



DEPARTMENT OF THE TREASURY
Washington
December 4, 1997

ACTION

TO: Secretary Rubin
FROM: Timothy Geithner *TG*
SUBJECT: Letters to Members of Congress on
Indonesian Assistance Package

You had asked how we would respond on this issue.
The attached letter is our proposed response.

*NCC a to ESK
for clearance*

*memo to LS
12/5/97*

*Please Log
I*

*NCC to R.F.A.
R.F.A. OK to NCC
antagon
12/10/97*

EXECUTIVE SECRETARIAT



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

DEF 1997

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY RUBIN

ACTION

THROUGH: DEPUTY SECRETARY SUMMERS *AS*

FROM: TIMOTHY GEITHNER *cc*
ASSISTANT SECRETARY (IA)

SUBJECT: Letters to Members of Congress on the Indonesian Assistance Package and the Issues of Labor and Human Rights

ACTION FORCING EVENT:

You have received two Congressional letters expressing concern about U.S. participation in the multilateral financial package for Indonesia given that country's poor labor rights record. One letter is from Bernie Sanders, and the other is from Barney Frank, Tony Hall, Joseph Kennedy, Patrick Kennedy, and Nancy Pelosi. (The latter letter also raises a separate issue related to the human rights of indigenous peoples in East Timor.) Both letters question whether Treasury has adequately followed the requirements of the 1994 Frank/Sanders Amendment, which mandates that you direct the U.S. Executive Directors of the IFIs to urge the IFIs to adopt policies to encourage borrowing countries to observe internationally recognized worker rights.

RECOMMENDATION:

That you sign the attached letters.

_____ Agree _____ Disagree _____ Let's Discuss

BACKGROUND/ANALYSIS:

Your proposed responses reaffirm Treasury's commitment to promote worker rights, but explain that Treasury's participation in the facility is an emergency response to market conditions that seriously threaten both U.S. interests in stable exchange markets in the Asian region, as well as U.S. exports. You state that the IFI programs will further anti-corruption initiatives within Indonesia, which will benefit labor rights. You set forth in detail the steps Treasury has taken, and will take, to carry out its legal responsibilities under the Frank-Sanders Amendment. But you also note the lack of support from other member governments in the IFIs for such reform initiatives. Finally, your response to the letter from Barney Frank and the other four representatives has a section concerning Treasury's compliance with a voting instruction to develop IFIs standards which protect indigenous peoples. It states that you will ask Secretary Albright to respond to the Hill on the particular situation in East Timor.

Attachments: Tab A -- Incoming Letters Tab B -- Responses with Enclosures

EXECUTIVE SECRETARIAT

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SENATOR OF CONGRESS
VERMONT, AT LARGE

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Congress of the United States
House of Representatives
Washington, DC 20515-4501

COMMITTEE ON BANKING AND
FINANCIAL SERVICES
SUBCOMMITTEE:
HOUSING AND COMMUNITY OPPORTUNITY
DOMESTIC AND INTERNATIONAL
MONETARY POLICY
COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
SUBCOMMITTEE:
RANKING MINORITY MEMBER:
NATIONAL ECONOMIC GROWTH,
NATURAL RESOURCES, AND
REGULATORY AFFAIRS
HUMAN RESOURCES AND
INTERGOVERNMENTAL RELATIONS
CHAIR, PROGRESSIVE CAUCUS

November 4, 1997

The Honorable Robert E. Rubin
U.S. Secretary of Treasury
U.S. Treasury Department
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Rubin

International Monetary Fund (IMF) and World Bank officials are striving to complete negotiations with Indonesia, as the most recent Southeast Asian country in need of an emergency financial assistance package. Accordingly, I am writing to focus your attention on the statutory obligation that you and the U.S. Executive Directors of the international financial institutions (IFIs) have to ensure that positive, demonstrable progress be made to allow the free exercise of fundamental worker rights in these circumstances (22 U.S.C. Section 262p-4p). Specifically, this statute, which I authored, states:

