor's Credit Analysis Service, "Supranational: International Bank for Reconstruction and Development," New York, November 1993.

[2] As of March 1994 the International Bank for Reconstruction and Development's borrowings were \$95 billion. Information Statement (Washington: World Bank, Financial Operations Department, March 23, 1994), p. 2. According to the Financial Operations Department (telephone interview in August 1994), the IBRD's borrowings had risen to \$100.1 billion by the end of July 1994.

[3] The contribution was for the International Development Association, the soft loan window of the World Bank, which makes interestfree loans to countries with per capita incomes below \$1,305 (1992 dollars). The World Bank managed to secure the \$18 billion it sought, \$3.75 billion of which would come from the United States. But the U.S. Congress took the unusual step of making its third-year appropriation conditional on the World Bank's becoming more accountable and making information more accessible to the public. See "U.S. Congress Puts World Bank on Short Leash," press release, Environmental Defense Fund, Washington, October 1993.

[4] Bradford Morse and Thomas Berger, Sardar Sarovar: The Report of the Independent Review (Ottawa: Resource Futures International, 1992).

Page 24

[5] Bruce Rich, *Mortgaging the Earth: The World Bank, Environment, Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994), p. 254.

[6] The World Bank Annual Report 1993 (Washington: World Bank, 1993), pp. 19495, 21415. India has almost \$10 billion in outstanding loans from the IBRD, or about 9 percent of the bank's total outstanding loans. It also has \$15.4 billion in outstanding development credits from IDA, or about 27.5 percent of all IDA credits. According to Information Statement, "It is the policy of the Bank to place in nonaccrual status all loans made to or guaranteed by a member of the Bank, if principal, interest or other charges with respect to any such loan is overdue by more than six months, unless the Bank's management determines that the overdue amount will be collected in the immediate future" (p. 16). According to The World Bank Annual Report 1993, "It is the policy of IDA to place in nonaccrual status all development credits made to a member government or to the government of a territory of a member if principal or charges with respect to any such development credit are overdue by more than six months, unless IDA management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA" (p. 221).

[7] Deputy Secretary, "Monthly Operational Summary of Bank and IDA Proposed Projects (as of May 15, 1993)," SecM93527, International Bank for Reconstruction and Development, International Development Association, Washington, June 1, 1993, pp. 12829.

[8] Standard and Poor's Credit Analysis Service.

[9] Information Statement, p. 2.

[10] The World Bank Annual Report 1993, pp. 21415.

[11] U.S. backing for the IBRD from Information Statement, p. 6. When countries purchase shares in the IBRD, they pay in approximately 7 percent of the cost of those shares, with the remaining 93 percent of the capital being "callable" as a guarantee. Those guarantees--especially those from the IBRD's AAA-rated members--enable it to raise money by borrowing in international capital markets.

IDA contribution figure from Congressional Research Service, "World Bank: Answers to 26 Frequent Questions," CRS Report 91847F, Washington, November 25, 1991, p. 58. This report lists U.S. subscriptions to the IBRD since 1944

and U.S. subscriptions and contributions to IDA since 1960 (the year IDA was created). The United States also made a \$3.75- billion subscription to the 10th replenishment of IDA in 1993.

On lack of U.S. appropriations since 1981, see Rich, p. 78. According to Congressional Research Service, "Multilateral Development Banks: U.S. Contributions FY 1984-95," CRS Report for Congress 94-571F, Washington, July 18, 1994, "Since 1981, the United States no longer appropriates money to back its callable capital subscriptions to the MDBs [multilateral development banks]" (p. 2).

The extent of the liability for Canadian taxpayers is also obfuscated. According to Report of the Auditor General of Canada to the House of Commons 1992 (Ottawa: Minister of Supply and Services, 1992), "We are concerned that the vote wording in the Appropriation Act, with respect to the 1988 World Bank general capital increase, does not clearly disclose that payments to the World Bank are for purchase of shares and represent only the paid-in capital portion, or about 3 percent of the capital subscriptions for those shares. There is no mention of the callable capital portion, which represents about 97 percent of the total subscriptions. As a subscriber to the shares, Canada is committed to the callable portion. Therefore, we are concerned that Parliament is not made fully aware that it is approving a potential financial commitment when it approves the payments to the World Bank. Since 1988, the callable capital portion of shares purchased by Canada has been almost \$1.5 billion" (p. 314).

