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# Multilateral Development Banks: How the United States Makes and Implements Policy

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## Summary

This report analyzes how the United States makes policy towards the multilateral development banks (MDBs) and identifies ways by which Congress can shape U.S. policy and influence the activities of the banks themselves.

The executive branch and Congress share responsibility for U.S. policy towards the MDBs and each has primary control over a different part of the policy process. The Administration is responsible for negotiating with other countries and for managing day-to-day U.S. participation in the MDBs. Congress has ultimate authority over the level of U.S. financial commitments and the criteria that govern U.S. participation in these institutions. Congress has authorized the President to direct U.S. participation in the MDBs, and the President has delegated that authority to the Secretary of the Treasury. Other agencies also have reasons for being concerned about U.S. policy and the MDBs. The Administration created a new process, starting in 2009, to help coordinate interagency views on MDB issues.

Authorizing legislation is managed by the House Financial Services Committee and Senate Foreign Relations Committee. The House and Senate Appropriations Subcommittees on State, Foreign Operations, and Related Programs handle the appropriations. Since 1981, MDB legislation has become law through the regular legislative process only once. Usually it is enacted as a rider to other legislation.

Congress exercises its influence over MDB policy through its control over authorizations and appropriations and through oversight. The authorizing committees have included in MDB authorizing legislation many directives which affect the goal and direction of U.S. policy. Congress has also used its control over the funding process—its “power of the purse”—to set priorities and encourage the Administration and MDBs to consider changes in their policies or procedures. Congress has used hearings and required reports to get information about U.S. policy and the MDBs onto the public record and to draw the Treasury Department’s attention to issues of pressing concern. Since the Administration knows it must come to Congress for future authorizations and MDB funding, the views expressed by Congress through hearings have often had an impact on the focus and direction of U.S. policy regarding particular concerns.

For more information the MDBs, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson and CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY2000-FY2014*, by Rebecca M. Nelson.

## Contents

|  |    |
|--|----|
| Introduction.....  | 1  |
| The Executive Branch and the MDBs .....                                  | 1  |
| The Department of the Treasury and the National Advisory Committee ..... | 1  |
| Other U.S. Agencies .....  | 3  |
| Policy Coordination.....   | 4  |
| Congress and the MDBs .....  | 6  |
| Relevant Committees.....   | 6  |
| Sources of Congressional Authority .....                                 | 8  |
| Legislation.....   | 8  |
| Hearings .....   | 9  |
| Required Reports.....  | 9  |
| U.S. Budgetary Treatment .....   | 10 |

## Tables

|   |   |
|---|---|
| Table 1. U.S. Executive Directors at the MDBs ..... | 3 |
|---|---|

## Appendixes

|  |    |
|--|----|
| Appendix. Acronyms Used in This Report ..... | 12 |
|--|----|

## Contacts

|                                 |    |
|---------------------------------|----|
| Author Contact Information..... | 12 |
| Acknowledgments .....           | 12 |

## **Introduction**

This report describes and analyzes how U.S. policy towards the multilateral development banks (MDBs) is made and implemented by the executive branch and Congress.<sup>1</sup> The United States is the largest, or one of the largest, stockholders in each of the MDBs, and making and implementing U.S. policy towards the MDBs is a complex process in which both the executive branch and Congress play major roles. Both share the responsibility for U.S. participation in the MDBs, but each branch has primary control over different parts of the decision-making process. On behalf of the President, the Secretary of the Treasury is responsible for negotiating with other countries about MDB policies and prospective funding agreements and for managing the day-to-day conduct of U.S. participation in the banks. Congress, for its part, has the ultimate authority over the level of U.S. financial commitments to the multilateral agencies, the general framework for U.S. policy, and the criteria that govern U.S. participation in these institutions.

## **The Executive Branch and the MDBs**

### **The Department of the Treasury and the National Advisory Committee**

As the largest financial contributor to the international financial institutions, the United States has a leading role in shaping the policies of the international financial institutions (IFIs), which include the International Monetary Fund (IMF), the World Bank, and the regional development banks. U.S. participation in the IMF and the World Bank is authorized by the Bretton Woods Agreements Act of 1945 (BWAA).<sup>2</sup> Subsequent legislation modeled on the BWAA authorizes U.S. participation in the regional development banks. The current statutory framework for U.S. participation in the international financial institutions (IFIs) provides the President the authority to appoint the U.S. representatives at these institutions.