"(a) The Secretary of the Treasury shall direct the United States Executive Directors of the international financial institutions (as defined in section 1701(c)(2) [22 U.S.C. Section 262r(c)(2)]) to use the voice and vote of the United States to urge the respective institution--

(1) to adopt policies to encourage borrowing countries to guarantee internationally-recognized worker rights (within the meaning of section 507(4) of the Trade Act of 1974 [19 U.S.C. Section 2467(4)]) and to include the status of such rights as an integral part of the institution's policy dialogue with each borrowing country;

(2) in developing the policies referred to in paragraph (1), to use the relevant conventions of the International Labor Organization, which have set forth, among other things, the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, and certain minimum labor standards that take into account differences in development levels among nations including a minimum age for the employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. . . ."

page two

Pursuant to this law, there exists a clear congressional mandate which requires you to direct the United States Executive Directors of the IFIs to use the voice and vote of the U.S. to urge the IFIs to adopt and implement policies that encourage Indonesia and the other borrowing countries seeking assistance to guarantee internationally-recognized worker rights.

Since this provision was first enacted in 1994, I have been deeply disappointed that its implementation and enforcement have been essentially ignored. Nevertheless, the financial relief package for Indonesia, an egregious violator of worker rights by anybody's standards, now being negotiated and finalized at the IMF and World Bank presents anew a fresh opportunity for you to uphold the dictates of U.S. law. Clearly, IMF and World Bank officials need to receive much more direction from U.S. Executive Directors to ensure that respect for internationally-recognized worker rights is an important condition to be met in exchange for financial help from the IFIs for Indonesia or any other recipient country.

As a matter of government policy, the Government of Indonesia continues to systematically deny freedom of association and the right to organize independent trade unions and bargain collectively to Indonesian workers. This brutal suppression of internationally-recognized worker rights is routinely enforced with the iron fist of the Indonesian armed forces. Only the government-sponsored trade union federation is recognized and Indonesian workers who courageously stand up for their fundamental rights face violence, intimidation, arrest, and even death. Indeed, at the same time that American taxpayers are now asked to help underwrite a financial bailout for the undemocratic, dictatorial Government of Indonesia, a long-time Indonesian pro-democracy activist, lawyer, former chairman of the Indonesian Christian Students Movement, Mughtar Pakpahan, founder of the only independent trade union federation in Indonesia -- the Indonesian Welfare Labor Union, also known as the SBSI by its Indonesian acronym -- sits in prison in declining health and facing a possible death sentence on trumped up charges that the U.S. State Department has called "unjustified".

The current Indonesian situation presents a clear and compelling example of when and where the U.S. should take a strong, principled, unflinching position of leadership within the IFIs and insist that Mughtar Pakpahan immediately be released from prison for starters and that the Government of Indonesia promptly undertake systemic changes in law and practice to afford all Indonesian worker rights their basic rights, including the right to share more fully in the economic growth and development of their burgeoning nation.

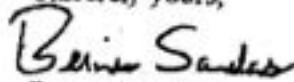
I look forward to hearing from you immediately about promoting international respect for worker rights vis a vis the U.S. position on IMF and World Bank support for financial assistance to Indonesia in the near term and in other countries that come to the IFIs for financial help in the future. Of course, I would be happy to meet with you to discuss full implementation and

page three

compliance with the aforementioned statute, as Congress intended, so that IFI lending and projects serve the interests of working people as well as financiers, traders, and corporate managers.

Thank you very much for your careful attention and prompt consideration of these critically important and time-sensitive concerns.

Sincerely yours,



Bernard Sanders
Member of Congress

BSZ:jwg



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 9, 1997

SECRETARY OF THE TREASURY

The Honorable Tony P. Hall
U.S. House of Representatives
Washington, D.C. 20515-3503

Dear Mr. Hall:

Thank you for your letter regarding the financial package for Indonesia and the issues of labor and human rights in that country. Treasury takes these labor and human rights issues seriously, and is committed to efforts which will further progress in these areas within the international financial institutions (IFIs).

