

A New Vision for the World Bank
Congressman Mark Kirk
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I believe that I am the only Member of Congress who worked at the World Bank. I served at the International Finance Corporation (IFC). I believe in the International Bank for Reconstruction and Development (IBRD) and the IFC – these institutions can serve the highest ideals of the West – and can help the United States pay for our objectives with other countries' money.

The Bank serves a key function – providing access to AAA rated loan capital for countries or borrowers who otherwise could not borrow or would pay exorbitant rates.

Using this mechanism, we helped to rebuild Europe and Asia – focusing on the “R” in IBRD (Reconstruction) – then South Korea and on to recent successes in Eastern Europe – many now full members of NATO and the EU.

Many good things accomplished – nearly all directly in the long-term foreign policy interest of the United States.

As a supporter of the Bank, as a Bank alum, and as a member of the key appropriations subcommittee that funds the U.S. contribution to the Bank, I want to express my concern about the future of the institution.

In my judgment, the Bank entered into a policy drift under President Wolfensohn and continued under Wolfowitz. The key foreign policy issues of our decade – Iran, Iraq, North Korea, Sudan, Venezuela – all where the Bank plays little to no leading role.

When an institution dedicates itself to work in the most difficult areas, it must be ready to accept risk. But the Bank has become a very bureaucratic institution – slow, risk averse, and not a key player in any of the top five foreign policy issues facing the West.

We are about to witness the start of President Zoellick's term. I know him, worked with him at the State Department and I am happy he is the pick of the Board. He faces a tough challenge – to make the Bank more relevant to any of the key issues facing the West – and to make sure the Bank is not part of the problem.

Part of the Problem.

I am increasingly concerned that the Bank – located on 18th Street in Washington, D.C., may be adding to the problems of the United States.

As co-chair of the bipartisan Iran Working Group, I studied Iran more closely than most in the Congress. And when you look at multilateral investment in Iran, you find a startling bit of information.

The United States is the world's top investor in the World Bank. The U.S. Congress appropriated \$950 million for 2006 and \$940 million in U.S. taxpayer dollars for 2007. At the same time, our State Department certifies Iran as a state-sponsor of terror. The Treasury Department's Office of Terrorism and Financial Intelligence spends most of its time looking for Iranian assets to freeze. As we stand here today, the United States mission at the UN is working to secure another Security Council resolution condemning the regime for its continued defiance of the Nuclear Non-Proliferation Treaty.

Amazingly, the World Bank is paying for nine projects in Iran totaling \$1.355 billion—one of which operates in Isfahan, the headquarters of Iran's nuclear program. The World Bank disbursed \$49 million to Iran in 2005; \$166 million in 2006 and \$220 million thus far in 2007. More than \$870 million remain in the pipeline for 2007, 2008, 2009 and 2010.

One has to wonder why a country that exports 2.6 million barrels of oil per day needs World Bank development assistance. Iran's oil export revenue nearly doubled between 2003 and 2005, rising from \$23.7 billion to \$46.6 billion. That number grew to \$50 billion in 2006. Iran's real GDP grew 4.8% in 2004 and 5.6% in 2005. Why does this country need World Bank aid?

Furthermore, the Bank's investment in Iran stands in stark contrast to its work in Iraq. Despite Iraq's historic status as a 1945 founding member of the World Bank, it took the Bank two and a half years after the fall of Saddam Hussein to approve one development project. To date, the Board has approved only four projects totaling \$399 million for the new Iraqi government—none of which have come online yet.

When you look at published World Bank documents, you find a worldview toward Iran that is backward, uneducated and outdated. All current projects in Iran are based on a 2001 document called the "Interim Assistance Strategy." There the Bank staff wrote:

"There is a relatively animated and active political competition in Iran through which people express their views, choice of society, economic aspirations and political representation.... Since the 1979 Revolution, Iran has given strong and special emphasis to human development, social protection, and 'social justice,' with significant progress to date."