[12] Information Statement, pp. 10, 17.

[13] Standard and Poor's Credit Analysis Service. The World Bank Group includes the IBRD, IDA, and the IBRD's two affiliates, the International Finance Corporation (which promotes private-sector growth in developing countries by mobilizing foreign and domestic capital to invest alongside its own funds in commercial enterprises) and the Multilateral Investment Guarantee Agency (which encourages foreign direct investment in developing countries by protecting investors from noncommercial risk). The World Bank Annual Report 1993, p. 4.

[14] Morse and Berger.

[15] Ibid., pp. xxiv, 53, 234.

[16] Portfolio Management Task Force, Effective Implementation: Key to Development Impact, report of the World Bank's Portfolio Management Task Force (Washington: World Bank, October 2, 1992), p. 4. Wapenhans's review included both the IBRD's and IDA's portfolios.

[17] Portfolio Management Task Force, Effective Implementation: Key to Development Impact, confidential discussion draft (Washington: World Bank, July 24, 1992), p. 4.

[18] W. A. Wapenhans, "Oral Briefing of the JAC [Joint Audit Committee] at Its Meeting on June 22, 1992 on the Portfolio Management Task Force, Notes," speaking notes, Washington, June 6, 1992.

[19] Portfolio Management Task Force, Effective Implementation: Key to Development Impact, confidential discussion draft, pp. iii, 4, 12.

[20] Ibid., p. 8.

[21] Earlier internal project reviews had signaled a deterioration in project quality. See, for example, World Bank, "Twelfth Annual Review of Project Performance Results," 1987; "Development Finance Companies, State and Privately Owned," World Bank Staff Working Paper no. 578, 1983; World Bank, Operations Evaluation Department, Evaluation Results for 1991 (Washington: World Bank, 1993); World Bank, Operations Evaluation Department, Evaluation Results for 1988: Issues in World Bank Lending over Two Decades (Washington: World Bank, 1990); and World Bank, Operations Evaluation Department, Evaluation Results for 1990 (Washington: World Bank, 1992).

[22]. "Ponzi Dies in Brazil," Life, January 31, 1949, cited in Patricia Adams, Odious Debts: Loose Lending, Corruption, and the Third World's Environmental Legacy (London and Toronto: Earthscan, 1991), pp. 1045.

[23]. Vice President and Secretary, "Summary of Discussions at the Meeting of the Executive Directors of the Bank and IDA, and the Board of Directors of IFC, June 19, 1986," International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, SD8635, World Bank, Washington, July 9, 1986, p. 13.

[24]. For an excellent review of that phenomenon, see Melanie S. Tammen, "The Precarious Nature of Sovereign Lending: Implications for the Brady Plan," *Cato Journal* 10, no. 1 (Spring-Summer 1990): 239-63.

[25] According to the World Bank, *World Debt Tables: External Finance for Developing Countries* (Washington: World Bank, 1993), net transfers on debt equal new loan disbursements minus old loan amortizations minus interest on old loans (vol. 1, p. x).

[26]. Tammen, p. 248.

[27]. *Ibid.*, p. 250.

[28]. *Ibid.*, p. 249n. 10.

[29]. Jeffrey D. Sachs, *New Approaches to the Latin American Debt Crisis*, *Essays in International Finance* no. 174 (Princeton, N.J.: International Finance Section, Department of Economics, Princeton University, July 1989), p. 14.

[30]. *Ibid.*

[31]. World Bank, *World Debt Tables*, vol. 1, p. 36.

