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BANKING ON REFORM: CAPITAL INCREASE PROPOSALS FROM THE MULTILATERAL DEVELOPMENT BANKS

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WEDNESDAY, SEPTEMBER 15, 2010

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room SD–419, Dirksen Senate Office Building, John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry and Lugar.

OPENING STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS

The CHAIRMAN. The hearing will come to order. Thank you all for being here with us today and particularly our witnesses.

I am delighted to be joined by my colleague and partner in these efforts, Senator Lugar, and appreciate his knowledge and leadership with respect to the multilateral development bank issues.

In the world we are living in today, it is fair to say that with the challenges we face globally in the economy and the challenges of radical extremism, religious fanaticism, extremism, and so forth, and countless numbers of young people in populations that are growing far more rapidly than the job base, development is, in my judgment, the single most effective, important tool we have available to us. And for my money, rather than have 6 billion bucks a month being spent in Afghanistan the way it is, I would love to see a lot more invested around the world in some of the things that are crying out for alternatives for some of those young people to spend their lives doing.

So that is the context within which we come here today to talk about proposed increases in the capital that we provide to multilateral development banks. And we are joined by three policymakers who can speak directly to the new burdens that these banks have taken on and the challenges that they are going to have to meet over the course of these next years.

For a lot of years, the multilateral development banks have played a crucial and usually unsung role in fostering global development. The World Bank and four other multilateral banks that service Asia, Europe, Africa, and the Americas offer loans, technical assistance, and grants to developing nations. They finance projects that role back poverty, educate girls, combat corruption, spread economic opportunity, and generally lay the foundations for a stable, well-governed society.

There are extraordinary examples of the successes around the world of what the development banks have achieved. Where it matters most to our interests currently in places like Pakistan and Afghanistan, the World Bank and Asian Development Bank have been very valuable partners. For many years, they have placed good people in harm's way in order to further our common goals.

And the global financial crisis has driven home both the importance of institutions like these and the need to expand them in order to match the scale of our global challenges. From 2007 to 2008, total net private financial flows to the developing world, unfortunately, fell precipitously. In 2009, as the crisis took hold, the economic crisis, and the markets fell, current account balances of developing nations shrunk by half.

As the flow of capital to many developing nations cratered, the World Bank increased lending from $13.5 billion in 2008 to a record $33 billion in 2009. And so as devastating as the global financial crisis has been, there is no question in any sound analyst's mind that that crisis would have been far worse without the rapid response, technical advice, and billions of dollars of capital that the multilateral development banks provided.

So now today these banks are coming to us and to others and saying we need an increase in capital. At a time when budgets are strained, obviously people are going to sit there and kind of scratch their heads and say, what, I mean, how is this going to work?

So we have to measure very carefully on a cost-benefit analysis, a risk analysis. And needless to say, the banks are going to have to make their case. I believe it is a case that can be made, and I believe my colleague, Senator Lugar, shares that view. It is a case that can be made to us and to the other donors, but it is going to have to be.

I would advise a cautious approach to ensure that in taking several difficult steps at once—and there are difficult steps to take in this—that the support of the United States Congress, which really represents the support of the American people, that that is maintained.

But I am convinced the multilateral development banks have a strong case to make in asking for these greater contributions. They have protected the developing world from the worst of the financial crisis, and because the MDBs accept contributions from many regional and global partners, this is not a burden that we, the United States, carry alone. This is not something American taxpayers are doing and no one else is doing. There is a huge global contribution and commitment to this effort. In fact, for every dollar that we directly contribute, we enable $100 worth of lending to the developing world.

As the largest shareholder in all but one of the major multilateral development banks, we are obviously deeply invested in seeing that these institutions remain relevant and effective. Going forward, it is going to be important to address questions of how nations share power within these institutions. The question of how we decide leadership at institutions like the World Bank is going to have to be taken in a thoughtful and measured way. In trying to make these institutions more representative, we also have to be careful not to make them less effective. And this is not an easy discussion, but while we can support a fundamentally merit-based approach from top to bottom, we still need to reach an understanding about what that merit-based means in practice.