The President has delegated to the Secretary of the Treasury principal responsibility for instructing the U.S. representatives to the IFIs on the positions and votes of the United States. Executive Order 11269 of February 14, 1966, as amended, specifically delegates to the Secretary of the Treasury the President's authority to instruct representatives of the United States to the IFIs and to provide the U.S. government's consent with respect to IFI decisions. This delegation of authority to Treasury is reflected in 22 U.S.C. 6593, which provides the Department of the Treasury with the primary responsibility to continue to coordinate “activities relating to United States participation in international financial institutions and relating to organization of multilateral efforts aimed at currency stabilization, currency convertibility, debt reduction, and comprehensive economic reform programs.”

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<sup>1</sup> The MDBs include the World Bank and for smaller regional development banks: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB).

<sup>2</sup> 22 U.S.C. 286 et seq.

Initially, the BWAA established an interagency committee to coordinate international economic policy, under the general direction of the President. The National Advisory Committee for International Financial and Monetary Problems (later changed to Policies) (NAC), from 1945 to 1964, was an inter-agency committee for coordinating the policies and operations of all U.S. programs that made foreign loans or engaged in foreign financial, exchange, or monetary transactions, including both bilateral and multilateral aid. The law also said that the NAC would recommend to the President general policy directives for the guidance of the representatives of the United States to the IMF and the Bank. The law also said that the NAC would advise and consult with the President and the representatives of the United States to the Fund and the Bank on major problems arising in the administration of the Fund and the Bank. Membership on the NAC included the heads of the Treasury Department (chair), the Departments of State and Agriculture, the Federal Reserve Bank Board, and the Export-Import Bank.<sup>3</sup> A majority vote of the NAC membership determined policy.

Setting IFI policy by agency consensus through the NAC process proved unsuccessful. It was abolished as a statutory committee by 1965 and its authorities and duties were assigned to the President.<sup>4</sup> The following year, President Lyndon Johnson, under Executive Order 11269, gave each of the NAC agencies responsibility for the programs it managed. Thus, the Treasury Department got exclusive control over U.S. participation in the IFIs, while USAID got full authority for bilateral aid.<sup>5</sup> President Johnson reconstituted the NAC as a forum where other agencies could advise the Treasury Department about policy concerns regarding U.S. participation in the IFIs.

Currently, the principal functions of the NAC are to coordinate policies, advise on problems, and recommend legislation regarding international monetary and financial affairs. In carrying out these functions, the NAC is authorized to review proposed individual loan, financial, exchange, or monetary transactions to the extent necessary or desirable to insure that they are in accord with U.S. policies and objectives. NAC also makes recommendations to the Secretary of the Treasury for the guidance of the U.S. representatives to the IFIs.

Since 1999, Congress has required that Treasury, as Chairman of the NAC, annually report to Congress on several topics related to U.S. participation in the international financial institutions, including an assessment of the effectiveness of the major policies and operations of the international financial institutions; the major issues affecting U.S. participation; and progress made and steps taken to achieve U.S. policy goals (including major policy goals embodied in current law).

Despite efforts to maintain the NAC as a coordinating framework, Treasury has dominated U.S. policymaking at the IFIs since at least the 1970s. Former Treasury Secretary Michael Blumenthal described his view of the interagency coordinating process: “I do not, and I would like the record to show that, exaggerate the degree of authority I have in this matter. I have complete authority

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<sup>3</sup> The Director of the Foreign Operations Administration (FOA), a predecessor agency to U.S. Agency for International Development, served on the NAC until 1955 when the FOA was abolished and its functions were transferred to the new International Cooperation Administration, a subsidiary agency of the Department of State.

<sup>4</sup> Jonathan Sanford, *U.S. Foreign Policy and Multilateral Development Banks*, Westview Press: Boulder, Colorado, 1982; Lars Schoultz, “Politics, Economics, and U.S. Participation in the Multilateral Development Banks, *International Organization*, Vol. 36, No 3, Summer 1982;

<sup>5</sup> The other agencies won agreement that the NAC would no longer review USAID bilateral foreign aid loans and it would not have authority over Ex-Im Bank, Federal Reserve, and Agriculture Department foreign lending operations.

