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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Deputy Secretary Summers to Secretary Rubin re: Appointment of Michel Camdessus for a Third Term as Managing Director of the International Monetary Fund (3 pages)	04/08/96	P5
002. memo	Karin Lissakers (IMF) to Tim Geithner re: G-10 Discussion on Capital Account Convertibility (2 pages)	12/03/96	P1/b(1) Unclass.
003. memo	Karin Lissakers (IMF) to Larry Summers, Jeff Shafer, & David Lipton re: An IMF Agenda for the Second Clinton Administration (1 page)	01/06/97	P1/b(1) Unclass.
004. memo	Karin Lissakers (IMF) to Larry Summers, Jeff Shafer, & David Lipton re: An IMF Agenda for the Second Clinton Administration (15 pages)	01/06/97	P1/b(1) Unclass.

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INTERNATIONAL FINANCIAL INSTITUTIONS

95-15 3092

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 7, 1995

MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

THROUGH: Assistant Secretary Shafer Initialed - Jeffrey R. Shafer

FROM: Deputy Assistant Secretary Johnson
International Development, Debt and Environment

SUBJECT: Update on IFI/Debt Funding Issues and Strategies

Summary

This memorandum is to bring you up to date on key IFI funding issues ahead of your Deputies meeting -- at which the IDA problem is certain to arise, identify major outstanding international and internal issues in the context of ongoing multilateral funding negotiations and the FY1997 budget process, and propose a strategy to address these issues in the near term.

General Issues

A few general observations may usefully be made before identifying some key MDB-specific issues of which you should be aware. First, we remain -- for obvious reasons -- in a holding pattern with respect to specific funding commitments in the individual negotiations, and we have very little reason to expect that the Congressional uncertainties will clarify much until the summer. Given the advanced stage of the IDA-11 negotiations, and the signals these talks will continue to send to the other institutions, we need to anticipate growing pressure to move ahead without the United States. In the Asian Fund, the Japanese are essentially ready to go immediately with a contribution that could easily serve as the burden-sharing benchmark in lieu of U.S. participation. And finally, while some recent Nigerian-inspired mischief in the African Bank may slow a new momentum for Fund replenishment completion, there is now a much stronger sense among donors it is very nearly time to come to closure.

Second, the inevitable implication of this trend will be both to broaden and sharpen the debate about "incentives" for U.S. participation, including procurement restrictions and share reallocations. As we move ahead we will need to make increasingly clear to the institutions and other donors that procurement denial is a politically dangerous game, and that they need to give additional thought to more constructive and creative applications of pressure. For our part, however, we need to recognize that the issue of U.S. participation is also becoming more politicized abroad, especially in European Parliaments.

Third, even abstracting from the current uncertainty regarding OMB's passback and FY97 budget, we must expect, and prepare as best we can for, an exceptionally difficult internal budget process. In the near term, for example, we need to resolve funding responsibility for the Middle East Bank with State, OMB and the White House. More broadly, MDB funding at near FY96 levels ought to stimulate a serious and constructive internal discussion of overall Function 150 spending priorities.

Status of International Negotiations

International Development Association.

Your G-7 Deputies briefing provides a fairly complete picture of the IDA-11 replenishment negotiations. Our very clear position -- to meet existing IDA-10 commitments first and make no IDA-11 commitments at this time -- appears finally to have sunk in among other donors and the Bank. Active consideration is being given to variants on an approach that would give us a year or two to meet IDA-10 commitments and then join IDA-11 at a later date. Related discussions of procurement restrictions and an IBRD share adjustment continue, and will be central to the next meeting, set for December 14-15 in London. The Bank and many other donors still hope to conclude at a subsequent meeting in January.

African Development Bank and Fund.

Little further movement is likely when Fund replenishment negotiations continue early next week in Abidjan. We and other donors continue to stress the need for tangible progress on a wide range of reforms to Bank management and operations. Emphasizing that both outstanding reform issues and budget uncertainties make any new U.S. commitment impossible for the present (we are fully paid up in the African Fund), we have also indicated that under no circumstances would a new U.S. commitment be as large as what we were last discussing -- $315M over three years. (As you may recall, this funding level has already been authorized by Congress, with a partial appropriation rescinded earlier this year.) Numerous other donors echoed this last point.

Nevertheless, the fact that important reforms are underway (including adoption of IBRD lending guidelines for concessional/market rate money), and that the Fund is wholly depleted, raises the pressure (and the case) for conclusion of negotiations in the early part of 1996. We therefore should be prepared to make a commitment at that time, and incorporate this into our FY97 budget submission.

Negotiations for a general capital increase for the Bank have just gotten underway, and will also continue next week in Abidjan. We and other non-regional shareholders have also linked the GCI issue to reforms, including a thorough internal audit and an independent assessment of the Bank's management and ownership structure. In addition, President Kabbaj has privately indicated his willingness to consider raising the non-regional ownership share. At this early stage we cannot gauge either the likely pace of the negotiation or the size of the GCI with any precision. However, I believe we should be prepared to make a modest FY97 funding request, not least because of the need to demonstrate support to the capital markets in the wake of the S&P downgrading.

Asian Development Fund.

At last month's first discussion of a Fund replenishment, we essentially echoed our IDA argument: prospective resource "needs" must be cut back to reflect funding realities; payment of overdue commitments (now $337M) is our top priority; and, no credible new U.S. commitment can be made at this time. Both Japan and the Bank are pushing hard for rapid conclusion of the negotiations, by August 1996 at the latest. In the wake of substantial success in the latest Fund replenishment and GCI negotiations, our (and others') reform agenda for the Asian Bank is quite slim, offering little substantive grounds for a lengthier process. On the other hand, the Fund will have available resources to carry it at least through CY1996, and possibly into the first half of CY1997. Our FY97 budget submission will therefore include only a request for partial payment of overdue commitments.

European Development Bank.

As you know, de Larosiere is pushing very hard for agreement to a 100% general capital increase at the Annual Meeting this Spring. We need to make a concerted effort to get capitals (as distinguished from the Board) fully engaged if we are to have any success in slowing the process. Nevertheless, the Bank arguably needs the funds. I have told de Larosiere that our annual commitment needs to come down to about half of its previous level ($35M vs. $70M), which could be achieved by a stretch-out or a lower paid in rate. We are therefore working on the assumption of an FY97 budget request for a GCI, as well as for $11.9M to make us current on previous commitments.

Priority Domestic Issues and Strategies

Priority domestic issues fall into three broad categories: internal Administration preparation of the President's FY97 budget submission; Congressional consultations; and, related to this, an outreach program to build more effective support for the MDBs among non-government constituencies.

1. FY 1997 Budget Process

As you know, we recently provided OMB with a budget request submission for FY1997 falling within its (surprisingly) generous guidance level of $1,820M. The timing of OMB's passback is uncertain, but our very strong expectation is that it will be below initial guidance, quite possibly significantly.

We have developed three different illustrative budget scenarios for FY97 in order to identify priority funding issues and to clarify stark policy choices (See Attachment A).. Essentially, the strategy would be an extension of our efforts during the FY96 negotiations with Congress: protect full funding for unmet IDA commitments; secure full funding for the hard-loan windows; clear other concessional window backlogs as much as possible (consistent with the Administration's previously agreed multi-year program); and, ensure that any new commitments are well below previously funded levels. Whatever the overall funding level, the objective in all cases for FY97 would be to stay engaged in regional bank funding increases if even at a de minimus level.

- $1.8 billion (OMB submission). Funding at this level would fully pay off IDA-10 (with nothing new for IDA-11), make all scheduled payments to the hard windows, make us current in the FSO, provide $245M for new commitments to the African Bank and Fund and the EBRD, provide $25M for ESAF and $40M for debt reduction, and meet 2/3 of late payments to the Asian Fund.

- $1.5 billion. If FY97 funding "drops" to $1.5B we could still pay IDA-10, the hard windows, and FSO in full. However, we would have to make more modest new commitments ($165M) to the AfDB and EBRD, request less than scheduled payments (the first time ever) for several accounts, and cut both debt reduction and ESAF resources.

- $1.0 billion. Funding at a level of $1B tracks with indications from key Republican Hill staff that Treasury should work on the basis of an FY97 amount roughly 20 percent below the FY96 Conference Committee passback. Funding at this level would allow full funding of the hard windows, modest payments on overdue commitments to the concessional windows, minimal ESAF and debt reduction funding, and de minimus participation in new funding for the EBRD and the African Fund.

We will, of course, retain the right to appeal the OMB passback. However, I believe we should operate under the assumption that this would not likely produce a great deal, for two reasons: first, the overall budgetary environment; and, second, the exceedingly slim prospect of the internal budget process producing much resource shifting within Function 150.

This last point is most directly related to funding an initial U.S. capital subscription to the Middle East Bank. Neither our FY97 submission to OMB, nor the alternative scenarios summarized above include the $52.5 million we will need for this purpose. The success of our Bank initiative, including the participation of the major Europeans, of course depends vitally on a full FY97 funding request that has the full support of the Administration. To date, however, we have not reached a satisfactory resolution with State on the issue, nor has there even been much evidence of movement on their part. While we understand that State may schedule a Function 150 interagency meeting in the near term, experience suggests this will produce little of use to us. My own sense is that you should engage Strobe Talbott directly, and that we should persuade the Secretary to weigh in with Warren Christopher when he comes up for air.

The bottom line is that we need to come out of the FY97 budget process with an overall IFI/Debt appropriation of $1.5B or more.

If there develops clear momentum toward a $1B funding level for FY97 -- which is well within the range of possibility -- we need to be prepared to address two exceptionally difficult issues head on. First, we would have seriously to examine alternatives to the current global/regional development bank system, particularly the consolidation of all MDB concessional lending in IDA. Second, we would have to initiate a serious and balanced internal Administration debate on the entire Function 150 allocation, including accounts now regarded as **untouchable.**

2. Congressional Consultations

Lacking final action on the FY96 package and uncertain about the OMB passback, we have limited our recent discussions with Congressional staff to status reports on the Middle East Development Bank. (Separately, you should be aware of internal World Bank criticism that Treasury has not been sufficiently active on the Hill with respect to FY96 and FY97 funding. Our view is that this largely reflects frustration and a lack of understanding of the actual situation on the Hill; the simple fact is that an aggressive Treasury effort on FY97 funding, absent closure on FY96 and an agreed proposal for FY97, would be both inappropriate and counterproductive.)

However, this week we prepared and circulated a formal consultation letter (Attachment B) covering all of the MDB funding discussions now underway. Lionel Johnson will follow up with direct meetings with selected staffers ahead of his departure for the IDA Deputies meeting next week. We will broaden our engagement as quickly as internal Administration developments allow. In the meantime, we are preparing a substantially revised "Justification Book" for our FY97 Hill presentation, which will focus much more heavilly on MDB success stories, value added, and reform implementation. Moreover, it will put U.S. participation in the IFIs into the broader foreign and economic policy context.