Freedom House, the non-partisan global leader in assessing personal and political freedoms, had a different perspective in its Freedom in the World 2006 publication:

"Iranians cannot change their government democratically...Corruption is pervasive...Freedom of expression is limited...Religious freedom is limited. Academic freedom in Iran is limited...Although the constitution prohibits arbitrary arrest and detention, these practices are very common and increasingly routine."

The Bank document notes that Iran has begun “an era of détente and greater openness to the outside world.”

The World Bank is officially part of the U.N. family. Its work is poorly coordinated with the policies of other U.N. agencies – especially the U.N. Security Council, the International Atomic Energy Agency and the U.N. Human Rights Commission. With regard to Iran, the U.N. Security Council and the International Atomic Energy Agency would strongly and officially disagree with the World Bank’s assessment.

The most disturbing part of the Bank’s Interim Strategy is a proposal to develop Iran’s energy sector—though no such project has come before the Board for approval.

The United States is and will be the largest investor in the World Bank—yet the Bank’s activities appear poorly coordinated with the policies of the U.N. Security Council and the Iran policies of the United Kingdom, France, Germany and the United States.

As the Treasury Department takes action to dry up the money in Tehran, the World Bank steps in to finance development projects through 2010. As Iran’s President pledges the destruction of the State of Israel, sponsors international terrorism and defies UN Security Council resolutions, the World Bank disbursements continue to flow.

Conversely, a founding member of the Bank – Iraq – has no significant disbursements from the International Bank for Reconstruction and Development.

To fix this imbalance, I propose one carrot and one stick.

First the stick. Current law mandates the U.S. Executive Director at the Bank to vote against any project in Iran. However, since there is no “veto power” at the Bank like there is in the Security Council, this policy is largely symbolic. We need a policy that has teeth. Therefore, I will offer legislation requiring the Secretary of Treasury to reduce the U.S. contribution to the bank in any year by the same amount as the Bank’s disbursements to Iran in the previous year. Maybe then the Board will get the message that the World Bank’s mission is not well-served by operating projects in countries officially condemned by the U.N. Security Council.

Now the carrot. The U.S. government faces the major challenge of increasing Chinese support within the U.N. Security Council for our nuclear non-proliferation policy towards Iran. Faced with a double-digit increase in energy demands each year, Chinese leaders are highly reluctant to confront Iran in a way that would threaten China’s energy supply. Already, Iran supplies 11% of China’s imported oil.

In the past, the United States often developed a leading role for the World Bank by highlighting the Bank’s ability to get other countries to pay for the implementation of U.S. foreign policy priorities. We can implement this new approach in a way that will increase Chinese support for U.S. policy towards Iran, put the World Bank to work on a

project that support U.S. foreign policy objectives and actually do some good for the world.

It is time to assess the feasibility of building a multi-billion dollar energy efficiency loan facility to unhook the PRC from Iranian oil. A multilateral loan facility, jointly financed by the Export-Import Bank of the United States, the China Exim Bank, the World Bank and the Asian Development Bank could strengthen China's access to more secure, stable and efficient energy supplies, eliminating the need to invest in unstable nations like Iran.

Using a common World Bank paid-in capital rate of 3%, the Energy Efficiency Loan Facility could leverage \$20-25 billion in capital to finance energy projects in central Asia, Africa and the Gulf that are designed to meet Chinese energy needs apart from Iran.

The U.S. appropriations to back this plan would be modest compared to the foreign policy outcome for the United States—a paid-in capital cost of \$150 million with an annual appropriation of merely \$50 million.

As we see a new President arrive at the World Bank, the U.S. Congress needs to take a hard look at the Bank's priorities vis-à-vis our own. The Bank is a powerful institution that can do incredible good. As a founding member and its leading investor, we should reassert our influence and outline a new vision for the World Bank—by carrot or by stick.

Thank you.

U.S. Rep. Mark Kirk (R-Ill.) represents the 10th Congressional District of Illinois and is a member of the House Appropriations Subcommittee on State-Foreign Operations. He previously served on the staff of the World Bank's International Finance Corporation.