... to direct how our executive directors vote. I can only be overruled by the President himself.”<sup>6</sup> Several studies over the past few decades have looked at the NAC process and found its implementation wanting. For example, the General Accounting Office (now the Government Accountability Office, GAO), in a 1973 report, found that the NAC process was uneven, lacking guidelines for decisions. Moreover, participating agencies rarely had access to adequate information to make judgments on MDB loans.<sup>7</sup> In its draft report, the NAC was characterized by the GAO as a “rubber stamp.” After Treasury objections, the term was not included in the final report.<sup>8</sup> More recent studies have reached similar conclusions, despite statutory language compelling coordination between Treasury and other relevant agencies, a more cooperative approach has been difficult to achieve in practice.

**Table I. U.S. Executive Directors at the MDBs**

| Institution                                      | Executive Director                 | Alternate Executive Director        |
|--|------------------------------------|-------------------------------------|
| World Bank Group                                 | Vacant (Matthew McGuire nominated) | Sara Margalit Aviel                 |
| African Development Bank                         | Vacant                             | Elizabeth Morris                    |
| Asian Development Bank                           | Robert M. Orr                      | Michael Strauss                     |
| European Bank for Reconstruction and Development | Marisa Lago                        | Luyen Tran                          |
| Inter-American Development Bank                  | Vacant (Mark Lopes nominated)      | Vacant (Mileydi Guilarte nominated) |

**Source:** MDB websites.

Should Congress seek to focus on improving policy coordination between the agencies in the future, several provisions of Executive Order 11269, which delegated authority over the IFIs to Treasury, are important for discussions on the role of the State Department in making U.S. policy at the IFIs. In the section giving the Treasury Secretary the authority to instruct the U.S. Executive Directors at the IFIs (section 3), the executive order stipulates that, in carrying out those functions, the Secretary “shall consult with the Council.” It also says that “[n]othing in this order shall be deemed to derogate from the responsibilities of the Secretary of State with respect to the foreign policy of the United States.” Section 7 of the executive order specifies that the Secretary of State “shall advise both the Secretary of the Treasury and the appropriate United States representatives to the [MDBs] on the development aspects of matters relating to those institutions and their activities.”

## Other U.S. Agencies

Among other U.S. agencies, the State Department devotes the most time and resources to MDB concerns. The Under Secretary of State for Economic Affairs serves as alternate U.S. governor at each MDB. The State Department sometimes has difficulty, though, coordinating its various

<sup>6</sup> Quoted in Lars Schoultz, “Politics, Economics, and U.S. Participation in the Multilateral Development Banks, *International Organization*, Vol. 36. No 3. Summer 1982.

<sup>7</sup> U.S. General Accounting Office, *More Effective United States Participation Needed in World Bank and International Development Association*, B-161470, February 1973.

<sup>8</sup> Lars Schoultz, “Politics, Economics, and U.S. Participation in the Multilateral Development Banks, *International Organization*, Vol. 36. No 3. Summer 1982.

viewpoints on MDB issues. The Economic and Business Bureau, which manages its involvement, is interested in the ways MDB activities and policies affect U.S. relations with developing countries and with other international organizations. The department's regional bureaus, by contrast, are mainly concerned about the ways U.S. policy and votes on specific loans may affect U.S. relations with individual countries, and they may seek ways of minimizing the potential negative impact that U.S. votes might have on those relationships.

The U.S. Agency for International Development (USAID), a semi-independent agency that is now largely integrated with the State Department policy process, also participates in interagency discussions about IFI concerns. It has some statutory responsibilities for monitoring the way MDB operations impact environmental conditions in developing countries, though scarce resources often limit its capacity to exercise that function. Together with the Bank Information Center (BIC), a non-governmental organization (NGO), it co-chairs the monthly meetings of the Tuesday Group, a gathering of representatives from NGOs where concerns about the environmental and humanitarian aspects of pending MDB loans can be raised. It takes its name from the day of the week on which meetings occur. USAID's impact on U.S. policy is limited, however, and NGOs generally address their concerns directly to the Treasury Department and the MDBs.

Other U.S. agencies also play a role in the policy process regarding the MDBs. The Department of Commerce participates in policy discussions and is attuned to the U.S. commercial and trade implications of MDB operations. It has staff in the office of several USEDs to identify procurement opportunities for U.S. firms and to monitor procurement issues.<sup>9</sup> The U.S. Department of Agriculture (USDA) is also involved. It can offer insights into agricultural policy issues, but its main concern is the impact of MDB agriculture programs on U.S. agriculture and bilateral food aid programs.