Separately, I believe it would be helpful to use all opportunities to emphasize to senior foreign officials that Congressional visits abroad provide an excellent opportunity to press, in a very direct and emphatic way, their own concerns about the U.S. funding situation in the MDBs. Finance Ministries need in particular to emphasize to Foreign Ministry counterparts the importance of active engagement with visiting CODELs. On the other hand, I do not believe we should encourage our foreign counterparts to approach Congress directly; in the current climate this could well be counterproductive.

3. Outreach to Business and other Non-Government Groups.

We are implementing a long-range strategy to build support for U.S. participation in the IFIs. This strategy is designed to : 1) underscore U.S. interests in the IFIs; 2) correct misperceptions about them; 3) encourage broad support for continued U.S. engagement in the IFIs; and, 4) dramatically expand Treasury's outreach efforts to private sector, NGO, academic, and other leaders.

Specifically, we will work with Public Affiars to creatively target print and broadcast outlets. We are actively seeking opportunities for public appearances, such as speeches and participation in conferences to reach a broad cross section of civil society. This will include Treasury officials, from the Secretary to members of the Multilateral Development Bank and Debt Policy Offices. Our geographic scope will extend throughout the United States.

Attachments: Illustrative FY97 Budget Scenarios
Congressional Consultation Letter

A

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INFORMATION

MEMORANDUM FOR ASSISTANT SECRETARY JEFFREY R. SHAFER

FROM: Lionel C. Johnson
Deputy Assistant Secretary
International Development, Debt and Environment Policy

SUBJECT: FY 1997 Budget Discussions with OMB

Now that we have submitted our FY 1997 budget request to OMB, we need to consider what level we can realistically seek that would maximize budget authority allocated Treasury international accounts within the President's budget.

As you know, OMB provided us guidance of $1.8 billion in August. We expect that figure will be revised downward, possibly nearer the FY 1996 conference total of $1,163 million. Some Republican Hill staffers have asserted that FY 1997 appropriations could be cut an additional 20 percent beyond the FY 1996 level (i.e., $930 million for Treasury international accounts).

We need over $1.6 billion to clear arrears and/or stick to scheduled levels of commitments. $1.5 billion would roughly split the difference between OMB's FY 1997 guidance and the FY 1996 outcome, and may be a useful illustrative level to gauge the implications of a possibly lower OMB passback.

Three illustrative funding scenarios for FY 1997 ($1.8 billion, $1.5 billion and $930 million) are detailed in the attached table. All assume capitalization of the Middle East Development Bank (MEDB) would not come from Treasury accounts.

-- **$1.8 billion**. Key elements of this request were detailed in our submission to OMB.

-- **$1.5 billion**. We could clear all arrears on capital subscriptions and to concessional funds IDA and IDB/FSO. We would ask for less than scheduled payments, for the first time ever,[1] to the GEF and MIF, although the requests would exceed FY 1996 funding levels. Partial payment could be made on outstanding commitments to the ADF and ESAF, as well as part of the currently estimated costs of debt reduction. In addition, we would be able to participate in a scaled-back replenishment of the African Development Fund, an EBRD general capital increase, and a small African Bank capital increase.

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[1] Historically, Treasury has requested enough budget authority to meet all outstanding commitments, whether scheduled or overdue. In FY 1995, we departed from that tradition, introducing a multi-year plan to clear arrears. Always, we have asked for funding at least once, when the commitment is scheduled to be paid.

-- **<u>$930 million</u>**. A further 20 percent reduction from FY 1996 levels would substantially prolong efforts to meet outstanding concessional commitments and severely curtail our ability to make viable new commitments. We could only partially pay our overdue commitments to IDA-10, the Asian Fund, and the FSO, leaving overdue commitments of $354.5 million, $10.8 million and $262.0 million, respectively, going into FY 1998. In terms of new commitments, we would be forced to deeply cut new commitments to an AFDF replenishment and an EBRD capital increase. There would be sharp reductions as well for ESAF and debt reduction.

A second table (Table 2) looks what would happen if we have to fund the MEDB out of Treasury accounts. Aside from curtailing a subscription to a new EBRD capital increase, we would be forced to fund MEDB out of concessional accounts such as the Asian Fund and IDA and the MIF. Outstanding capital subscriptions, excluding the NAD Bank, total only $57.4 million, suggesting little scope there for funding a MEDB subscription.

OMB is reviewing our budget request now. Informally, we understand OMB may "pass back" preliminary figures for our portion of the President's budget before the end of December. We then would have a brief opportunity to appeal.

Treasury International Programs
Discussions with OMB on FY 1997 Budget Submission
(Budget Authority; US$ millions)

	FY 1995 Appropriation*	FY 1996 Conference	FY 1997 Request $1.8 bil	FY 1997 If Guidance Reduced: Target $1.5 bil	FY 1997 If Guidance Reduced: Conf–20% $930 mil
Multilateral Development Banks (MDBs)					
World Bank Group					
IBRD	23.0	28.2	–	–	–
IDA	1,175.0 *	700.0	934.5	934.5	580.0
IFC	68.7	60.9	6.7	6.7	6.7
GEF	90.0	35.0	110.0	55.0	25.0
Inter–American Bank Group					
IDB	28.1	26.0	25.6	25.6	25.6
IDB/FSO	21.3	10.0	31.4	31.4	20.6
IIC	0.2	–	–	–	–
MIF	75.0	53.8	100.0	50.0	35.0
Asian Bank Group					
ADB	0.0	13.2	13.2	13.2	13.2
ADF	168.0	100.0	220.0	150.0	75.0
African Bank Group					
AFDB	0.1	–	–	–	–
AFDF	62.2 *	0.0	–	–	–
European Bank					
EBRD	69.2	70.0	11.9	11.9	11.9
North American Development Bank					
NAD Bank	56.3	56.3	56.3	56.3	56.3
+ MDB Other :	–	–	245.0	165.0	70.0
IDA–11			–	–	–
ADF–7			–	–	–
AFDB GCI–V			40.0	20.0	–
AFDF–7			135.0	90.0	50.0
EBRD GCI–I			70.0	55.0	20.0
MDBs	1,837.1	1,153.3	1,754.6	1,499.6	919.2
IMF ESAF	25.0	0.0	25.0	20.0	5.0
Debt Reduction	7.0	10.0	40.0	15.0	8.0
Treasury Total	1,869.1	1,163.3	1,819.6	1,534.6	932.2
OMB Guidance			1,820.0		
Middle East Development Bank		–	52.5	52.5	52.5
Unmet Commitments					
MDBs	852.2	1,482.2	288.3	463.3	948.6
IMF ESAF	75.0	75.0	50.0	55.0	70.0

* Post–rescission of IDA (60 million) and AFDF ($62 million).
MDB Arrears do NOT count $105 million/year for stalled AFDF7 replenishment. Post FY–1996 arrears would be $210 million more if FY 1995–96 obligations are made for AFDF.
ESAF arrears would materialize in FY 2000. FY 1995 appropriations ($25 million) cover scheduled FY 1997–99 encashments.

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Treas/OASIA/IDB
05–Dec–95

Treasury Discussions with OMB on FY1997: If Treasury Total Counts MEDBank

(Budget Authority; US$ millions)

	FY 1995 Appropriation*	FY 1996 Conference	FY 1997 Request $1.8 bil	FY 1997 If Guidance Reduced: Target $1.5 bil	FY 1997 If Guidance Reduced: Conf–20% $930 mil
Multilateral Development Banks (MDBs)					
World Bank Group					
IBRD	23.0	28.2	–	–	–
IDA	1,175.0 *	700.0	934.5	934.5	550.0
IFC	68.7	60.9	6.7	6.7	6.7
GEF	90.0	35.0	110.0	55.0	25.0
Inter–American Bank Group					
IDB	28.1	26.0	25.6	25.6	25.6
IDB/FSO	21.3	10.0	31.4	31.4	20.6
IIC	0.2	–	–	–	–
MIF	75.0	53.8	100.0	50.0	20.0
Asian Bank Group					
ADB	0.0	13.2	13.2	13.2	13.2
ADF	168.0	100.0	220.0	130.0	70.0
African Bank Group					
AFDB	0.1	–	–	–	–
AFDF	62.2 *	0.0	–	–	–
European Bank					
EBRD	69.2	70.0	11.9	11.9	11.9
Middle East Development Bank					
MED Bank		–	52.5	52.5	52.5
North American Development Bank					
NAD Bank	56.3	56.3	56.3	56.3	56.3
+ MDB Other :	–	–	245.0	130.0	70.0
IDA–11			–	–	–
ADF–7			–	–	–
AFDB GCI–V			40.0	20.0	–
AFDF–7			135.0	90.0	50.0
EBRD GCI–I			70.0	20.0	20.0
MDBs	1,837.1	1,153.3	1,807.1	1,497.1	921.7
IMF ESAF	25.0	0.0	25.0	20.0	5.0
Debt Reduction	7.0	10.0	40.0	15.0	8.0
Treasury Total	1,869.1	1,163.3	1,872.1	1,532.1	934.7
OMB Guidance			1,820.0		
Unmet Commitments					
MDBs	852.2	1,482.2	288.3	483.3	998.6
IMF ESAF	75.0	75.0	50.0	55.0	70.0

* Post–rescission of IDA (60 million) and AFDF ($62 million).
MDB Arrears do NOT count $105 million/year for stalled AFDF7 replenishment. Post FY–1996 arrears would be $210 million more if FY 1995–96 obligations are made for AFDF.
ESAF arrears would materialize in FY 2000. FY 1995 appropriations ($25 million) cover scheduled FY 1997–99 encashments.

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Treas/OASIA/IDB
05–Dec–95

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

The Honorable Sonny Callahan
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to advise you of the status of negotiations and replenishments concerning the international financial institutions pursuant to Section 1201 of the Public Law 95-118, as amended, and to keep the Congress fully informed of key issues involving U.S. participation in the institutions.

Enclosed with this letter is a detailed report on negotiations to: replenish concessional funding for the International Development Association, African Development Fund, and Asian Development Fund; establish a development bank for the Middle East and North Africa; consider possible capital increases for the African Development Bank and the European Bank for Reconstruction and Development.

We welcome your views on this status report and further welcome the opportunity to speak with you regarding the specifics of the report and to provide additional information or answer any questions you may have.

Sincerely,

Linda L. Robertson
Assistant Secretary
(Legislative Affairs and Public Liaison)

Enclosure

Multilateral Development Banks
Status of Negotiations and Replenishments
December 1995

International Development Association (IDA)

More than thirty donors are engaged in negotiations on an eleventh replenishment of the International Development Association (IDA 11) to fund IDA lending for the world's poorest countries in the three-year period beginning July 1, 1996. There have been five negotiating sessions this year, the first in mid-February and the latest in mid-November.