Finally, even as these banks grow and restructure, they are going to have to do more to address 21st century challenges. That includes food security, empowering women, but especially the urgent and fundamentally linked challenges of climate change and energy poverty. As we invest limited public resources, we need to ensure that these banks are all supporting the clean energy and climate priorities of the planet, and our ways to do that that I think will have fundamentally salutary effect on all of our economies. Some countries are rushing to that effort today with great success economically, I might add. I regret that the United States is not sufficiently yet engaged in that, but I hope that it will be over a period of time.

We have a series of difficult questions to confront, including how to reform our current institutions and build the multilateral development banks of the 21st century. It is clear that these banks represent an increasingly important tool, a vital tool to enhance global stability and advance our own interests.

I will just say quickly I was recently in Syria meeting with President Assad, and President Assad defined to me the needs of Syria in terms of energy and technology and education and health. He is, in many ways, looking to the West, not the East, in order to try to provide for those needs. But ultimately he was very clear to me. He is the leader of a secular country the borders theocracy. He is a leader of an Arab country that borders a Persian country. He is the leader of a Suni majority country that borders a Shia majority nation. I think any of us making judgments about the long-term future of Syria ought to see that it is not necessarily written to the East. It could be written to the West.

But he faces a fundamental challenge. He has got about 500,000 young people who turn 18 every year—each year—and those 500,000 people do not have jobs and they may not have educational opportunity unless there is reform in development in that country. That is replicated in Egypt, in Jordan, in Saudi Arabia, in Pakistan, Bangladesh, Afghanistan, Yemen. Run the list through Africa and other countries.

It is not just their challenge, folks. It is our challenge too because if we do not address the future economic needs and transformation of those societies, we have already begun to see what the other side of that coin looks like. So this is an important challenge for me and one of the most important reasons that I believe these multilateral development banks are such a critical tool for us as we engage in this global struggle that we all face with respect to extremism and opportunity and exploitation.

We are joined today by three policymakers who are at the center of these discussions. Marisa Lago is the Treasury Department's Assistant Secretary for Markets and International Development. Ambassador Curtis Chin is the U.S. Executive Director to the Asian Development Bank, and Ian Solomon serves as U.S. Executive Director to the World Bank. So we are delighted to have all three of you here bringing your expertise to this.

And I am delighted to be able to share this effort with a terrific partner, the ranking member of the committee, Senator Lugar, who has spent years trying to eradicate corruption and bring transparency to the multilateral development bank process. I am pleased to recognize him now for his opening statement.

Senator Lugar.

OPENING STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

Senator LUGAR. Well, thank you very much, Mr. Chairman. I deeply appreciate your generous comments about my efforts, and I simply want to affirm that much of my opening statement will second the motions that you have made in your very comprehensive statement.

And I join you in welcoming our distinguished witnesses. We appreciate your appearance before our committee and the opportunity to visit with you again.

The administration is requesting funds for the multilateral development banks through the regular budget process. This provides the Foreign Relations Committee and Congress with an opportunity to carefully examine these increases. In 2009, the administration waited until late in the process of a Supplemental Appropriation bill to request a $100 billion loan for the IMF. Consequently, on that occasion, Congress did not have a full opportunity for hearings or authorizing legislation addressing whether those additional funds should have been conditioned on reforms.

The United States has strong national security and humanitarian interests in alleviating poverty and promoting progress around the world. That is why the Congress has supported appropriations for loan and grant programs through the development banks. But the American people must have confidence that our funds are managed effectively, efficiently, and transparently. We must ensure that our contributions promote the United States interests.

The current request arrives in the context of the worst economic crisis since the Great Depression. We need to consider the impact of additional funding on our own bottom line, as well as on how funding might help strengthen United States influence in the global economy and contribute to the United States national security. Maintaining our shareholding and leadership positions at the International Monetary Fund, the World Bank, and regional development banks remains an important foreign policy tool that in many circumstances can be more cost effective than other mechanisms we might employ.

Given global financial linkages, we cannot achieve a full economic recovery in isolation from the rest of the world. In the face of job losses, wealth evaporation, homelessness, hunger, and other outcomes, the economic viability of many nations will be tested. There is evidence the global crisis has been tempered by the actions of the International Monetary Fund, the World Bank, and the regional development banks. They have provided steady finance during a period of extreme uncertainty and turbulence.