Additional agencies, such as the Office of Management and Budget (OMB), the Transportation and Energy Departments, Environmental Protection Agency (EPA), the U.S. Labor Department, U.S. Trade Representative (USTR), Export-Import Bank, Overseas Private Investment Corporation (OPIC), and the Federal Reserve Bank Board, also have functions that are affected, to varying degrees, by the MDBs. Treasury officials report that, for the most part, the representatives from these agencies rarely attend interagency discussions.

## **Policy Coordination**

In 2009, the Treasury Department took steps to revitalize the NAC as an interagency forum for consultation and policy formulation on IFI-related issues.<sup>10</sup> The authority and responsibility for managing U.S. participation in the international financial agencies remains at Treasury, but most of the agencies that have a stake in the process and several other related issues have been brought within the ambit of NAC deliberations.

The new NAC meets both at the Cabinet level and as a staff-level working group. It is formally chaired by the Treasury Secretary, with the Assistant to the President for Economic Affairs as deputy chair, but the panel generally meets at the Under Secretary level under the leadership of

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<sup>9</sup> For more information, see <http://export.gov/worldbank/>.

<sup>10</sup> This section is based on information obtained during CRS interviews with Treasury Department officials, January 24, 2011.

the Treasury Under Secretary for International Affairs. The Cabinet-level committee has met at least five times to discuss issues relating to possible MDB capital increases and replenishment, major policy questions involving the IMF and MDBs, and other major concerns. Meetings at the staff level have assessed IMF and international monetary issues, the European monetary situation, MDB reform and policy issues, and other matters such as pending Export-Import Bank (Ex-Im Bank) and U.S. Department of Agriculture (USDA) food export loans and country eligibility for debt-for-nature and tropical deforestation loan forgiveness. If other international debt forgiveness proposals were under consideration, this is likely the forum where they would be discussed.

According to Treasury Department sources, the NAC was resurrected because a wide range of important international finance issues were rapidly appearing on Treasury's agenda and officials thought the policy process and policy outcomes would be improved if it got regular advice from other agencies which saw these issues from other perspectives. Participants include the Secretaries of State and Commerce, U.S. Trade Representative (USTR), the Chair of the Federal Reserve Bank Board, President of the Ex-Im Bank, and the Director of USAID. Other agencies with relevant skills and knowledge, such as the Department of Labor, EPA, the Energy Department, and OMB, are also invited to participate on occasion.

It has been difficult in the past to sustain an effective interagency process to help formulate and coordinate U.S. policy towards the IFIs. Whether the current NAC process will continue much beyond the incumbency of its current leaders and participants remains to be seen. Congress has made three prior efforts to create formal interagency procedures to coordinate U.S. policy on bilateral and multilateral aid. Understanding the reasons why these efforts failed might help current policy makers avoid some of the difficulties that undercut them.

The creation of the NAC in 1945 was the first attempt. Some argue that it failed because the participating agencies were more concerned about maintaining control over their activities than they were about finding a more unified approach. Vesting authority over a host of programs in the hands of a five-member Cabinet-level committee also proved impractical. When the NAC was recreated by executive order in 1965, the Treasury Secretary was given final authority and the NAC had advisory functions. Some Secretaries decided later that they did not need the NAC's advice and other participants seem to have decided that high-level involvement in NAC deliberations was not a good use of time.

In 1973, Congress created a Development Coordination Committee (DCC), chaired by the head of USAID, as a vehicle for the "coordination of United States policies and programs which affect United States interests in the development of low-income countries."<sup>11</sup> The President was supposed to coordinate U.S. foreign aid policy through the DCC. In 1979, the President signed an executive order making the DCC the central forum for policy coordination regarding bilateral and multilateral aid. The Treasury Department chose not to cooperate or participate in the process, however, citing the authority it held from the President to manage U.S. participation in the IFIs. The only permanent result was the creation of a staff-level interagency panel, the Working Group on Multilateral Assistance (WGMA), to advise Treasury officials about prospective MDB loans.<sup>12</sup> In 2009, the WGMA was subsumed into the NAC as its MDB loan review panel.

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<sup>11</sup> The Foreign Assistance Act (FAA) of 1961, P.L. 87-195, Section 640B, as amended by the FAA of 1973, P.L. 83-189.

<sup>12</sup> The principal focus of interagency scrutiny seems to be a determination whether or not the United States is required to oppose specific MDB loans because they conflict with standards or mandates that Congress has enacted. The (continued...)