The United States' core messages during these discussions have been:

(1) strong support for IDA's efforts to help the poorest countries reduce poverty and adopt the sound policies needed to achieve self-sustaining economic growth;

(2) our intention to meet existing U.S. financial commitments to IDA;

(3) the importance of concentrating concessional resources on areas of greatest need, effective performance, and maximum development impact;

(4) our inability to make any commitment to IDA-11 in advance of completion of the FY 1996 budget process and adequate consultations with the Congress; and,

(5) the need to ensure that any new U.S. funding commitment reflects U.S. budget realities and has the support of the Congress.

The $700 million approved for FY96 by the House-Senate Foreign Operations Conference in October would leave the United States with $934.5 million in unmet financial commitments to IDA 10. This poses major uncertainties both for U.S. participation in IDA 11 and for the participation of other donors committed to the principle of equitable burden sharing. Common concerns expressed by other donors are that the current U.S. position represents a serious threat to:

- the integrity and reliability of U.S. international commitments;
- U.S. influence in the institution; and
- the multilateral approach to development, including organizations beyond IDA.

Germany and Canada have already exercised their right to reduce their IDA 10 contributions commensurate with U.S. funding shortfalls; in both cases these pro rata reductions are required by domestic legislation. Given the other donors' very great concern about the expected level of our FY 1996 funding, more are now likely to follow suit.
IDA 11 negotiations will resume December 14-15 in an effort to secure agreement by mid-January, at the latest, in order to avoid disrupting IDA's ability to undertake longer-term

program and project preparation. Donors are considering variations of funding options that leave the door open for "special" contributions, i.e. bilateral contributions to IDA above and beyond what might be provided on the basis of existing linkages to the U.S. contribution.

Some donors have indicated that they will not make supplemental contributions to IDA unless they get a larger share in the Bank itself (i.e., in the IBRD). Japan, in particular, views its 6 percent voting power in the IBRD as low vis-a-vis its position as IDA's largest current donor (more than 20 percent). While the IBRD share issue can be addressed in a number of ways, the likely outcome would be an erosion of the U.S. voting share, currently 16.89 percent. A 15 percent share is required to maintain a veto over charter amendments.

Many other donors support procurement restrictions on any special funds they provide over and above those they contribute pursuant to established burden sharing criteria, restrictions that would specifically bar access to U.S. firms. We are on record opposing any procurement restrictions which would disadvantage U.S. firms and the U.S. economy.

The Administration continues to believe that IDA advances important U.S. economic and foreign policy interests, and that U.S. participation in IDA is a good long-term investment for the United States. IDA funding encourages the world's poorest countries to adopt open market reforms, promote the private sector, and reduce poverty. This promotes global economic growth, integration and stability, expands markets for U.S. trade and investment, and helps to consolidate democracy and strengthen civil society.

In upcoming meetings, we face two inter-related questions:

(1) How can we best structure U.S. participation in an IDA 11 agreement?; and

(2) What might be the level of a U.S. financial commitment to IDA 11?

Our ability to responsibly answer these questions will rely in large part on conclusions to be drawn from a direct and meaningful dialogue with the Congress.

African Development Bank

Negotiations for a 7th replenishment of the African Development Bank Group's concessional lending window -- the African Development Fund -- have been re-started in the wake of agreement to a strengthened credit policy determining the terms of borrowers' access to Bank group resources. Essentially, the Bank agreed to adopt World Bank guidelines, under which market-rate funds would be directed only to creditworthy borrowers. In addition, the Bank has elected a new President committed to reform and is moving ahead with major reforms in a variety of priority areas.

The Fund's mandate is to extend concessional loans to the poorest African countries to meet critical social sector (e.g., primary health care, basic education, and poverty alleviation) and infrastructure needs, and to promote market-oriented economic policy reforms. The United

States has strong humanitarian, strategic and commercial interests in helping these nations meet their basic needs and lay the foundation for future prosperity. In the long term, effective concessional assistance will contribute to the development of democratic, market-based economies which nurture new markets for US trade and investment.

This Administration has been actively pushing for reforms at the Bank. To emphasize the need for reform, the Administration withheld contributions to the Fund (and Congress subsequently rescinded funds for those contributions), even though participation in AfDF-7 had been authorized by the Congress and funds for the first tranche of the U.S. contribution had been appropriated. These efforts have yielded a substantial reform program at the Bank; as a result, the Administration is of the view that a resumption of discussions is warranted.

The reforms now underway in the African Bank are focussed on improving the quality of the Bank's loans and management. We have been successful at achieving many of our reforms during the AfDF-7 negotiations. They include, among others, (1) greater access to information; (2) creation of an independent inspection function similar to the World Bank's; and (3) greater emphasis on performance-based allocation of Fund resources. There is agreement on additional fundamental reforms, including:

- A major staff reduction in the context of a complete reorganization.
- A thorough review and restructuring of individual country portfolios.
- An external audit of the Bank's operations, commissioned by the Bank's Governors (including the US). Separately, a review of the Bank Group's operations is due to get underway shortly.
- External comptrollers are being recruited to tighten the Bank's cost controls.

Steady progress in implementing these reforms is an important benchmark, for us as well as all other donors, for the successful conclusion of the African Development Fund negotiations.

We will consult further with Congress about the possible scope of a U.S. contribution to this replenishment, in the form of an annual commitment for a 3 year period. The structure of payments that we would propose will depend on when negotiations conclude.

Negotiations for a 5th General Capital Increase for the African Development Bank have recently begun. While it is too early to comment with any precision on possible capital requirements, or the direction these negotiations will take, we will use the discussions to reinforce and deepen the reform process discussed above.

<u>Asian Development Fund</u>

The Asian Development Fund (ADF) currently has sufficient resources to fund operations only through the end of calendar 1996. The U.S. pledged $680 million to the current funding pool (ADF-6), which was agreed in 1991.

As a result of successful U.S.-led efforts during negotiations on the 1994 general capital increase for the Asian Development Bank Group (ADB) and ADF-6, the ADB has adopted an extensive set of major operational reforms, implementation of which is already underway. Greater emphasis is being placed on promoting the private sector, investing in human capital through increased social sector lending (up to 40 percent of loan volume), creating economic opportunities for the poor, and protecting the environment.

- The ADB is giving much greater emphasis to private sector development in part through increased use of guarantees and co-financing, a specific allocation of $500 million for private sector operations, and introduction of financial advisory services.

- New policies on forestry, energy and resettlement, preparation of environmental impact assessments at the project design phase and direct lending for the environment will help put the region on an economically and environmentally sustainable growth path.

- Stronger emphasis on country performance in allocating resources and a new Board-approved policy on good governance (i.e., transparency, accountability, public sector reform, and human resource development) will contribute to improved economic and public sector management.

- Internal management improvements include: more systematic strategic planning; detailed country portfolio reviews; implementation of an action plan to improve project quality; and a major reorganization along geographic lines to make country operations more cohesive.

- In response to strong U.S. urging, the institution has made itself more accountable and available to the public through establishment of an information disclosure policy based on the presumption of disclosure, creation of an independent inspection panel, adoption of procedures for systematic consultations with project-affected persons, and a stronger internal audit function (along the lines of functions of USG inspectors general); and,

- The 1995 budget contains administrative costs to zero real growth, excluding a one-time early-out program for Bank staff. First-class travel has been eliminated.

Asian Development Fund donors met in Amsterdam in November to begin what is expected to be a thorough examination of the future of ADF. The views articulated by the United States in Amsterdam tracked closely those we have expressed in IDA negotiations:

(1) We maintain a strong commitment to ADF and its work to reduce poverty.

(2) We are giving highest priority to meeting outstanding commitments and are not prepared to make any new commitment at this time and in advance of adequate consultations with Congress.

(3) The $100 million approved by the House-Senate Foreign Operations Conference in October would leave the United States with $337 million in unmet financial commitments.

(4) Development of a long-term ADF strategy needs to reflect donor budget constraints and the impact of continued economic growth within the region.

(5) Broadening regional donor support to include higher-income regionals as contributors is key to maintaining broad-based support among traditional donors.

Other donors shared many of our views. However, serious concerns were expressed about unmet commitments, which amount to about $1 billion and which could, if paid, fund ADF operations well into calendar 1997. Most of the $1 billion is directly linked to U.S. payment shortfalls, as other donors have withheld their contributions in direct proportion to those shortfalls.

As in the IDA negotiations, some donors raised the possibility of establishing alternative arrangements for "special funds" which might variously change voting shares to reflect actual contributions and/or restrict procurement bidding rights to contributions made as scheduled. No specifics were discussed.

The next meeting will be held in late February, followed by a third meeting at the end of April.

<u>Bank for Economic Cooperation and Development in the Middle East and North Africa</u>

Negotiations have been successfully concluded on the establishment of a private sector-focused development bank, including an OECD-like policy Forum, to support the peace process in the Middle East. Agreement on the Articles of the Bank capped nearly a year of negotiations begun when Egypt, Israel, Jordan, and the Palestinians proposed that a regional development bank could effectively promote regional economic growth and integration, and help cement the political gains achieved at the negotiating table. The announcement of the Bank was a centerpiece of the October 29-31 Amman Economic Summit.

The Bank will have a total capital of $5 billion, which is to be paid in over a five year period. 75% of members' contributions will be in the form of callable capital. The U.S. has indicated that it would take a share of 21%, which, under the draft Articles of Agreement, would give us decisive influence (i.e., veto power) on key issues such as admission of new members. The Administration request for authorization and appropriations for paid-in capital for the Bank, expected to be $52.5 million per year, will be part of its FY97 budget request.

The Administration's support for establishment of this institution, and for a significant U.S. share, is based on a number of considerations:

- The Bank fills a political, as well as financial, gap where existing multilateral and private sector organizations are inadequate. The Bank will facilitate cooperation to improve the investment climate in the region through concrete investments and policy dialogue. The institution will sponsor discussions among the regional parties to identify measures that promote trade and investment liberalization, including increased regional economic integration, such as through the harmonization of regulatory regimes.

- On the political side, membership in the Bank is limited to supporters of peace and economic integration in the Middle East; members will commit to support the multilateral peace negotiations begun in Madrid, and the removal of regional trade barriers such as the Arab boycott of Israel.

- The Bank's operations will be targeted at the private sector, assist in the privatization of state-owned enterprises, and support regional infrastructure development. The Bank will make market-rate loans for projects, rather than provide broad-based budgetary or balance of payments support; there is no U.S. commitment of concessional resources.