Before I address what steps Treasury has taken and our future plans, I must emphasize that the IFI package for Indonesia, and the supplemental and contingent Treasury facility, represent an emergency response to market conditions that pose a serious threat to broad U.S. interests. The United States and the international community have a strong interest in restoring market confidence in Asia and heading off contagion to other financial markets. In addition, emerging economies, including those of Southeast Asia, account for a significant share of total U.S. exports

On the issue of worker rights, section 526(e) of Public Law 103-306 provides that "[t]he Secretary of the Treasury shall direct the United States Executive Directors of the international financial institutions ... to use the voice and vote of the United States to urge the institution ... to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights..." The U.S. Executive Director at each IFI has received instructions from Treasury to implement this provision. Treasury, working with the Executive Directors, has taken the following steps to implement policies within these institutions that will encourage borrowing countries, such as Indonesia, to guarantee labor rights. Treasury has:

- secured the commitment of the World Bank President, James Wolfensohn, to fight against forced and exploitative child labor. President Wolfensohn addressed the recent annual meeting of the ILO, and is seeking to strengthen partnerships between the World Bank, the ILO, and other labor organizations;
- succeeded in urging the World Bank to publish a major policy paper on child labor (a copy is enclosed), which lays out a comprehensive approach to eliminating exploitative child labor, and describes Bank efforts to date. The U.S. is now pressing for its full implementation as Bank policy;

- persuaded the IMF to institute a policy dialogue with the ILO and to undertake a pilot program of in-country consultations on labor market issues and worker rights;
- successfully encouraged the IMF's joint sponsorship with the ILO and other labor organizations of seminars and workshops on labor market issues;
- proposed an IMF symposium on worker rights issues;
- sought the support of other countries and MDB management in advancing a draft screening mechanism (a copy is enclosed) to permit the systematic integration of labor issues into MDB operations; and
- strengthened ties between the ADB and the ILO, and worked with them on the ADB's upcoming study on core labor standards.

In the coming months, Treasury and the U.S. Executive Directors will work with other countries and the IFIs to advance these steps.

In addition, I personally raised the need for action on core labor standards at the most recent Bank/Fund annual meeting in Hong Kong. I noted in my speech that the IDA-11 replenishment agreement explicitly endorses "establishing basic labor standards and working conditions, and reforming legislation and policies that disadvantage the poor." I called on all the IFIs to build core labor standards as an integral part of their development work. (A copy of my speech is enclosed.)

It is important to recognize that systematic consideration of labor rights issues in the context of IFI financing is not something we can achieve overnight. This is a work in progress. Treasury will continue to report to Congress annually on our progress in these areas. You probably are aware that other countries, even those where worker rights are highly developed, do not yet agree with the emphasis the United States has placed on labor issues within the IFIs. In particular, most countries do not see labor rights as falling within the IMF's mandate. Nevertheless, Treasury will continue to work with foreign governments to advance the labor rights agenda.

Treasury has taken and will continue to take specific steps to advance the cause of worker rights in Indonesia.

- Last summer, the U.S. Executive Director in the World Bank specifically raised the issue of worker rights within the Board review of the Country Assistance Strategy for Indonesia. (Ms. Piercy stated: "Labor issues also present an area of unrest and controversy in Indonesia. We would expect this to be better addressed as part of the dialogue on governance, public sector management and education.

We expect the Bank to consider and better integrate core labor issues into the Bank's analysis and project development activities.")

- In December 1996, the USED to the ADB supported a technical assistance grant to Indonesia that assessed and evaluated labor market practices as they relate to the industrial sector.
- In June 1996, Indonesia was selected as a pilot case for IMF-ILO collaboration. Since then, there has been at least one meeting between ILO and IMF resident representatives in Indonesia. The United States will seek to intensify this dialogue.
- The IMF's 1997 Article IV consultation mission to Indonesia met with ILO staff to discuss issues such as minimum wage policies.

In addition, Treasury has raised the following issues within the context of the immediate financial package for Indonesia.

- The U.S. Executive Director to the IMF, in her statement on the Indonesian program to the Executive Board, raised the issue of Indonesian labor market practices in the context of governance and government responsibility. She noted the cooperation between the IMF and the ILO to date on Indonesia, and suggested that this work feed into the further refining of the current program.
- Treasury will raise worker rights issues in the review of the upcoming World Bank and ADB programs for Indonesia.