In 1980, Congress created the International Development Cooperation Agency (IDCA), giving it authority to coordinate multilateral and bilateral aid. The Secretary of the Treasury was required to comply with IDCA policy determinations, unless he found compelling financial or other non-developmental issues that required him to do otherwise. The Treasury Department used this loophole, however, to exempt all IFI issues from the IDCA process. IDCA never became a functioning agency. Congress abolished it in 1998, transferring to the Secretary of State any residual authorities the law had previously allocated to its Director.<sup>13</sup> Neither the chair of the DCC (the head of USAID) nor the IDCA director had the political weight necessary to secure presidential support or to overrule decisions made by the Secretary of the Treasury.

It appears, from this review, that an effective IFI interagency review process must be led by a person with substantial political weight, the President's delegation of full authority to the Treasury Secretary must either be overturned or accommodated, and the panel needs to be cautious about any efforts to block Cabinet officers the full authority they have under law to manage and direct their agency operations.

## Congress and the MDBs

Congress has authority to set the terms for U.S. participation at the MDBs—including how U.S. executive directors shall vote on specific types of loans—and to determine whether the United States will participate in and contribute money towards new MDB funding plans and whether it will support amendments to the MDBs' Articles of Agreement or other basic changes in their organization. These authorities give Congress a major role in the policy process concerning U.S. participation in the MDBs. The authority of Congress in this area is less extensive than is its authority over U.S. government programs, since it cannot earmark funds or direct the MDBs to approve or disapprove loans for certain countries or purposes. Nevertheless, because it has an authoritative and independent role in the U.S. policy process, the influence of Congress in this area is significant.

## Relevant Committees

Several committees have responsibility for legislative functions affecting U.S. participation in the MDBs. The Senate Committee on Foreign Relations (SFRC) and House Committee on Financial Services (HFSC) have jurisdiction over MDB authorizing legislation. On the Senate panel, the Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection has responsibility for MDB legislation. On the HFSC, the Subcommittee on Monetary Policy and Trade has similar jurisdiction for MDB concerns. However, in both the Senate and House, the leadership of the full committees has maintained an active interest in MDB and IMF issues and they often now also receive a good deal of attention at the full committee level. The House and Senate Appropriations Committees deal with MDB

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(...continued)

Treasury Department posts on its web page information as to how the U.S. representatives voted on particular MDB loans and the reasons why they did so. Only votes in opposition to loans are explained. See Office of International Affairs, *Loan Review Notes* at <http://www.treasury.gov/resource-center/international/development-banks/Pages/data.aspx>. Currently, information about all votes since January 2004 is available at this site.

<sup>13</sup> Foreign Affairs Reform and Restructuring Act of 1998, Section 1411-1412, enacted as Division G of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, FY1999, P.L. 105-277, October 21, 1998.

issues primarily through their respective Subcommittees on State, Foreign Operations, and Related Programs. In sum, Congress has about a dozen staff on the various committees, plus some staff in the personal offices of a few Members, who monitor the MDBs and facilitate the legislative process for related legislation. Issues involving the MDBs and IMF are generally only one of many subjects within their areas of responsibility.

In recent decades, Congress has had difficulty enacting legislative proposals relating to foreign affairs through freestanding legislation, and the Administration and the leadership on both sides in both chambers have preferred that such measures be included as riders on “must pass” legislation. MDB legislation was also the subject of partisan controversy during the 1970s and 1980s. Only once since 1980 has Congress enacted legislation to authorize U.S. participation in an MDB funding plan through regular order as a separate bill.<sup>14</sup> This means, among other things, that public debate in Congress about MDB issues is often limited and policy initiatives are sometimes inserted into MDB legislation at the subcommittee or committee level with limited broader congressional review.

On a few occasions, authorizations for some regional MDBs have been approved in one or the other chamber as part of a compromise package of legislation approved by unanimous consent. More often, though, MDB and IMF authorizations have been enacted as amendments to larger and more comprehensive bills—in many instances, omnibus or year-end supplemental appropriations legislation—that are likely to pass because they contain funding for important or popular programs. On at least three occasions, MDB authorization bills were enacted by reference, without the actual text of their legislation appearing in the bill that was debated and passed by the House and Senate.<sup>15</sup>

In 1981, Congress started inserting its policy directives on the MDBs and IMF in one statute, the International Financial Institutions Act (IFI Act), rather than including them separately (as had been the prior practice) to the original enabling legislation for each bank. The IFI Act has over 25 titles that specify policy goals or requirements for U.S. participation in the IFIs. Some provisions are still included in the original MDB membership acts, however, or in other freestanding legislation.