- In order to ensure that the Bank leverages other resources into the area, without duplicating the work of existing lending institutions, investments are expected to be heavily co-financed with other multilateral and private sector sources.

It should be duly noted that the Administration understands the political and budgetary environment in which this request for authorization and appropriation is expected to be made. To this end, negotiations to establish this bank were undertaken and concluded with a realistic comprehension of budget realities confronting the Administration and the Congress. Nevertheless, establishment of this institution is vital for the reasons noted above.

European Bank for Reconstruction and Development

The European Bank promotes private sector development and the transition to democratic, market-oriented economies in Eastern and Central Europe and the former Soviet Union. The Board of Directors has begun discussions of a capital increase for the European Bank; however, discussions with capitals have not yet commenced. We expect negotiations to begin in 1996. At current lending levels, the Bank will reach its commitment limit under its present capital by the end of 1997.

TREASURY CLEARANCE SHEET

NO. 95-153092
Date ____________

MEMORANDUM FOR: ☐ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____________

FROM: Deputy Assistant Secretary Lionel C. Johnson
THROUGH: Assistant Secretary Jeffrey R. Shafer
SUBJECT: Update on IFI/Debt Funding Issues and Strategies

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
- ☐ Domestic Finance
- ☐ Economic Policy
- ☐ Fiscal
  - ☐ FMS
  - ☐ Public Debt

☐ Under Secretary for International Affairs
- ☐ International Affairs

☐ Enforcement
- ☐ ATF
- ☐ Customs
- ☐ FLETC
- ☐ Secret Service

☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
- ☐ Scheduling

☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
- ☐ E & P
- ☐ Mint
- ☐ Savings Bonds

☐ Other ____________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
JEichenberger	JBE	12/7/95	IDB	622-1231
REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer ____________ Date ____________ ☐ Executive Secretary ____________ Date ____________

DO F 80-02.1 (04/89)

TREASURY CLEARANCE SHEET

NO. 95-153092
Date

MEMORANDUM FOR: ☐ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
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REVIEWERS				

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

1996-SE-001000

ACTION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

March 7, 1996

MEMORANDUM FOR THE SECRETARY

FROM: JS Jeffrey R. Shafer
Under Secretary
International Affairs

SUBJECT: Memorandum to the President

ACTION FORCING EVENT:

Negotiations to replenish the International Development Association (IDA) are scheduled to conclude in Tokyo on March 18-19. Lionel Johnson will represent the United States.

The expected result is a one-year emergency fund without U.S. participation, which will be a bridge to a two or three-year IDA-11 agreement in which we will participate beginning in FY98. We hope to meet our outstanding IDA commitments of $934.5 million during the one-year period of the emergency fund.

You recently approved our recommendation to commit to an annual contribution of $800 million to IDA 11 beginning in FY98. I have advised Joan Spero and Dan Tarullo of our position and Lionel has worked closely with OMB. They are on board. We have begun a dialogue with the Hill on the issue. Indications are that an $800 million U.S. commitment would not be repudiated by the appropriators and is viewed as a responsible recognition of budget realities that will increase the likelihood that Congress will appropriate sufficient funding to clear U.S. arrears to IDA. Nevertheless, we will have to fight for both our FY97 payoff on IDA-10 and for money for IDA-11 in subsequent years. We believe that a $800 million U.S. commitment, along with the contributions from other donors, is sufficient to maintain IDA's important development efforts in the world's poorest countries.

As you know, the President has demonstrated a strong personal interest in IDA -- e.g., at the G-7 Halifax Summit, his World Bank/IMF annual meeting statement, his crucial intervention with Representative Callahan on behalf of IDA last October, and his informal discussions with Jim Wolfensohn. I therefore believe you should inform the President of our strategy. It is important that the President appreciate how important it is that we maintain our credibility with Hill appropriations staff -- both Democratic and Republican -- and not agree to entertain any notion of higher funding for IDA.

RECOMMENDATION:

That you sign the attached memorandum to the President bringing him up to date on the status of IDA funding.

_____ Agree _____ Disagree _____ Let's Discuss

Attachment: Proposed Memorandum to the President

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin

SUBJECT: U.S. Funding for the International Development Association (IDA)

I greatly appreciate the strong personal interest you have taken in U.S. participation in the World Bank's International Development Association, and wanted to apprise you of some important recent developments.

Negotiations to replenish IDA are scheduled to conclude March 17-18 in Tokyo. As you know, this is a major G-7 Summit issue which President Chirac raised on his recent visit, and one on which you have had personal contact with Jim Wolfensohn.

The $700 million which Congress approved last year left unpaid U.S. commitments to IDA of $934.5 million. Your budget proposals would clear these arrears in FY 1997. We cannot, however, both do this and begin contributions to a new IDA replenishment. Consequently, the IDA replenishment agreement to be concluded in Tokyo is expected to include a one-year emergency fund in which we will not participate. This emergency fund will bridge to a two- or three- year IDA agreement with U.S. participation.

I strongly believe that the United States should commit to seeking from the Congress a new annual contribution to IDA of $800 million beginning in FY1998, an appreciable reduction from the Bush Administration's commitment ($1.25 billion) that proved unfundable. This is a credible pledge which has prospects of Congressional support and also preserves U.S. interests and influence in the World Bank Group. The NEC, State and OMB are on board. We also believe funding at this level is sufficient to maintain IDA's important development efforts in the world's poorest countries. It will, for example, permit a significant increase in IDA funding for Sub-Saharan Africa. Annual U.S. funding at $800 million also strikes a sound balance between the $700 million Congress approved last year and the more than $950 million level initially sought by Jim Wolfensohn and some other donors.

Your strong interest in and public support for IDA have been very helpful in bringing these important replenishment negotiations to successful closure.

TREASURY CLEARANCE SHEET

NO. ______
Date ______

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Under Secretary Shafer

THROUGH: ______

SUBJECT: Memorandum to the President (IDA)

REVIEW OFFICES (Check when office clears)

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NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Brian G. Crowe	BGC	03-06-96	OASIA/IDB	622-1221
REVIEWERS				
Joseph Eichenberger	JBK	03-06-96	OASIA/IDB	622-1231
Lionel C. Johnson	J	3/6/96	ID	622-0154
David Lipton			I	622-1270
Vic Rojas	orally	3/7	L	622-1980

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SPECIAL INSTRUCTIONS

☐ Review Officer ______ Date ______

☐ Executive Secretary ______ Date ______

DO F 80-02.1 (04/89)

1996-SE-002937

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 24, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin R. E. R.

SUBJECT: Results of this Week's International Financial Meetings

We had an unusually useful series of international financial meetings over the last few days, much related to the series of institutional initiatives that you proposed at Halifax in 1995. The main conclusions follow.

World Economic Growth

The IMF and most private forecasters are projecting moderate growth in the G-7 this year -- roughly 2.0 percent. This, combined with the improved outlook in Mexico and continued strong growth in our major ... should mean that U.S. exports will continue ... year and our trade deficit shoul... ... will contribute positively to U.

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- United States

  We are in an enviable ... the lowest budget deficit, ... best performance creating ...

- Europe

  The German central ba... ... ve of our meeting, but the ... lt combination this year ... ment and large budget defi...

- Japan

  The Japanese economy is showing some signs of life, but even the optimists expect relatively moderate growth. The Japanese Finance Minister agreed to **reaffirm publicly** that the "top economic priority of the Japanese Government is to ensure a strong domestic demand led recovery."

There was considerable satisfaction with G-7 cooperation over last year in exchange rates as the dollar rose six percent in trade weighted terms since April 1995. The dollar's appreciation has reduced upward pressure on interest rates.

Halifax Followup

We have made a significant amount of progress on the U.S. initiatives that you introduced at the Halifax Summit last year. Implementation of these initiatives will improve our capacity to deal with new challenges in the world economy and financial markets.

- The IMF has adopted a set of disclosure standards which will improve the financial markets' ability to anticipate and thus avert financial crises.
- The G-10 Finance Ministers and Central Bank Governors endorsed a set of recommendations on ways to improve the resolution of "Sovereign Liquidity Crises," of the type Mexico experienced. This will help ensure that private investors bear more of the burden in the future.
- Following the reforms we have been pushing, the Development Committee of the World Bank and the IMF adopted a detailed set of recommendations for improving the effectiveness of the multilateral development banks.
- Financial regulators have reached agreement on a new initiative to enhance cooperation in supervision of globally active trading groups. This should help reduce some of the risks that have accompanied financial innovations and the integration of global capital markets.

Although concrete progress was also made on two additional fronts -- debt reduction and expanded financing arrangements -- significant additional movement may require your involvement:

- We reached agreement on a set of principles for the establishment of new arrangements that would increase by $25 billion the resources available to the IMF to respond to financial crises. The next step is to negotiate a detailed framework that is acceptable to the Germans and other members of the G-10, in addition to potential new participants in Asia.
- The G-7 agreed to encourage the IMF and the World Bank to put together a plan for resolving the debt burdens of the poorest developing countries, financed largely by the

resources of these institutions. However, this may require agreement to use a small part of some of the IMF's gold, which the German's and some others in the G-7 currently oppose.

Russia

- The Russia team joined part of the G-7 meeting in addition to meeting with me bilaterally. It appears that the IMF will be able to continue providing support through the election. We stressed the importance of paying public salaries and maintaining promised pensions, while complying with the recently approved $10 billion extended IMF program.

- With our strong support, the G-7 should be able to agree to major rescheduling of Russia's debts before the elections. This will be the first multi-year rescheduling since Russia began its reforms. The Russians tell us that putting the debt problem behind them is very salient for President Yeltsin.

Bosnia

- The G-7 were pleased that the Brussels donor conference had succeeded in mobilizing the targeted $1.2 billion. But we all agreed that the key was to stress implementation: donors had to implement their support more rapidly; the parties to the Bosnia conflict needed to comply fully with the Dayton Accords and the Bosnian authorities needed to build financial institutions and structures which are a prerequisite for much of the international community's support.

1997-SE-010321

DEPARTMENT OF THE TREASURY
WASHINGTON

9/25/97

MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

FROM: Meg Lundsager
Deputy Assistant Secretary (International Trade and Investment)

SUBJECT: Fast Track: Labor and Environment Initiatives in the International Financial Institutions and NADBank

In response to Senator Daschle, the NEC has been heading an interagency team to develop a set of proposals for improving international consideration of labor and environmental issues that would fall outside of Fast Track or implementing legislation. Treasury has participated to discuss possible labor and environmental initiatives in the international financial institutions, as well as possible actions to improve the operations of the NAFTA institutions (including the North American Development Bank). The papers that we have sent to the NEC are attached.