Although the development banks have performed a valuable function, their operations can be improved significantly. Seven years ago, I began a review of the multilateral development banks that studied whether funds were being used effectively and efficiently and projects were benefiting legitimate development and financial goals. I chaired six hearings on that topic that included examinations of individual projects and policies of the respective banks. In March of this year, I issued a report entitled "The International Financial Institutions: A Call for Change." The report outlined concrete recommendations for the development banks, including prioritizing projects designed to deliver sustained, long-term development; refocusing attention on the impact of projects, rather than their size and goals; strengthening anticorruption efforts by increasing financial resources for internal controls and embedding oversight funds into projects; and requiring budget disclosure and financial management standards for any loans going directly to a country's budget.

During the negotiation process for the general capital increases, each development bank committed to specific reforms of their operations. Part of our interest today is to examine whether additional reforms are warranted in advance of capital increases and how implementation of these reforms will be monitored. The administration and the other donor countries of the G20 should be firm in requiring the implementation of reforms before transferring funds for the general capital increases. It is also imperative that our Government examine capital increases for each bank as a unique request, because each financial institution has its own distinct management challenges.

Once again, I thank the chairman for calling this timely hearing, and I look forward to engaging with our witnesses.

The CHAIRMAN. Thank you, Senator Lugar, and I appreciate that last point particularly; it is an important one.

We will ask for your testimony. We will start from your left to right, Secretary Lago, and then just run down the table. Thank you very much.

Madam Secretary

STATEMENT OF MARISA LAGO, ASSISTANT SECRETARY FOR INTERNATIONAL MARKETS AND DEVELOPMENT, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Ms. LAGO. Thank you, Chairman Kerry, Ranking Member Lugar. Thank you for the opportunity to discuss the multilateral development banks, which for ease of conversation, we will refer to as the MDBs throughout the testimony.

I will focus my remarks on addressing the fundamental question of why the MDBs merit our continued support, which both of you have so articulately expressed. First, I will discuss how the work of the MDBs directly supports the administration's objectives. Second, I will review the reform agenda that we have pursued and are continuing to pursue at these institutions, and third, I will address the issue of resources and continued U.S. investment in the MDBs.

Turning to the first topic, we believe that the MDBs are sound investments even in this tight fiscal environment because of their substantial leveraging capacity. Further, the MDBs have instituted a set of fiscal controls to ensure that their funds are well spent, thus giving us assurance that the U.S. dollars that finance the MDBs' projects are, indeed, going to their intended purposes.

In addition to their fiscal effectiveness, the MDBs deserve our support because of their key role in furthering the U.S.'s international agenda. Specifically, the MDBs foster economic growth both at home and abroad, protect our national security interests, address transnational challenges, and support the very poorest members of the global community. I will briefly address each of these four policy goals.

The MDBs were explicitly established to generate and support sustainable, broad-based economic growth in poor countries and in emerging markets. As the MDBs help developing nations stabilize and grow, we build new markets for U.S. exports and we create jobs here at home. In addition, we routinely turn to the MDBs to shore up emerging markets and systemically important economies in times of economic distress.

As both the chairman and the ranking member have observed in the past, the MDBs responded decisively to the G20's request to accelerate and expand lending in the wake of the financial crisis, and at a time when very few private sector banks were lending, the MDBs increased their lending by $100 billion above their preplanned crisis levels.

The MDBs also play a vital role in helping us achieve and then safeguard our national security objectives. The President's National Security Strategy identifies the acceleration of sustainable development as one of its core elements. The U.S. Government advances its objectives through our leadership position within the MDBs.

Afghanistan is an excellent case in point. For our military successes to take hold, we need to help the Afghan Government, its people, its youth, strengthen their economy. A major project that is financed by the Asian Development Bank is the construction of the railway line that will connect Hairaton to Mazar-e-Sharif. This will link Afghanistan to Uzbekistan and thus open up a corridor to Central Asia, Russia, and Europe. While the cost of the project is $165 million, its benefits will greatly exceed this amount because the railroad is expected by 2016 to more than double the value of Afghanistan's official trade with its neighboring countries.

And in Pakistan much more recently, the World Bank and the Asian Development Bank are moving rapidly to mobilize $3 billion of assistance to help support the reconstruction efforts as the flood waters recede.

Because of their diverse membership, the MDBs are at the forefront of efforts to create coordinated and effective solutions to transnational challenges such as food security and climate change. Because of the very diffuse nature of these challenges, they can only be addressed successfully in multilateral channels through which the community of countries owns both the problem and the tools to resolve it.