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<sup>14</sup> The exception was an IDB capital increase in 1989 in which the regional countries agreed to the adoption of significant reforms in IDB procedure that the United States and other donors had sought for many years.

<sup>15</sup> In 1985, Section 101(1) of the Further Continuing Appropriations Act, 1986, P.L. 99-190, stated that the bill H.R. 2253, as reported by the Senate Foreign Relations Committee on April 19, 1985, was enacted into law. That bill (which called itself the Multilateral Development Bank Act of 1985) included authorizations for IDA, the AfDF, IBRD and the Special IDA Facility for Africa, as well as several policy initiatives. In 1987, Title II of the Foreign Operations, Export Financing and Related Operations Appropriations Act, 1988, enacted by reference the bill H.R. 3750, as introduced on December 11, 1987. It contained authorizations for IDA, the AsDF, AfDB and membership in MIGA, as well as many policy initiatives. In 1988, Section 555 of the Foreign Operations, Export Financing and Related Operations Appropriations Act, 1989, enacted the bill H.R. 4645, as reported by the House Financial Services Committee on September 22, 1988. It contained authorizations for the IBRD and AfDF, plus several policy initiatives.

## Sources of Congressional Authority

### Legislation

Unless Congress passes legislation to authorize such actions, the United States cannot join or agree to participate in any MDB funding programs or vote for any changes in fundamental MDB rules and procedures. The Bretton Woods Agreements Act (BWAA), which authorized the United States to join the IMF and World Bank, set the model for U.S. participation in all MDBs. It states that “[u]nless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States” propose any changes in the U.S. quota in the IMF, subscribe any additional shares of stock (i.e., make a financial commitment) in the World Bank, agree to any amendments to the Articles of Agreement of the Bank or Fund, make any loans to the Fund or Bank, or approve any distribution of gold by the IMF.<sup>16</sup> The BWAA also states that no U.S. Governor or Alternate Governor at the Bank may vote for an increase in the capital stock of the Bank, if this would require additional subscriptions by the United States, unless Congress authorizes such action by law. This requirement is not included in the legislation enabling U.S. participation in the other MDBs and the Administration has not complied with this requirement for some time.

Over the years, Congress has enacted into law directives (many of them overlapping) requiring the Secretary of the Treasury to instruct U.S. executive directors to take specific actions within the MDBs. It has required the Secretary to consult with other countries about possible coordinated action within the MDBs on specific policy proposals or issues. It has also directed the Secretary to consult with the relevant committees before U.S. executive directors may vote to support certain kinds of initiatives.

Many of these directives require that the U.S. representatives at the MDBs oppose many kinds of loans. These include, for example, loans to countries whose governments violate internationally recognized human rights, expropriate property owned by American investors without adequate compensation, support international terrorism, or fail to cooperate in the suppression of illegal drug trafficking or trafficking in persons. They also include directives that the U.S. representatives oppose loans for the production of certain agricultural or mineral products that are in oversupply in world markets and compete with U.S. output, and loans for education or healthcare projects where poor people would be charged a user fee for basic services. Directives have also been enacted requiring the U.S. representatives at the MDBs to oppose, subject to various requirements, MDB loans to Serbia, Burma, Zimbabwe, Sudan, Belarus, and Sri Lanka, and to oppose participation by Cuba or the Palestinian Liberation Organization in the MDBs.

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<sup>16</sup> Bretton Woods Agreements Act, P.L. 79-171, approved July 31, 1945, Section 5. Before 1965, the requirement that Congress must give its assent before the U.S. Governor may vote for any increase in Bank capital stock, including new funding plans that did not include participation by the United States. At the time, the U.S. share in the Bank was sufficient to block all capital increases unless the United States voted in the affirmative. In all the other development banks, U.S. law requires that the U.S. Governor obtain congressional assent before he can commit the United States to subscribe additional shares of capital stock but it does not prohibit him from voting for resolutions at the MDBs that would approve capital increases in general. If the capital stock of an institution is increased but the United States does not participate in that increase, the U.S. voting share declines. In recent decades, the U.S. share in all MDBs except the IDB has declined to the point where capital increases can go into effect without U.S. participation, so approval of the Board resolution rather than subscription of new shares may be the key step determining the U.S. ownership share and the level of U.S. influence.