__Improving NAFTA Institutions__

As part of this effort, the NEC has been scrambling to develop "initiatives" to improve the operations of existing NAFTA institutions and has sought our input on the North American Development Bank (NADBank) and Border Environment Cooperation Commission (BECC). In the past 6-12 months, we have made significant strides in upgrading the capacities of both institutions, in particular by establishing (1) cofinancing arrangements with grant programs to make projects affordable, and (2) technical assistance programs to help border communities and utilities develop and operate projects. These efforts are beginning to have an impact, and the pace of project development and approval will increase during the 1997-99 period.

In response to NEC requests for additional action, we further proposed the following:

- Certify and approve financing for important **wastewater projects for the Mexican border cities of Tijuana and Juarez** by the end of 1997.

- **Expand the technical assistance programs** of the BECC and NADBank, as needed.

  -- Achieve BECC commitments and disbursal of funds under its $10 million project development assistance program (PDAP) by the end of the year. The BECC and EPA are prepared to infuse additional funding into the PDAP program, once existing resources have been committed and produced results.

- Pursue with the NADBank Board a further increase, as needed, of the resources devoted to its institutional development program (recently increased from $2 million to $4 million).

- Stand prepared to seek **additional appropriations for the EPA border grant program** in FY 1998-2001. These resources will be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects. The NADBank is also working out cofinancing arrangements with Mexican agencies.

- The NADBank is prepared to work with the State Revolving Funds (SRFs) in the U.S. border states to establish **debt service reserve funds** designed to help smaller U.S. communities to access the tax exempt bond market.

Now the NEC wants even more. We have suggested two ideas (which are incorporated into the final attachment):

- **Expedite the approval process for small projects** proposed by smaller border communities. In many cases, small projects (e.g., less than $100,000) could be eligible for expedited certification as a group and for a NADBank line of credit, provided they are sponsored by an appropriate state or federal agency (i.e., state revolving funds such as the Texas Water Development Board, a Mexican federal agency such as CNA).

- Establish **a "micro-funding" program** to assist residents in poor communities in financing residential hook-ups of water and wastewater services by certifying and funding through a municipal or other public intermediary.

We believe that there is not much more we can suggest operationally without either a significant change in Treasury policy (e.g., tax exempt status for NADBank borrowing) or undermining the financial integrity of the Bank.

<u>Labor/Environment Initiatives in the International Financial Institutions</u>

The Secretary's speech at the World Bank/IMF Annual Meeting earlier this week highlighted our environmental and labor priorities in the international financial institutions and represented the Administration's first tangible response to Senator Daschle's concerns. Additional ideas on the environmental front include:

- proposing that IDB create an independent **Advisory Committee** comprised of senior IDB officials, NGO representatives, and others to examine environmental issues arising from prospective operations and to make specific recommendations to the Bank.

- pressing for significant **increases in direct lending for environment** and natural resource management projects.

- Ensuring the **effectiveness of public information disclosure** for environmentally sensitive projects (compliance with the Pelosi Amendment) and the practices of the independent Inspection Panel established to examine alleged non-compliance with Bank policies. Assessing the Inspection Panel's success at recommending ameliorative measures, as appropriate.

Additional ideas on the labor front include:

- Proposing a **Summit of the Presidents of the IFIs and the Director General of the ILO** to reinforce the commitment of the institutions to working together.

- Actively promoting our proposed **joint IMF-World Bank conference** on worker rights issues and pursuing explicit commitments in the institutions to tangible progress within the IFIs.

- Actively promoting our proposal for the **development of a draft screening mechanism,** which is now under discussion with the MDBs. The focus is internal analytical processes to ensure that worker rights issues are taken systematically into account in MDB operational planning and programming.

- Urging the MDBs to investigate ways to increase **technical assistance and direct lending** to promote the adoption of fair labor standards and worker rights and provide adequate budgets.

- Urging the **IMF to examine the link** between core labor rights and long-term macroeconomic performance.

Environmental Issues and the Inter-American Development Bank

Highly effective US policy advocacy throughout the Clinton Administration has succeeded in systematic incorporation by the Multilateral Development Banks (MDBs) of the full range of environmental issues into their operations, including through advance consultations with the public. At the IDB, this includes specific policies on involuntary resettlement and marine resources protection and the placing of environment staff in regional divisions and a central environment division.

However, we suggest proposing additional steps to further incorporate mainstream environmental issues into the operations of the MDBs, with a focus on the IDB, and to promote the flow of resources to environmental projects:

- Secretary Rubin will highlight USG priorities in his **speech** at the World Bank/IMF Annual Meeting this month.

- Secretary Rubin will write his Finance Ministry counterparts and the President of the IDB suggesting that the Bank create an independent **Advisory Committee** comprised of senior IDB officials, NGO representatives, and others to examine environmental issues arising from prospective operations and to make specific recommendations to the Bank.

- US will press for significant **increases in direct lending for environment** and natural resource management projects; in the IDB in 1996 such funding rose to $815 million due in large part to our advocacy and we will continue to press for a higher share of lending to be dedicated to these projects. High priority projects to include moving domestic energy prices to world price levels, achieving clean air and water, and promoting international cooperation and action when externalities cross borders.

  -- US will pursue vigorously international support for its proposed **$250 million fund** for environmental initiatives as negotiations proceed for continuing the concessional window of the IDB.

- The US will continue to scrutinize closely the **effectiveness of public information disclosure** for environmentally sensitive projects (compliance with the Pelosi Amendment), focusing on the required advance consultation with affected and interested people.

- The US will examine closely the practices of the **independent Inspection Panels** established to examine alleged non-compliance with MDB policies. The Inspection Panel's success at recommending ameliorative measures, as appropriate, will be assessed. The US will make specific proposals for improvements, as required. Treasury will inform Congress of the success of these efforts.

- **The U.S. will continue to urge the IMF**, in program design and annual consultations with members, **to consider the link** between the environment and the economy and, where possible, to encourage countries to correct related market failures and to adopt appropriate economic policies in support of macroeconomic stability.

Treasury
September 16, 1997

Labor Standards and Rights at the International Financial Institutions

The Treasury Department has taken the lead among major donor members of the International Financial Institutions (IFIs) to incorporate worker rights issues into their activities and to develop a "screening mechanism" to evaluate the impact of labor issues on lending programs.

Tripartite US Proposals for Labor Rights and Standards at the IFIs

Enhanced USG Internal Deliberation

- In consultation with Secretary Herman, Secretary Rubin will propose **formation of an interagency team**, including the Labor, State and Commerce Departments, to explore international worker rights issues more broadly and to examine ways to further incorporate these issues more systematically into the work of the IFIs, with the goal of ensuring that program countries take all steps possible to guarantee labor rights and adopt fair labor practices.

Securing International Focus on Priorities

- Secretary Rubin will highlight USG priorities in his **speech** at the World Bank/IMF Annual Meeting this month.

- The US will propose a **Summit of the Presidents of the IFIs and the Director General of the ILO** to reinforce the commitment of the institutions to working together.

Heightening IFI Priority to Labor Issues

- The U.S. will actively promote its proposed **joint IMF-World Bank conference** on worker rights issues and will pursue its explicit commitments in the institutions to tangible progress within the IFIs. Such a conference would be the occasion for a major speech by a senior official and could bring together senior IFI and ILO officials, as well as academics, and representatives of NGOs.

- The US will continue to promote vigorously its proposal for the **development of a draft screening mechanism**, which is now under discussion with the MDBs. The focus is internal analytical processes to ensure that worker rights issues are taken systematically into account in MDB operational planning and programming.

- The US will propose that the **World Bank establish an office** dedicated to analysis of labor issues, with direct input into the program and lending activities of the Bank. Continued and regularized direct contacts between ILO and IFI staff will be encouraged.

- The U.S. will explore ways to ensure that **IFI budgets** contain sufficient resources to conduct screening operations and similar analytical functions.

- The MDBs will be urged to investigate ways to increase **technical assistance and direct lending** to promote the adoption of fair labor standards and worker rights.

- The U.S. will urge the IMF **to examine the link** between core labor rights and long-term macroeconomic performance, for possible inclusion of such rights in the Fund's new governance policies.

- The IMF will be urged to further emphasize the importance of labor-related issues in its **annual country reviews** of member countries, with an eye toward more active promotion of improved standards and expanded rights.

- At our strong urging, the World Bank has done a paper on **child labor**, outlining specific proposals for more active Bank engagement. We will pursue vigorous follow-up.

Treasury
September 16, 1997

NORTH AMERICAN DEVELOPMENT BANK (NADBANK)

Recognizing, and sharing, the concerns that have been raised with regard to the need for additional resources for border clean-up, the Administration is committed to the pursuit of the following objectives:

- Expand the technical assistance programs of the BECC and NADBank.

- Achieve BECC commitments and disbursal of funds under its $10 million project development assistance program (PDAP) by the end of the year.

  -- The BECC and EPA are prepared to infuse additional funding into the PDAP program, once existing resources have been committed.

- Pursue with the NADBank Board a further increase, as needed, of the resources devoted to its institutional development program (recently increased from $2 million to $4 million).

- Stand prepared to seek additional appropriations for the EPA border grant program in FY 1998-2001. These resources will be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects.

  -- The NADBank is working out cofinancing arrangements with Mexican agencies to provide affordable financing.

  -- The NADBank is prepared to work with the State Revolving Funds (SRFs) in the U.S. border states to establish debt service reserve funds designed to help smaller U.S. communities to access the tax exempt bond market.

Background: Current Status of Environmental Operations

The NADBank and its sister organization, the Border Environment Cooperation Commission (BECC), are fully operational and already having an impact in the U.S.-Mexico border region.

- The BECC and the NADBank are designed to develop and finance environmental infrastructure projects, with a priority for wastewater treatment, drinking water, and municipal solid waste projects.

- The BECC has certified 16 projects, and the NADBank has already approved financial packages for 4 projects on both sides of the border. Seven projects, including three NADBank projects, are already under construction.

- The NADBank and BECC have developed a work plan for accelerating the pace of project development. In cooperation with EPA, CNA and state officials on both sides of the border, they have identified more than 30 projects and potential projects with a total cost of more than $500 million as the core of their 1997-99 work plan.

The NADBank and BECC have established technical assistance programs to assist communities in project development and to upgrade the management capacity of local utilities.

- The BECC, in cooperation with EPA, has established a $10 million program to provide communities with project development assistance (PDAP).

- The Bank has established a $2 million institutional development program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage, and solid waste management services. The NADBank has already approved $1.8 million in technical assistance for 12 projects under its Institutional Development Program (IDP).

The NADBank is putting together affordable financing packages for poor border communities by establishing cofinancing arrangements with U.S. and Mexican grant programs, as well as other concessional financing.

- For example, the Bank has recently entered into a Cooperative Agreement with EPA for a Border Environment Infrastructure Fund (BEIF) that will enable the Bank to combine its financing with up to $170 million in EPA grants.