[32]. "Loan Agreement (Debt and Debt Service Reduction Project) between Republica Oriental del Uruguay and International Bank for Reconstruction and Development," loan no. 3323UR, World Bank, Washington, June 25, 1992; and "Loan Agreement (Debt Management Program) between Republic of the Philippines and International Bank for Reconstruction and Development," loan no. 3149-PH, World Bank, Washington, December 22, 1989.

[33]. Barry M. Hager, "The World Bank Underwater," *International Economy*, September-October, 1989, p. 55.

[34]. Rich Miller, "World Bank Shifts Focus of MultiBillion- Dollar Loans," *Reuter*, Washington, July 19, 1994. According to Bill Brannigan in the President's Office, August 23, 1994 (telephone interview), the World Bank could extend those guarantees through either the Multilateral Insurance Guarantee Agency, which insures foreign private investors against noncommercial risks in the Third World, or through its cofinancing operations, which guarantee interest and principal on commercial bank loans with late maturities.

[35]. Rich, p. 256.

[36]. Report of the Auditor General of Canada to the House of Commons 1992, p. 286.

[37]. Christina Cobourn, "Multilateral Debt: A Growing Crisis," *Bankcheck Quarterly*, no. 8, June 1994, p. 25. Also see World Bank, *World Debt Tables*, vol. 1, p. 173.

[38]. *Ibid.*, vol. 1, p. 40.

[39]. Paul Melly, "Canada Stagemanages Rescue Package for Guyana," *Globe and Mail* (Toronto), May 18, 1989, p. B8.

[40]. *Reuter*, "Cameroon: France Bails Cameroon Out of World Bank Debt," July 7, 1993. *Inter Press Service*, "Multi-lateral Lenders Claim Larger Share of Debt," *Third World Economics*, November 1630, 1993, p. 10; and Maria Esperanza Lasagabaster, "Peru: Back from the Brink," *The IDB*, August 1994.

[41]. Report of the Auditor General of Canada to the House of Commons 1992, p. 286.

- [42]. "Edited Excerpts on the Question of Net Transfers from Mr. Stern's Press Conference, Berlin, September 25, 1988," World Bank transcript.
- [43]. Interview with Kenichi Ohashi, chief officer, Replenishment Policy Division, Resource Mobilization Department, World Bank, August 1994.
- [44]. World Bank, External Affairs Department, "Debt, Net Transfers, and Forgiveness of World Bank Loans," no. 7, "Setting the Record Straight . . .," Washington, March 1994. Material prepared in response to Bruce Rich, Mortgaging the Earth.
- [45] See World Bank, World Debt Tables, vol. 1, p. 172. Debt repayments include loan amortizations and loan interest.
- [46]. Interview with Kenichi Ohashi.
- [47]. "Informal Board Seminar on the Status of the IBRD Portfolio," briefing notes, World Bank, March 6, 1992, pp. 1, 2, 4, 6.
- [48]. "Informal Board Seminar on the Status of the IBRD Portfolio," pp. 46. The IBRD raised its loan-loss provisions in 1993 from 2.5 percent to 3 percent of total loans disbursed and outstanding plus the present value of guarantees. According to Information Statement, "Until June 1991, the Bank maintained loan loss provisions only for Bank loans which were in nonaccrual status. The provisioning policy was broadened by the Bank's Executive Directors at that time to cover general collectability risks in the loan portfolio as a whole in addition to the specific risks for loans in nonaccrual status. On May 20, 1993, the bank's executive directors approved an increase in the provisioning rate from 2.5 percent to 3.0 percent of the overall portfolio" (p. 16).
- [49]. Robert Guenther, "Morgan Adds \$2 Billion to Reserve for Loans to Developing Nations," Wall Street Journal, September 22, 1989; and Anatole Kaletsky, "The Debt Owed to Lewis Preston," Financial Times, September 25, 1989.
- [50] Information Statement, pp. 16-17.
- [51] For transfers to India, see World Bank, World Debt Tables, vol. 2, p. 208.
- [52]. Report of the Auditor General of Canada to the House of Commons 1992, p. 286. Also, according to Hugh N. Scott, associate general counsel at the World Bank, "The Bank's preferred creditor status is reflected in the arrangements between the borrower and its rescheduling creditors. There is no specific commitment to preferred creditor treatment in our Articles of Agreement or loan agreements." Correspondence with author, June 27, 1991.
- [53]. Melvyn Westlake, "Negative Transfers to Zoom in 90s," Annual Meeting News, October 15, 1991.
- [54]. Ellen Hampton, "Haiti Retrenches as International Aid Cut Off," Globe and Mail (Toronto), January 12, 1988.
- [55]. Rosemary Werret, "Nobrega Explains Arrears and Seeks IMF Accord," Annual Meeting News, September 25, 1989.
- [56]. "Edited Excerpts on the Question of Net Transfers from Mr. Stern's Press Conference."
- [57]. Adam Zagorin, "Damning the World Bank," Time, July 25, 1994, pp. 3234.
- [58]. Tim Carrington, "It's Time to Redefine World Bank and IMF," Wall Street Journal, July 25, 1994, p. 1.
- [59]. World Bank, World Debt Tables, vol. 1, p. 3.
- [60]. Carrington.
- [61]. Paul Craig Roberts, "Costly World Bank Bailout on the Horizon?" Washington Times, January 14, 1993.