In particular, Treasury believes that the steady implementation of the measures outlined in the IMF's program for Indonesia will contribute to an improvement in worker and human rights. The policies being implemented should lead to a stabilized financial system, a return to economic growth (which has already lifted a major percentage of Indonesians out of poverty -- according to the Asian Development Bank, the percentage of Indonesians at or below the poverty line has dropped from about 60 percent in 1970 to 14 percent in 1994), good governance measures which will help reduce corruption and nepotism, environmental lending, and increased transparency in government accounting. All of these are positive steps that will benefit the Indonesian people significantly.

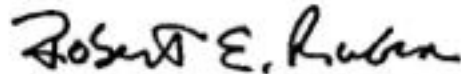
Treasury is fully aware that in its most recent annual report on human rights, the State Department found that the Indonesian Government continued to commit "serious" human rights abuses. Regarding the particular situation in East Timor, I will request that Secretary Albright contact you directly to discuss her department's views.

Under 22 U.S.C. 262p-4o, the Secretary must also direct the U.S. Executive Directors of the IFIs to use the voice and vote of the United States to "bring about the creation and full

implementation of policies designed to promote respect for and full protection of the territorial rights, traditional economies, cultural integrity, traditional knowledge and human rights of indigenous peoples." This requirement has also been carried out. At our urging, the World Bank established a comprehensive policy on indigenous peoples in 1991. In 1994, the ADB issued staff guidelines on social issues, including indigenous peoples, and undertook the development of a formal indigenous peoples' policy. The ADB Board reviewed a draft policy paper in November of this year, and the ADB will draw up a final policy within the coming months.

Please contact Larry Summers or me if you have any further questions or comments on the important issues discussed above.

Sincerely,

A handwritten signature in black ink that reads "Robert E. Rubin". The signature is written in a cursive, slightly slanted style.

Robert E. Rubin

Enclosures



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 9, 1997

SECRETARY OF THE TREASURY

The Honorable Patrick J. Kennedy
U.S. House of Representatives
Washington, D.C. 20515-3901

Dear Mr. Kennedy:

Thank you for your letter regarding the financial package for Indonesia and the issues of labor and human rights in that country. Treasury takes these labor and human rights issues seriously, and is committed to efforts which will further progress in these areas within the international financial institutions (IFIs).

Before I address what steps Treasury has taken and our future plans, I must emphasize that the IFI package for Indonesia, and the supplemental and contingent Treasury facility, represent an emergency response to market conditions that pose a serious threat to broad U.S. interests. The United States and the international community have a strong interest in restoring market confidence in Asia and heading off contagion to other financial markets. In addition, emerging economies, including those of Southeast Asia, account for a significant share of total U.S. exports

On the issue of worker rights, section 526(e) of Public Law 103-306 provides that "[t]he Secretary of the Treasury shall direct the United States Executive Directors of the international financial institutions ... to use the voice and vote of the United States to urge the institution ... to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights..." The U.S. Executive Director at each IFI has received instructions from Treasury to implement this provision. Treasury, working with the Executive Directors, has taken the following steps to implement policies within these institutions that will encourage borrowing countries, such as Indonesia, to guarantee labor rights. Treasury has:

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In the coming months, Treasury and the U.S. Executive Directors will work with other countries and the IFIs to advance these steps.

In addition, I personally raised the need for action on core labor standards at the most recent Bank/Fund annual meeting in Hong Kong. I noted in my speech that the IDA-11 replenishment agreement explicitly endorses "establishing basic labor standards and working conditions, and reforming legislation and policies that disadvantage the poor." I called on all the IFIs to build core labor standards as an integral part of their development work. (A copy of my speech is enclosed.)

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Treasury has taken and will continue to take specific steps to advance the cause of worker rights in Indonesia.

- Last summer, the U.S. Executive Director in the World Bank specifically raised the issue of worker rights within the Board review of the Country Assistance Strategy for Indonesia. (Ms. Piercy stated: "Labor issues also present an area of unrest and controversy in Indonesia. We would expect this to be better addressed as part of the dialogue on governance, public sector management and education.