Treasury
September 16, 1997

NORTH AMERICAN DEVELOPMENT BANK (NADBANK)
Environmental Operations

<u>Recent Program Upgrades</u>

- The NADBank and EPA have established the Border Environment Infrastructure Fund (BEIF), under which the Bank will administer $170 million in EPA grants in conjunction with its lending in order to put together affordable financing packages for poor border communities. The Bank is establishing additional cofinancing arrangements with other U.S. and Mexican grant programs.

- The NADBank and BECC have established technical assistance programs to assist communities in project development and to upgrade management of local utilities.

  -- The BECC, in cooperation with EPA, has established a $10 million program to provide communities with project development assistance (PDAP).

  -- The Bank has established a $2 million institutional development program (IDP) to improve the management capacity of local utilities. The NADBank has already approved $1.8 million in IDP assistance for 12 projects.

- The NADBank and BECC, in cooperation with EPA, CNA and state officials on both sides of the border, have developed a work plan for accelerating the pace of project development. They have identified more than 30 projects and potential projects with a total cost of more than $500 million as the core of their 1997-99 work plan.

<u>Next Steps</u>

- Certify and approve financing for important wastewater projects for the Mexican border cities of Tijuana and Juarez by the end of 1997.

- Expand the technical assistance programs of the BECC and NADBank, as needed.

  -- Achieve BECC commitments and disbursal of funds under its $10 million project development assistance program (PDAP) by the end of the year.

  -- The BECC and EPA are prepared to infuse additional funding into the PDAP program, once existing resources have been committed and produced results.

  -- Pursue with the NADBank Board a further increase, as needed, of the resources devoted to its institutional development program (recently increased from $2 million to $4 million).

- Stand prepared to seek additional appropriations for the EPA border grant program in FY 1998-2001. These resources will be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects.

  -- The NADBank is working out cofinancing arrangements with Mexican agencies to provide affordable financing.

- The NADBank is prepared to work with the State Revolving Funds (SRFs) in the U.S. border states to establish debt service reserve funds designed to help smaller U.S. communities to access the tax exempt bond market.

<u>Potential Additional Steps</u>

- Expedite the process for approving small projects proposed by smaller border communities.

  -- Small projects (e.g., less than $100,000) could be eligible for expedited processing, provided they are sponsored by an appropriate state or federal agency (i.e., state revolving funds such as the Texas Water Development Board, a Mexican federal agency such as CNA).

  -- In many cases, like projects could be considered for certification as a group and financed through a NADBank line of credit with an appropriate state or federal agency, while still meeting the BECC-NADBank requirements for project quality and review.

- Establish a "micro-funding" program to assist residents in poor communities in financing residential hook-ups of water and wastewater services by certifying and funding through a municipal or other public intermediary.

September 25, 1997

TREASURY CLEARANCE SHEET

NO. ____________
Date ____________

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____________

FROM: Deputy Assistant Secretary Lundsager

SUBJECT: **Fast Track: Labor and Environment Initiatives in the International Financial Institutions and NADBank**

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
- ☐ Domestic Finance
- ☐ Economic Policy
- ☐ Fiscal
  - ☐ FMS
  - ☐ Public Debt

☐ Under Secretary for Int'l Affairs
- ☐ International Affairs

☐ Enforcement
- ☐ ATF
- ☐ Customs
- ☐ FLETC
- ☐ Secret Service

☐ General Counsel
- ☐ Inspector General

☐ IRS

☐ Legislative Affairs
- ☐ Management
- ☐ OCC

☐ Policy Management
- ☐ Scheduling

☐ Public Affairs/Liaison
- ☐ Tax Policy

☐ Treasurer

☐ E & P
- ☐ Mint

☐ Savings Bonds

☐ Other ____________

NAME (Please Type)	INITIAL	DATE	OFFICE/ROOM NO.	TEL. NO.
INITIATOR(S)				
W Schall			ITT/4436	622-0208
REVIEWERS				
M Lundsager			IT/3205	622-0168

SPECIAL INSTRUCTIONS

☐ Review Officer ____ Date: ____ ☐ Executive Secretary ____ Date ____

INTERNATIONAL MONETARY FUND

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Deputy Secretary Summers to Secretary Rubin re: Appointment of Michel Camdessus for a Third Term as Managing Director of the International Monetary Fund (3 pages)	04/08/96	P5

This marker identifies the original location of the withdrawn item listed above. For a complete list of items withdrawn from this folder, see the Withdrawal/Redaction Sheet at the front of the folder.

COLLECTION:

Clinton Administration History Project

OA/Box Number: 24126

FOLDER TITLE:

[History of the Department of the Treasury - Supplementary Documents] [31]

jp27

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
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P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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TREASURY CLEARANCE SHEET

NO.____________
DATE:__________

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____________

FROM: Deputy Secretary Summers
THROUGH:
SUBJECT: Appointment of Michel Camdessus for a third term as Managing Director of the IMF.

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
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☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ____________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Susan Hart	[illegible]	4/8/96	OASIA/IMF	622-0112
REVIEWERS				
Under Secretary Shafer			International Affairs	622-0060
Assistant Secretary Lipton			International Affairs	622-1270
Ed Knight			General Counsel	622-0287

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

DO F 70-02.1 (04/89)

MD3rdterm

Drafted by:	Susan J. Hart/IMF SH	2-0112
Cleared by:	Jim Lister/IMF	2-0112
	~~Rob Kahn/IMI~~	~~2-0138~~
	Russ Munk/GI RM	2-1899
	Karin Lissakers/OUSED	623-7759
	Timothy Geithner/IM	2-0656

Revised 4/8/96 per comments by u/s Shafer

1997-SE-009177

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

December 11, 1996

MEMORANDUM FOR SECRETARY RUBIN

FROM: DEPUTY SECRETARY SUMMERS

SUBJECT: IMF Capital Account Convertibility

The G-10 Deputies met at British instigation to discuss possible reforms in the IMF articles to help the IMF promote capital account liberalization. Key considerations include:

Reasons for Caution:

- We do not want to get the IMF more systematically involved in financing capital outflows.
- We need not be religious on liberalization. Sometimes, there may be a case for speed-bumps, and sometimes liberalization should be measured to promote stability.
- It may not be a good idea to overload the agenda on IMF-related issues.

Reasons for Serious Consideration:

- Current articles really are outmoded in the modern era. See Karin's paper attached). The IMF often finances capital flows rather than current account deficit, -- (e.g., Mexico, 1995).
- Broad liberalization is a good free-market thing we want IFI's to promote. It may help move the quota increase by being a private sector supporting thing.
- We are going to be amending the articles anyway for the SDR so combining steps is good in terms of conserving Congressional effort.
- This connects very strongly with our "truly global capital market" theme. Any change can be shaped to contain appropriate qualifications.

Conclusion

We should keep this issue open, talking internationally and seeing if a substantively constructive set of changes can be agreed, possibly in the context of a quota increase.

Agree __________ Disagree__________ Let's Discuss__________

cc: Jeff Shafer
David Lipton

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. memo	Karin Lissakers (IMF) to Tim Geithner re: G-10 Discussion on Capital Account Convertibility (2 pages)	12/03/96	P1/b(1) Unclass.

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RESTRICTION CODES

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

INTERNATIONAL MONETARY FUND

cc Summers Lipton

To: Robert Rubin
From: Larry Summers
Re: IMF Capital Account Convertibility & British initiative

The G-10 deputies met to discuss possible reforms in the IMF articles to ~~aid~~ help the IMF promote capital account liberalization. Key considerations include:

Reasons for Caution:

- We do not want to get IMF more systematically involved in financing capital outflows.
- We need not be religious on liberalization. Sometimes, there may be a case for speed-bumps, And ~~sometimes~~ liberalization should be measured to promote stability.
- It may not be a good idea to overload the agenda w IMF related issues.

Reasons for ~~aggressive~~ Serious Consideration in the modern era.

- Current articles really are outmoded IMF finance of the ~~fees~~ not add to countries current account deficits — (e.g. Mexico 1995). ~~For~~ See ~~Mexi~~ Lipton's paper attached.
- Broad liberalization is a good free-market thing we want IFI's to promote. It may help move the ~~agenda~~ increase by being a ~~good~~ private sector supporting thing.

INTERNATIONAL MONETARY FUND

- We are going to be amending the articles anyway for the SDR so combining steps is good in terms of conserving Congressional effort.

- This connects very strongly with our "truly global capital market" theme. Any change can be shaped to contain appropriate qualifications.

Conclusion

We should keep this issue open talking internationally and seeing if a substantively constructive set of changes can be agreed, possibly in the context of a quota increase.

___ Agree ___ Disagree ___ Let's Discuss

FAX TRANSMISSION

AMERICAN EMBASSY PARIS
TREASURY REPRESENTATIVE

33-1-4312-2543
FAX: 33-1-4312-2723

To: Beth Lundquist **Date:** December 11, 1996

Fax #: **Pages:** 3, including this cover sheet.

From: Stephen P. Donovan SPD

Subject: Memorandum for Typing -- IMF Capital Account Convertibility

COMMENTS:

Tim Geithner asked me to fax this to you to prepare for Larry Summers' signature. At Tim's request I am also faxing copies of this to Jeff Shafer and David Lipton.

cc: Under Secretary Shafer
Assistant Secretary Lipton

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	Karin Lissakers (IMF) to Larry Summers, Jeff Shafer, & David Lipton re: An IMF Agenda for the Second Clinton Administration (1 page)	01/06/97	P1/b(1) Unclass.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. memo	Karin Lissakers (IMF) to Larry Summers, Jeff Shafer, & David Lipton re: An IMF Agenda for the Second Clinton Administration (15 pages)	01/06/97	P1/b(1) Unclass.

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The Deputy Secretary of the Treasury

January 10, 1997

Bob Rubin

Bob,

This is an example of the kind of papers and thinking that a lot of parts of Treasury should be doing. I plan to seek similar products from our other ED's offices.

cc: Jeff Shafer
David Lipton
Karin Lissakers

Room 3326 622-1080

1997-SE-001105

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 31, 1997

MEMORANDUM FOR SECRETARY RUBIN

FROM: Timothy F. Geithner TG
Deputy Assistant Secretary (International Monetary & Financial Policy)

SUBJECT: IMF Quota Increase

You asked for a summary of the case for the IMF quota increase. The main arguments in favor are the following:

- The world economy is a substantially larger and potentially more dangerous place than when the last quota increase was agreed in 1990. Yet, the resources the IMF has available to finance adjustment and reform have declined significantly relative to growth in the world economy, world trade, and international capital flows. If they continue to shrink relative to the size of the world economy and financial flows, the IMF risks becoming marginalized to the point that it could no longer effectively support or influence members' policies, or serve as a credible international lender of last resort.