Finally, the MDBs advance United States interests by supporting the very poorest members of the global community, countries like Haiti and Liberia. The MDBs are particularly important in mobilizing assistance for these poorest countries when they suffer from a sudden external shock, like a natural disaster.

Now as noted by the members of the committee, the MDBs' effective response to the global financial crisis led to an accelerated depletion of the capital at the MDBs, thus prompting the World Bank and the regional development banks to seek new donor resources. In assessing each institution's capital needs, we examined the financial and also the institutional capacities of each of the MDBs, and we focused, as part of our reform agenda, on policies that were designed to strengthen financial discipline, improve governance and accountability, and enhance development impact and effectiveness. Many of these reforms were directly responsive to the concerns raised during consultations with Congress and specifically with the members and the staff of this committee. Thank you so much for the helpful input, which is reflected in the reforms that were achieved.

Turning to the specific reforms, as a result of our focus on fiscal responsibility, the MDBs are adopting economic models that include revised loan pricing policies that cover administrative costs, incorporate transfers to the concessional windows of the MDBs, thus ensuring more resources for the poorest borrowers, and also reforms that build up internal capital.

We pushed for, and achieve, improvements in internal governance, including stronger anticorruption, transparency, and whistle blower policies. We also focused on strengthening institutional policies that reward the quality rather than just the quantity of lending. We believe that these reforms will provide further impact for each U.S. dollar that is invested in the MDBs and will also be translated into more impact on the ground.

As my final topic, I will address the issue of the MDBs' request for capital increases.

All of the reforms that we sought and achieved were linked to the size and the structure of the capital commitments that we were prepared to negotiate for each institution. In some cases, we made a commitment lower than what management and even other donor shareholders had sought. We also pursued innovative mechanisms that would further leverage U.S. dollars, such as temporary capital commitments and the creation of triggers for the return of unused capital to shareholders. As a result of these institution-by-institution negotiations, the administration's requests for these general capital increases will range from 30 percent at the World Bank to 70 percent at the IDB, and 200 percent at the Asian and African Development Banks.

For the current fiscal year, the administration is seeking authorization and appropriations only for the general capital increase at the Asian Development Bank, which my colleague, Executive Director Curtis Chin, will discuss in detail.

Even during this tight financial environment when we have such difficult choices to make, we share the belief of the committee members here present, that the investments in the MDBs are critical to furthering U.S. objectives. The United States has proudly been a leading force within these institutions since their founding and our continued leadership is required today if we are going to continue to reshape these institutions so that they become the forces of good in the 21st century global economy. We have to continue doing our part if we wish to continue influencing these institutions and then benefiting from their positive impact on the ground.

We look forward to continuing to work closely with this committee, as we have throughout the general capital increase process.

Thank you.

[The prepared statement of Ms. Lago follows:]

PREPARED STATEMENT OF MARISA LAGO, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL MARKETS AND DEVELOPMENT, DEPARTMENT OF TREASURY, WASHINGTON, DC

Chairman Kerry, Ranking Member Lugar and members of the committee, thank you for this opportunity to testify on the multilateral development banks (MDBs) and why they merit our continued strong support.

I want to begin my remarks today by underscoring President Obama's strong commitment to multilateralism. This commitment is reflected through our leadership in the G20, and is embodied in the President's National Security Strategy, which identifies sustainable development—the core mandate of the MDBs—as essential to enduring global stability and security.

In addition to being central to the President's development and economic growth agenda, the MDBs are sound investments, even in a tight fiscal environment, because of their substantial leveraging capacity and oversight. For example, for every dollar we entrust, the World Bank can support current lending of $26.

The MDBs have instituted a set of controls, both within their institutions and in borrowing countries, to ensure that funds are well spent. The application of these safeguards offers assurance to the American taxpayer that U.S. dollars used to finance MDB projects are, indeed, going to their intended purposes.

To further illustrate why these institutions deserve continued U.S. support, I will discuss today the reasons why these institutions remain indispensable to the United States and how they further our agenda. Specifically, I'll discuss their role in: (1) fostering economic growth, both at home and abroad; (2) protecting our national security interests; (3) addressing transnational challenges, such as food security and climate change; and, (4) supporting the very poorest members of the global community. In addressing these substantial benefits, I will also discuss our approach to the recent general capital increase (GCI) requests at the MDBs.