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In addition, Treasury has raised the following issues within the context of the immediate financial package for Indonesia.

- The U.S. Executive Director to the IMF, in her statement on the Indonesian program to the Executive Board, raised the issue of Indonesian labor market practices in the context of governance and government responsibility. She noted the cooperation between the IMF and the ILO to date on Indonesia, and suggested that this work feed into the further refining of the current program.
- Treasury will raise worker rights issues in the review of the upcoming World Bank and ADB programs for Indonesia.

In particular, Treasury believes that the steady implementation of the measures outlined in the IMF's program for Indonesia will contribute to an improvement in worker and human rights. The policies being implemented should lead to a stabilized financial system, a return to economic growth (which has already lifted a major percentage of Indonesians out of poverty -- according to the Asian Development Bank, the percentage of Indonesians at or below the poverty line has dropped from about 60 percent in 1970 to 14 percent in 1994), good governance measures which will help reduce corruption and nepotism, environmental lending, and increased transparency in government accounting. All of these are positive steps that will benefit the Indonesian people significantly.

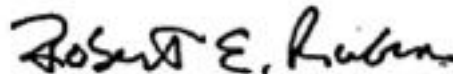
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Robert E. Rubin

Enclosures



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 9, 1997

SECRETARY OF THE TREASURY

The Honorable Barney Frank
U.S. House of Representatives
Washington, D.C. 20515-2104

Dear Barney:

Thank you for your letter regarding the financial package for Indonesia and the issues of labor and human rights in that country. Treasury takes these labor and human rights issues seriously and is committed to efforts which will further progress in these areas within the international financial institutions (IFIs).

Before I address what steps Treasury has taken and our future plans, I must emphasize that the IFI package for Indonesia, and the supplemental and contingent Treasury facility, represent an emergency response to market conditions that pose a serious threat to broad U.S. interests. The United States and the international community have a strong interest in restoring market confidence in Asia and heading off contagion to other financial markets. In addition, emerging economies, including those of Southeast Asia, account for a significant share of total U.S. exports.

On the issue of worker rights, section 526(e) of Public Law 103-306 provides that "[t]he Secretary of the Treasury shall direct the United States Executive Directors of the international financial institutions ... to use the voice and vote of the United States to urge the institution ... to adopt policies to encourage borrowing countries to guarantee internationally recognized worker rights..." The U.S. Executive Director at each IFI has received instructions from Treasury to implement this provision. Treasury, working with the Executive Directors, has taken the following steps to implement policies within these institutions that will encourage borrowing countries, such as Indonesia, to guarantee labor rights. Treasury has:

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In the coming months, Treasury and the U.S. Executive Directors will work with other countries and the IFIs to advance these steps.

In addition, I personally raised the need for action on core labor standards at the most recent Bank/Fund annual meeting in Hong Kong. I noted in my speech that the IDA-11 replenishment agreement explicitly endorses "establishing basic labor standards and working conditions, and reforming legislation and policies that disadvantage the poor." I called on all the IFIs to build core labor standards as an integral part of their development work. (A copy of my speech is enclosed.)

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Sincerely,

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Robert E. Rubin

Enclosures



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 9, 1997

SECRETARY OF THE TREASURY

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, D.C. 20515-0508

Dear Nancy:

Thank you for your letter regarding the financial package for Indonesia and the issues of labor and human rights in that country. Treasury takes these labor and human rights issues seriously, and is committed to efforts which will further progress in these areas within the international financial institutions (IFIs).

Before I address what steps Treasury has taken and our future plans, I must emphasize that the IFI package for Indonesia, and the supplemental and contingent Treasury facility, represent an emergency response to market conditions that pose a serious threat to broad U.S. interests. The United States and the international community have a strong interest in restoring market confidence in Asia and heading off contagion to other financial markets. In addition, emerging economies, including those of Southeast Asia, account for a significant share of total U.S. exports.

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- strengthened ties between the ADB and the ILO, and worked with them on the ADB's upcoming study on core labor standards.