[62]. Original estimates of the cost of the S&L crisis to the American taxpayer were almost \$500 billion. The latest estimate is \$150 billion. "Riegle's Last Harangue," Wall Street Journal, June 24, 1994.

[63]. Information Statement, p. 6.

[64]. Roberts.

[65]. "The World Bank Must Withdraw Immediately from Sardar Sarovar: An Open Letter to Mr. Lewis T. Preston, President of the World Bank," Financial Times, September 21, 1992.

[66]. "World Bank Expands Access to Information," bank news release no. 94/89, World Bank, Washington, August 26, 1993.

[67]. World Bank, The Inspection Panel: Operating Procedures (Washington: World Bank, August 1994), Annex 1, IBRD Resolution no. 9310, Resolution no. IDA 936, September 22, 1993, sec. 10.

[68]. Getting Results: The World Bank's Agenda for Improving Development Effectiveness (Washington: World Bank, 1993).

[69]. Natalie Avery and Ross Hammond, "Bank Hires PR Maestro," Bankcheck Quarterly, January 1994, pp. 1, 22.

[70]. Ibid.

[71]. Miller.

[72]. "Daysi: A Honduran Street Child Returns Home" in "Making a Difference in People's Lives," pp. 3-5, in "The World Bank: A Global Partnership for Development," public relations kit, World Bank, Washington, 1994.

[73]. Joe Cuomo, "Chinese Dissident Advocates Divestment," Wall Street Journal. April 26, 1989. Fang made one exception to his appeal for foreign divestment from China: he thought World Bank and other loans should continue for education projects.

[74]. International Bank for Reconstruction and Development, Articles of Agreement, as amended effective February 16, 1989 (Washington: IBRD, 1989), art. VI, sec. 5, pp. 1415.

[75]. Melanie Tammen, "Privatize the World Bank," Wall Street Journal, May 17, 1991.

[76] For example, under the IDA Debt Reduction Facility, created in August 1989 and initially funded with a US\$100-million transfer from IBRD net income, IDA provides grants on a case-by-case basis to IDA-only countries (with appropriate adjustment programs and debt management strategies) for the reduction of their debt to commercial banks through buy-backs or discounted exchanges. See World Bank, World Debt Tables, vol. 1, p. 38. In addition, IBRD loans to Uruguay and the Philippines under the Brady plan are to be used to buy back those countries' commercial bank debts. For more information, see "Loan Agreement (Debt and Debt Service Reduction Project) between Republica Oriental del Uruguay and International Bank for Reconstruction and Development" and "Loan Agreement (Debt Management Program) between Republic of the Philippines and International Bank for Reconstruction and Development."

[77]. International Bank for Reconstruction and Development, Articles of Agreement, art. VI, sec. 4, pp. 1314.

[78]. Miller.