Generally, the United States abstains in order to show opposition, though it may cast a negative vote for emphasis in particular situations.

Others also require the Administration to pursue certain goals or to advocate particular policies in the MDBs. These can include efforts to include measures relating to workers rights, greater emphasis on the needs of the poor in various situations, more efforts to restructure debts of impoverished countries, increased emphasis on integration of women in the development process, or more attention or increased MDB assistance to countries such as Haiti, East Timor, Tibet, Cambodia, Mongolia and Ukraine.

## **Hearings**

The authorization and appropriations committees generally hold hearings on the Administration's funding requests for the MDBs. This enables Administration witnesses to explain why they believe Congress should provide the resources necessary to fund U.S. participation in MDB funding plans. Hearings also provide committee members with opportunities to raise issues of concern where legislation or changes in U.S. policy might be needed. Public witnesses are frequently invited, particularly for authorization hearings, to present additional views. These hearings provide public information about U.S. policy and the MDBs, which might not otherwise be readily available. In many instances, because Congress now rarely discuss MDB issues in floor debates, these hearings serve de facto as the major forum for congressional discussions about MDB issues and U.S. policy towards the multilateral banks.

## **Required Reports**

Congress requires the Administration to submit periodic reports on particular topics relating to the MDBs. The information provided by these reports helps Congress exercise oversight over U.S. policy and the MDB program. Before 1998, information about the activities of the MDBs was often difficult to get. Through reporting requirements, Congress required the Administration to make information about MDB operations and policies available to the public and to pay attention to particular congressional concerns.

In 1945, Congress required in the BWAA that the Administration submit annual reports via the NAC on the operations and policies of the international financial institutions. In subsequent years, Congress added requirements that the Administration explain how the U.S. executive directors voted on several issues, steps taken in pursuit of particular policy goals, and other concerns. Without information provided by executive agencies, Congress has difficulty exercising effective oversight of U.S. policy and the IFIs themselves. However, if the Administration concludes that a reporting requirement is too burdensome, it may cease making the report. There is often little, particularly for the authorizing committees, that Congress can do to force a resumption, short of cutting funding for MDB programs. By 1992, Congress had added many detailed provisions to the annual NAC reporting requirement, and the Administration decided—on grounds that the burden was too heavy compared to available staff resources—to stop doing the NAC report.<sup>17</sup>

In 1998, Congress simplified the NAC reporting requirement, dropping the detailed provisions and requiring instead a general review of the operations of the MDBs and the success and goals of U.S.

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<sup>17</sup> The report for FY1992 was submitted in 1996.

policy. A report was submitted in 1999 using the new format. In 2010, the Treasury Department published a new NAC report for FY2009, which discussed the current international economic issues, the roles played by the IFIs in meeting those challenges, and the goals of U.S. policy.<sup>18</sup>

With the resumption of the NAC report, it now appears that the Administration is meeting all the major IFI reporting requirements enacted by Congress.<sup>19</sup> The Internet has had an important impact on effectiveness of these reporting requirements. Until recently, most required reports were sent to the relevant committees in typescript form and the committees usually filed them without giving them broader circulation. In recent years, though, Treasury has begun posting most the required reports on MDBs and the IMF on its web site, along with information about the way U.S. representatives have voted on recent loans and policy statements on a variety of issues.<sup>20</sup> This, together with the fact that the IMF and MDBs are much more transparent in their policies and operations, has done much to help Congress and the public to better understand the MDBs and U.S. policy towards them.

## **U.S. Budgetary Treatment**

The MDBs fund their market-rate loan operations through the sale of bonds in world capital markets. Those bonds are backed by the subscribed capital of their member countries and this backing enables the MDBs to borrow and relend money at attractive rates. Bond purchasers need to be confident that the banks' member countries will make good their obligations if the need should arise. As a member country, the United States subscribes a certain share of the capital stock of each MDB, and its subscription helps provide backing for the banks' borrowings.

Only a small portion (3% to 5%) of a new subscription to MDB capital is paid to the bank. Most of the cost of the new shares is subscribed as callable capital. The MDBs use it to help back their borrowing in world capital markets but member countries do not normally need to pay this portion of their subscription cost to them. MDBs may call on their members to pay in callable capital only if the bank has become bankrupt and—having exhausted all other assets—it still needs money to pay their creditors. The MDBs have triple-A creditor status and most analysts believe the likelihood that they will go bankrupt is quite small. Nevertheless, U.S. subscription to MDB callable capital are a contingent liability; the question is whether and how the U.S. budget should acknowledge that liability.