    - o In 1990, quotas were equal to 1.2 percent of world GDP. By 1995 they were 0.8 percent, and by 2002 will be around 0.5 percent. As a percent of global current account payments, quotas were 6 2 percent in 1990 and 3.7 percent in 1995, and are projected to decline to 2 3 percent in 2002.

- The changes in the international capital markets have increased the level of risk in the world economy. Countries are able to finance larger balance of payments deficits for longer periods of time, thus increasing the risk that, if things go badly, a much more substantial amount of external financing relative to the country's current account could be needed to address the problem Daily financial flows on the order of $1.5 trillion greatly exceed the IMF's lending capacity

- Even under relatively optimistic assumptions about the incidence of future crises and potential growth in demand for IMF resources, its substantial existing cushion of resources is likely to fall significantly over the next several years. Under some circumstances, a lack of useable resources could also raise questions about the liquidity of our reserve position in the IMF, including any claims arising from activation of the NAB (and therefore undermine one of the foundations for the existing no-outlay budgetary treatment).

- Without a quota increase at some time in the next couple years, the IMF could be left without sufficient resources to effectively fight the financial equivalent of the Pentagon's two and a half or three war scenario -- a series of major financial crises in a number of large emerging market economies -- even when the NAB is in place.

- The extent of U.S. strategic and economic interests around the world give us a uniquely large stake in a strong IMF.

  - A world in which the IMF was too weak to act in countries with an external financing problem would force us to provide a greater share of resources bilaterally or expose us to the damaging economic consequences -- lost output and employment, currency depreciation -- and the associated political consequences.

  - The IMF often tends to be more responsive to our policy priorities than our European allies (who might, for instance, have blocked activation of the GAB to finance a program for Mexico, had the IMF lacked resources).

  - Without adequate resources, the IMF will be less able to promote the market oriented reforms, trade liberalization, and growth-oriented policies that have played such an important role in growth in the emerging markets and transition economies.

- There is no real alternative to a quota increase at this time to provide the resources the IMF will need over the next several years The NAB and GAB in principle provide a potential bridge to a deferred quota increase, but lack the certainty of quota resources.

  - There is strong opposition to allowing the Fund to borrow from the private capital markets. Even if that opposition could be overcome and the other complications resolved, the IMF is unlikely to be able to raise a sufficient amount of money in a short enough period of time to substitute for an increase in quotas.

- The time required to complete and enact a quota increase can easily take as long as two years from the completion of the negotiations (the previous increase was agreed in 1990 but didn't take effect until 1992) It is thus important to begin the process several years ahead of the point when resources might fall to uncomfortably low levels.

- We have held the world off for almost two years and do not believe we could continue to do so indefinitely without significant cost to our credibility and influence in the organization, even if the financial picture permitted some delay.

- The combination of the window of opportunity provided by the first year of the second term, a possible multi-year budget agreement, the commitment of the Administration to address the UN and IFI arrears problem, our obligation to seek Congressional action on the NAB, all seem to argue in favor of a big push now for a big package.

While these are sound and, we believe, compelling arguments, you should be aware of the arguments likely to be used by opponents of an increase:

- Just as past Secretaries of Defense have sometimes found it hard to win support for substantial increases in defense spending on the basis of scary but remote two-and-a-half war scenarios, in the current environment of relative peace and prosperity the IMF's scenarios aren't as compelling as they might be if specific threats could be cited.

  However, citing such threats would risk their becoming a self-fulfilling prophecy.

- The huge increase in the availability of private capital to developing countries and the stronger financial position of many emerging market countries -- and the example of developed countries' "graduation" from the IMF -- suggest to many that the need for IMF financing has receded, not increased.

- On the basis of its own forecasts of the pace of likely normal lending, the IMF's existing cushion of resources is substantial (roughly $70 billion).

  However, there is no actuarially sound basis for forecasting the probability of shocks on the scale of Mexico. Moreover, many members' reserve positions are held by central banks which insist on assurance of liquidity of these claims, which they derive from the cushion (akin to our own justification for treatment of our claims as an exchange of assets rather than an expenditure/outlay).

- Many argue, even some within the IMF, that the bulge in demand for Fund resources due to the huge increase in IMF membership in the early 1990's has passed and that the future demand may actually decline gradually.

- Without a major crisis or strategic imperative, like Russia in the early 1990s, the case for any vote on the IMF is tough to sell.

- While many may buy the case for the NAB, a quota increase and the NAB together are hard to swallow, particularly because the arguments for the quota increase overlap with many of the arguments for the NAB.

- There is a bit of tension in arguing that IMF programs work and get countries back on their feet and that the IMF should keep getting more and more money. If adjustment programs on the scale the IMF has conducted were really successful on an enduring basis, some argue, then the institution should need less money over time, not more.

Attached is the recommendation we sent you in early December on our negotiating objectives and strategy, including some tables and charts on the financial case.

cc. Assistant Secretary Lipton

ATTACHMENT: December 2 memorandum from D/S Summers

TREASURY CLEARANCE SHEET

NO.________
DATE:_______

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ________

FROM: Deputy Assistant Secretary Geithner
THROUGH:
SUBJECT:

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt
☐ Under Secretary for International Affairs
☐ International Affairs
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☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
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☐ IRS
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☐ Management
☐ OCC
☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds
☐ Other________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
T. Geithner/J. Lister	quota-tg.rer	1/30/97	International Monetary Policy	622-0656 622-0112
REVIEWERS				
K. Lissakers	KL [illegible]	1/3./97	USED/IMF	623-7759

SPECIAL INSTRUCTIONS

☐ Review Officer Date ☐ Executive Secretary Date

Final - Lister

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

12/2/96

UNDER SECRETARY

MEMORANDUM FOR SECRETARY RUBIN

FROM: Lawrence Summers
Deputy Secretary

SUBJECT: IMF Quota Increase

We have recently undertaken a careful review of the case for an IMF quota increase. This note outlines the conclusions of our review.

- We believe we should now enter into serious negotiations on the next IMF quota increase with the objective of reaching agreement by April 1997.

- We should be prepared to support an increase of about 50 percent. A 50 percent increase, which is one half the Managing Director's favored proposal (and below what we believe is his 60 percent minimum), would restore the IMF's financial capacity relative to world output, trade, and current account imbalances to the level that prevailed at the time the last quota review was completed. A 50 percent increase also would provide a reasonable cushion to meet projected demand for IMF resources over the next five to seven years.

  A 50 percent quota increase would increase IMF quotas by $105 billion, from $209 billion to $314 billion

  The exact size of the increase in the U.S. quota won't be known until agreement is reached on apportionment of the entire quota increase between equiproportional (general flat rate) and selective or ad hoc (targeted adjustments for certain countries) components. However, assuming a 50 percent increase in total quotas and a minimum 18 percent U.S. share of the total (a 25bp drop from the current share size), the U.S. quota would rise by roughly $18.2 billion, from $38.4 billion to about $56.6 billion (These are the dollar equivalent estimates of the SDR totals at the current $/SDR exchange rate.)

- The increase would combine a general equiproportional increase with a small selective or ad hoc increase to adjust relative quotas for a number of countries whose current quotas are seriously out of line with their relative size in the world economy. We should seek to limit the size of the selective or ad hoc element to the minimum necessary so that we mitigate the resulting erosion in our voting share.

  Our current quota of 18.25 percent now conveys 17.78 percent in voting power, which is a comfortable, but not large margin over the critical 15 percent threshold required to block quota increases, changes to the IMF Articles, and certain other key votes (e.g., gold sales).

- As a condition for agreeing to an increase, we should seek agreement by the members of the IMF to a series of policy and financial reforms, designed to make it possible for the IMF to:

    - provide larger financing programs for countries that commit to strong policies and reforms;

    - make IMF programs more supportive of sustainable growth, fiscal transparency, good governance, trade liberalization and other market-oriented policies; and to impose stronger conditions on military expenditures;

    - make the institution more transparent and accountable; and

    - ensure that the financial costs of the institution are more transparent and equitably shared. *(A separate note outlining our policy conditions is being prepared.)*

- We should make the case for an agreement along these lines to key members of Congress and staff over the next few weeks. Subject to further consultation with the White House, our current views on the sequencing of how we approach the Congress for the necessary authorization and appropriation are as follows:

    - Include a general marker in the President's initial FY1998 budget, stating that we are in the process of negotiations on an IMF quota increase without specifying numbers. This allows us to preserve the possibility of seeking Congressional authoritization in FY 1998 without committing us to do so.

    - Seek to include an "adjustment" for a quota increase in the discretionary spending caps on budget authority in the budget resolutions and the budget statute amendments in the spring of 1997.

    - Defer a decision on whether to submit a formal request in FY1998 (as an amendment to the President's budget request) until we see how the negotiations in the IMF and our Congressional consultations are proceeding.

In addition to whatever we decide to do on a quota increase, we are committed to seeking Congressional approval for us to participate in the New Arrangements to Borrow (authorization and appropriation for roughly $3.8 billion). We have also committed in principle to reach agreement by April 1997 to amend the IMF Articles of Agreement to provide for a special allocation of SDRs. We have not yet begun serious negotiations on the size of the allocation, but believe we can hold the increase to SDR 20 billion. This will require Congressional authorization for the United States to agree to the change in the Articles, but not any budget action or appropriation.

We would like to meet with you soon to discuss these issues and to outline in more detail the considerations involved in designing our legislative strategy.

BACKGROUND:

Current State of Play

Other Members of the IMF have been prepared for about a year to agree to a substantial quota increase. We have blocked agreement and forced a delay in the beginning of serious negotiations because we had other priorities, including the NAB, that we thought would be undermined by an early conclusion of the quota negotiations, and because we believed the IMF had sufficient resources to withstand a modest delay. We are now at the point where we will not be able to delay agreement any longer without serious potential costs to our credibility in the institution and potential practical damage to our agenda for the institution, potentially including a delay in other countries' willingness to ratify the NAB.

The Managing Director proposed a 100 percent increase in January 1996, with a minimum acceptable increase of about 70 percent. We believe his bottom line at this time is probably close to 60 percent. The rest of the membership of the IMF appears willing to accept an increase in the range of 50 to 80 percent. Few countries, if any, are now opposed to an increase. The G-7 publicly support going ahead in April with a decision to increase quotas, although privately some view the case for a large, early increase as weak. (The U.K. at one point argued for an increase of only about 25 percent.)

The support for a quota increase among the IMF membership reflects several factors.

- IMF Members generally accept the IMF's case that the Fund needs an increase in resources relatively soon if it is to be able to meet expected demand through 2002 and to be adequately prepared for an unanticipated crisis.