In the coming months, Treasury and the U.S. Executive Directors will work with other countries and the IFIs to advance these steps.

In addition, I personally raised the need for action on core labor standards at the most recent Bank/Fund annual meeting in Hong Kong. I noted in my speech that the IDA-11 replenishment agreement explicitly endorses "establishing basic labor standards and working conditions, and reforming legislation and policies that disadvantage the poor." I called on all the IFIs to build core labor standards as an integral part of their development work. (A copy of my speech is enclosed.)

It is important to recognize that systematic consideration of labor rights issues in the context of IFI financing is not something we can achieve overnight. This is a work in progress. Treasury will continue to report to Congress annually on our progress in these areas. You probably are aware that other countries, even those where worker rights are highly developed, do not yet agree with the emphasis the United States has placed on labor issues within the IFIs. In particular, most countries do not see labor rights as falling within the IMF's mandate. Nevertheless, Treasury will continue to work with foreign governments to advance the labor rights agenda.

Treasury has taken and will continue to take specific steps to advance the cause of worker rights in Indonesia.

- Last summer, the U.S. Executive Director in the World Bank specifically raised the issue of worker rights within the Board review of the Country Assistance Strategy for Indonesia. (Ms. Piercy stated: "Labor issues also present an area of unrest and controversy in Indonesia. We would expect this to be better addressed as part of the dialogue on governance, public sector management and education.

We expect the Bank to consider and better integrate core labor issues into the Bank's analysis and project development activities.")

- In December 1996, the USED to the ADB supported a technical assistance grant to Indonesia that assessed and evaluated labor market practices as they relate to the industrial sector.
- In June 1996, Indonesia was selected as a pilot case for IMF-ILO collaboration. Since then, there has been at least one meeting between ILO and IMF resident representatives in Indonesia. The United States will seek to intensify this dialogue.
- The IMF's 1997 Article IV consultation mission to Indonesia met with ILO staff to discuss issues such as minimum wage policies.

In addition, Treasury has raised the following issues within the context of the immediate financial package for Indonesia.

- The U.S. Executive Director to the IMF, in her statement on the Indonesian program to the Executive Board, raised the issue of Indonesian labor market practices in the context of governance and government responsibility. She noted the cooperation between the IMF and the ILO to date on Indonesia, and suggested that this work feed into the further refining of the current program.
- Treasury will raise worker rights issues in the review of the upcoming World Bank and ADB programs for Indonesia.

In particular, Treasury believes that the steady implementation of the measures outlined in the IMF's program for Indonesia will contribute to an improvement in worker and human rights. The policies being implemented should lead to a stabilized financial system, a return to economic growth (which has already lifted a major percentage of Indonesians out of poverty -- according to the Asian Development Bank, the percentage of Indonesians at or below the poverty line has dropped from about 60 percent in 1970 to 14 percent in 1994), good governance measures which will help reduce corruption and nepotism, environmental lending, and increased transparency in government accounting. All of these are positive steps that will benefit the Indonesian people significantly.

Treasury is fully aware that in its most recent annual report on human rights, the State Department found that the Indonesian Government continued to commit "serious" human rights abuses. Regarding the particular situation in East Timor, I will request that Secretary Albright contact you directly to discuss her department's views.

Under 22 U.S.C. 262p-4o, the Secretary must also direct the U.S. Executive Directors of the IFIs to use the voice and vote of the United States to "bring about the creation and full

implementation of policies designed to promote respect for and full protection of the territorial rights, traditional economies, cultural integrity, traditional knowledge and human rights of indigenous peoples." This requirement has also been carried out. At our urging, the World Bank established a comprehensive policy on indigenous peoples in 1991. In 1994, the ADB issued staff guidelines on social issues, including indigenous peoples, and undertook the development of a formal indigenous peoples' policy. The ADB Board reviewed a draft policy paper in November of this year, and the ADB will draw up a final policy within the coming months.

Please contact Larry Summers or me if you have any further questions or comments on the important issues discussed above.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Rubin', with a stylized flourish above the name.

Robert E. Rubin

Enclosures