Until FY1982, Congress appropriated, in annual installments consistent with the funding plan, the full amount of money needed to pay the purchase price of the U.S. shares. Since FY1982, Congress has appropriated funds only to cover the paid-in share of new MDB capital subscriptions.

Some have questioned how the United States handles through its national budget the contingent liability associated with subscriptions to MDB callable capital. For example, in 2004, then-

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<sup>18</sup> The full text of this report is available at <http://www.treasury.gov/resource-center/international/development-banks/Documents/NAC%20Report%202010%20Aug%205.pdf>.

<sup>19</sup> There are still a dozen or so reporting requirements that are not being met. Most of them are antiquated, dating from the 1980s, though some might still be useful. Once a reporting requirement is enacted, it is difficult to rescind because groups that supported the original legislation often rise to its defense even if it is obsolete and of little value.

<sup>20</sup> See U.S. Treasury, *Reports to Congress*, at <http://www.treasury.gov/resource-center/international/development-banks/Pages/congress-index.aspx>.

Director of the Congressional Budget Office (CBO) Douglas Holtz-Eakin told Congress that the current budgetary treatment for U.S. financial commitments to the various IFIs does not recognize the magnitude of those commitments in a consistent fashion.<sup>21</sup> He noted that the financial backing and budgetary treatment for the IFIs differs for each institution. He said that Congress might want to consider whether all these institutions should be treated alike and whether future efforts to better account for the risks associated with U.S. involvement in these institutions should address past contributions or only those subscribed for future years. Congress may want to consider whether money needs to be appropriated to cover such possibilities. Congress might also want to consider whether its current budgetary treatment of the contingent risk from MDB callable capital is sufficient or whether it might be changed.

Such considerations are limited to the MDB non-concessional lending windows. In contrast, the concessional lending windows at the MDBs do not use similar systems of guarantees; all U.S. contributions to the concessional lending windows are all paid directly to the institution.

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<sup>21</sup> Statement of Douglas Holtz-Eakin, CBO Director, *The Costs and Budgetary Treatment of Multilateral Financial Institutions' Activities*, testimony before the Senate Committee on Banking, Housing and Urban Affairs, May 19, 2004.

## Appendix. Acronyms Used in This Report

|             |   |                |  |
|-------------|---|----------------|--|
| <b>AfDB</b> | African Development Bank                              | <b>IFC</b>     | International Finance Corporation  |
| <b>AfDF</b> | African Development Fund                              | <b>IFI</b>     | International Financial Institution  |
| <b>AsDB</b> | Asian Development Bank                                | <b>IFI Act</b> | International Financial Institutions Act                                   |
| <b>AsDF</b> | Asian Development Fund                                | <b>IIC</b>     | Inter-American Investment Corporation (IDB)                                |
| <b>BIC</b>  | Bank Information Center                               | <b>IMF</b>     | International Monetary Fund  |
| <b>BWAA</b> | Bretton Woods Agreements Act                          | <b>MDB</b>     | Multilateral Development Bank  |
| <b>CBO</b>  | Congressional Budget Office                           | <b>MIF</b>     | Multilateral Investment Fund (IDB)   |
| <b>DCC</b>  | Development Coordination Committee                    | <b>MIGA</b>    | Multilateral Investment Guarantee Agency                                   |
| <b>EBRD</b> | European Bank for Reconstruction and Development      | <b>NAC</b>     | National Advisory Committee on International Financial and Monetary Policy |
| <b>FAA</b>  | Foreign Assistance Act                                | <b>SFRC</b>    | Senate Foreign Relations Committee   |
| <b>GAO</b>  | Government Accountability Office                      | <b>USAID</b>   | U.S. Agency for International Development                                  |
| <b>HFSC</b> | House Financial Services Committee                    | <b>USDA</b>    | U.S. Department of Agriculture   |
| <b>IBRD</b> | International Bank for Reconstruction and Development | <b>USED</b>    | U.S. Executive Director  |
| <b>IDA</b>  | International Development Association                 | <b>USTR</b>    | U.S. Trade Representative  |
| <b>IDB</b>  | Inter-American Development Bank                       | <b>WGMA</b>    | Working Group on Multilateral Assistance                                   |
| <b>IDCA</b> | International Development Cooperation Agency          |                |  |

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