- IMF Members regard the NAB as a supplemental credit line that should be reserved only for the remote contingency of a severe financial crisis. They believe that the IMF should have adequate resources on its own to respond to the new potential demand of the current global financial system

- Related to this, IMF Members generally want the IMF to remain a quota-based institution, with the Fund resources supplied through members' quotas and voting shares keyed to quotas.

- Many IMF Members want an increase in their relative quota shares to reflect the increase in their relative importance in the world economy. This is more easily accommodated as part of a general increase that expands the pie, rather than through what is called an "ad hoc" increase.

- It is relatively easy for most countries to agree to an IMF quota increase. Few face a formal parliamentary approval process and, for those that do, the issue is not entangled in budget negotiations as it is in the United States.

Budgetary Treatment of IMF Quota Transactions

Since 1980, it has been established that an increase in the U.S. quota in the IMF requires authorization and appropriation of budget authority even though any amount appropriated for this purpose will not be scored as an increase in the deficit or as a budget outlay. No budget outlay occurs when the Treasury transfers dollars to the IMF because the United States receives in exchange another monetary asset in the form of a liquid, interest-bearing claim on the IMF (which is backed by the IMF's strong financial position, including its significant holdings of gold). Congress has accepted this approach since 1968. The Senate Foreign Relations has described the treatment of transactions with the IMF as follows:

> *A budget expenditure occurs only as cash is actually transferred to the IMF, either through the 25 percent reserve asset payment, or through drawdowns of the letters of credit or borrowing arrangements. However, simultaneously with such transfers, the U.S. receives an equal offsetting receipt, representing an increase in the U.S. reserve position in the IMF – an interest-bearing, liquid monetary asset that is available unconditionally to the U.S. in case of balance of payments need. As a consequence of these offsetting transactions, transfers to the IMF result in no net budgetary outlay.*

The Case for a Quota Increase

Our case for a moderate quota increase rests on the arguments outlined below.

- It is critical to U.S. interests and to the stability of the international monetary system that the IMF has adequate resources to do its job.

- The size of the IMF has declined significantly relative to the size of the world economy, international trade and global capital markets over the past two decades. Overall, an increase of roughly 60 percent in current quotas would be necessary to restore the Fund to the relative size prevailing before the last decision to increase quotas in 1990.

- At present the Fund has about $67 billion in uncommitted available resources, but the IMF projects that demand for Fund resources (net of repayments) will be $7-8 billion annually over the next 6 years. This could reduce the Fund's existing cushion of available resources quickly, leaving it dangerously exposed to unforeseen demands.

- The growth and liberalization of international capital markets have increased the level of risk in the international financial system. Countries are able to finance larger balance of payments deficits for longer periods of time, thus increasing the risk that an external financing problem will arise and the level of external finance that will be needed to address the problem.

- There is a significant number of large emerging market countries now facing increased risk of financing crisis. If more than one of these countries were to face a financing requirement even half as large as was needed by Mexico, the Fund could be left with dangerously low levels of resources.

These arguments left the other Members of the IMF prepared as early as 18 months ago to go ahead with a quota increase. We have delayed agreeing to commence serious negotiations on the size and timing of a quota increase, while pressing for agreement on the NAB. At this point, our international credibility would be damaged by further delay on the quota issue, let alone a late hour refusal to support a modest increase. Our ability to promote internal reform and programmatic changes at the Fund would be seriously compromised, and the IMF's ability to serve U.S. economic interests would be undermined.

Economic Indicator	Amount of Quota Increase Required to Restore the Relative Size of the Fund to the Level Achieved in Past Quota Reviews (In percent of present quotas)				
	Sixth Review 1976 1/ (1968-72) 2/	Seventh Review 1978 1/ (1972-76) 2/	Eighth Review 1983 1/ (1976-80) 2/	Ninth Review 1990 1/ (1981-85)2/	Tenth Review 1995 1/ (1986-90)2/ 3/
Calculated Quotas	193	137	70	62	31
Current Payments	182	128	80	66	37
GDP	98	85	58	58	19
Reserves	66	76	44	87	34
Variability of Current Receipts	385	79	69	52	16

Source: IMF, "Eleventh General Review of Quotas - The size of the Overall Increase in Quotas - Quantitative Factors," January 17, 1996, EB/CQuota/96/1. 1/ Year in which the review was completed. No quota increase was provided under the Tenth Review, however total quotas increased due to influx of new members. 2/General review period. 3/ Calculations made for the Eleventh Review, currently underway, are based on data available through the end of 1993.

(In billions of SDRs)

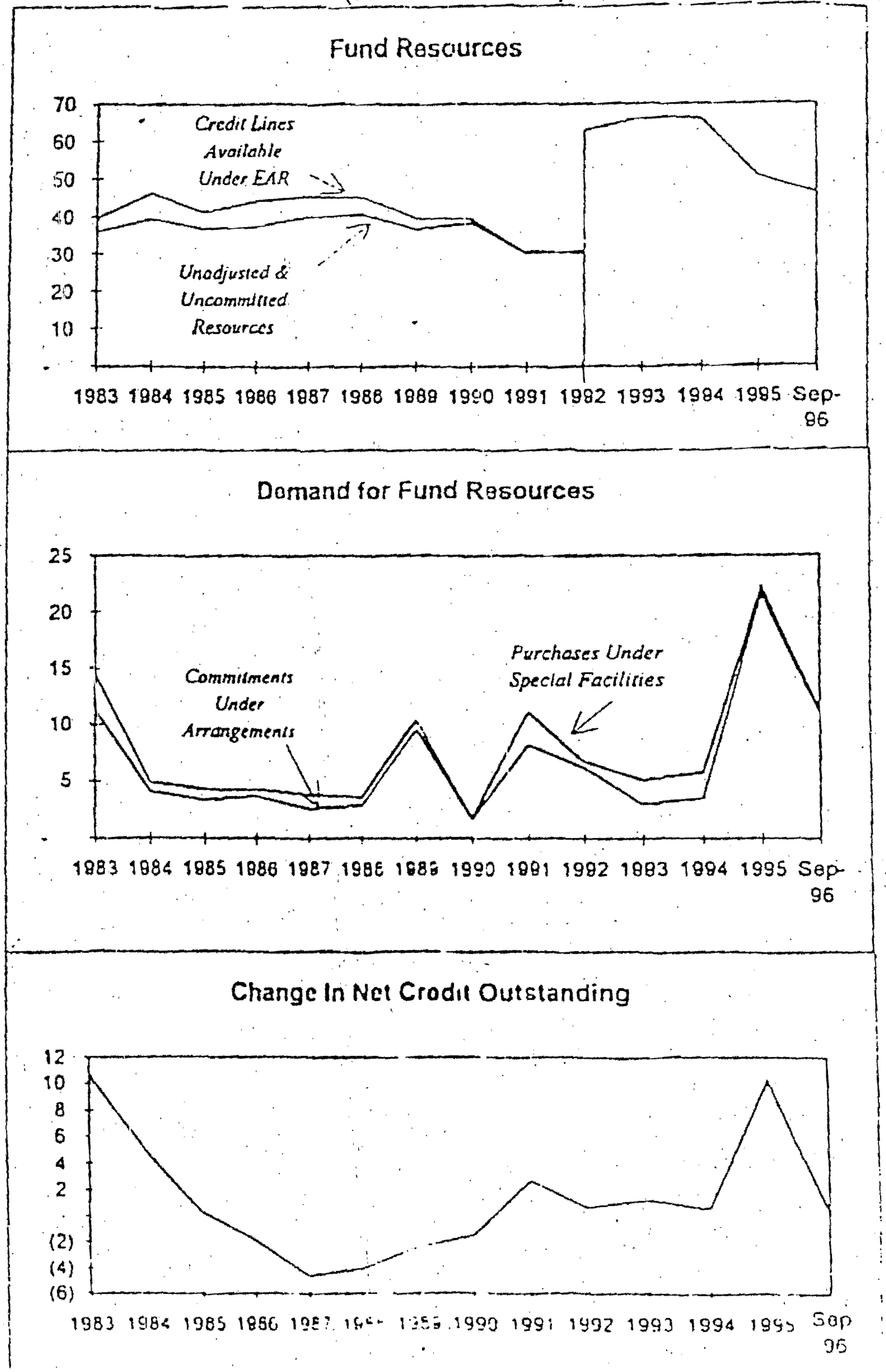

Table 1. Selected Financial Data, 1992-1997

(In billions of SDRs)

	1992	1993	1994	1995	End-July 1996	Projected 1996	Projected 1997
Total Quotas	141.4	144.8	144.9	145.3	145.3	...	...
Usable Ordinary Resources unadjusted	68.2	69.3	68.4	58.0	55.8	...	...
of which:							
(a) Uncommitted 1/	63.0	66.4	65.9	50.8	43.3	...	...
(b) Uncommitted and adjusted 2/	51.0	53.9	53.4	39.3	32.3	34.4	28.6
of which: SDR holdings	(8.6)	(6.7)	(5.5)	(0.7)	(0.9)	(1.3)	(1.3)
Gold at SDR 35 per fine ounce	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Unused GAB and Associated 3/	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Total Liquid Liabilities	33.9	32.8	31.7	36.7	38.0	39.8	42.4
(a) Reserve tranche positions	30.4	29.6	28.8	35.5	38.0	39.8	42.4
(b) Outstanding borrowing	3.5	3.2	2.9	1.1	–	--	–
Total Fund credit outstanding	27.8	29.1	30.3	41.6	42.7	44.3	47.6
of which:							
(a) General Resources Account	24.0	25.2	25.6	35.9	36.9	38.3	40.9
of which: overdue repurchases	(2.2)	(1.7)	(1.7)	(1.1)	(1.1)	...	...
(b) SAF and ESAF	3.6	3.8	4.5	5.6	5.7	5.9	6.6
(c) Trust Fund	0.2	0.1	0.1	0.1	0.1	0.1	0.1

1/ Excludes undrawn balances of commitments at July 31, 1996 which are considered likely to be drawn. These are estimated to be equal to the total amount of undrawn balances under arrangements of SDR 15.1 billion at July 31, 1996, less SDR 2.6 billion to adjust for (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) the possibility that existing operative arrangements may not be fully utilized.

2/ Usable currency holdings that are included in this total are reduced to provide for the possible exclusion of the Fund's holdings of the currencies of creditor members with weakening balance of payments positions and for working balances. The adjustment factor was 0.20 for 1992 through July 31, 1996. At July 31, 1996, the adjustment yielded a reduction in resources of SDR 11.0 billion.

3/ The amounts shown are as defined in the Guidelines for Borrowing which were in effect through November 15, 1991, and which provided that the amount included would equal outstanding borrowing by the Fund under the GAB and associated borrowing agreements or two thirds of the total under these agreements, whichever is greater. The present total of these agreements is SDR 18.5 billion.

(Source: EBS/96/136, 8/28/96)