SUPPORTING ECONOMIC GROWTH

The MDBs were established to generate and support sustainable, broad-based economic growth in poor countries and emerging markets. Through our leadership in these institutions, we seek to ensure that the MDBs advance principles that we espouse, such as the importance of private-sector-led growth, and the need for strong, transparent, and accountable institutions.

We have a strong stake in ensuring the success of the MDBs' efforts because by helping developing nations stabilize and grow, we build new markets for U.S. exports and create jobs here at home. In short, our investments in the MDBs help generate new engines of growth that benefit the U.S. economy and the global economy, as a whole.

In addition, we routinely turn to the MDBs to shore up emerging markets and systemically important economies in times of economic distress. In each major financial crisis in every region, the MDBs have proved vital in staunching economic meltdowns. We need only examine their role during the recent global financial crisis as evidence of our reliance on the MDBs during hard economic times.

As the chairman and ranking member have rightly observed in the past, the MDBs responded decisively to the G20 request to accelerate and expand lending in the wake of the financial crisis. At a time when few banks were lending, the MDBs increased their lending by $100 billion above planned precrisis levels. In Eastern Europe—where the crisis hit especially hard—the European Bank for Reconstruction and Development (EBRD) helped spearhead an initiative to stabilize market expectations and restore confidence in the financial sectors of Eastern Europe. In Asia, where trade finance evaporated following the crisis, the Asian Development Bank established an $850 million facility to support trade. Decisive actions such as these proved critical to global stabilization efforts, and helped underpin renewed economic growth around the world.

NATIONAL SECURITY

The MDBs also play a vital role in helping us achieve and safeguard our national security objectives. The President's National Security Strategy identifies the acceleration of sustainable development as one of its core elements. The strategy details the imperative of fighting global poverty, increasing food security, and tackling climate change as key to America's security and prosperity. It also recognizes that countries that achieve sustained development gains make more capable partners, and can better engage in and contribute to the global economy. The United States Government advances these objectives through our leadership at the MDBs.

Afghanistan is an excellent case in point. For our military successes to take hold, we need to help the Afghan Government and its people strengthen their economy. But to achieve this objective, a number of challenges must be overcome. For example, Afghanistan's isolation and lack of infrastructure impede the flow of goods and services necessary to support a more diverse and dynamic economy. A major project financed by the Asian Development Bank (AsDB) has the potential to address these obstacles and dramatically improve the country's economic prospects. Specifically, the AsDB is financing construction of the Hairaton-Mazar-e-Sharif railway line, which will link Afghanistan with Uzbekistan, and consequently Central Asia, Russia, and Europe. The project cost is $165 million, but its benefits will greatly exceed this amount, as the railroad is expected to increase the value of official trade with neighboring countries from $4.7 billion in 2005 to $12 billion in 2016.

In Pakistan, the World Bank and AsDB are moving rapidly to mobilize a $3 billion assistance package to help support reconstruction efforts after the flood waters recede.

Both banks are working on a joint comprehensive Damage and Needs Assessment, which is to be completed by mid-October. In addition, the AsDB has approved funds from its Asia-Pacific Disaster Response Fund for immediate emergency assistance, and announced plans to establish a special flood reconstruction fund to facilitate donor cofinancing of AsDB projects. The United States is also working closely with the development banks to coordinate its response. The MDB's forceful response will help Pakistan maintain economic stability as the country recovers from this disaster.

It is because of efforts like these that the MDBs are recognized within the national security community as important partners in reconstruction and ongoing economic stability. The beneficial role of the AsDB in Afghanistan and Pakistan, as well as Central Asia and the Caucasus, prompted General Petreaus to write to Secretary Geithner to express his "sincere appreciation of the great work the AsDB team is doing" and welcome our "continued strong partnership with the AsDB."

TRANSNATIONAL CHALLENGES

Because of their diverse membership, the MDBs are uniquely qualified to help us address critical global priorities. Through U.S. leadership, in tandem with other major shareholders, the MDBs are at the forefront of efforts to create coordinated and effective solutions to transnational challenges, such as food security and climate change. These complex challenges, which know no geographic boundaries, will seriously imperil our prospects for global prosperity and poverty reduction if left unaddressed. And, because of the diffuse nature of the challenges, they can only be addressed successfully via multilateral channels, through which all countries own the problem and the tools to resolve it.

Food Security

With more than 1 billion people suffering from chronic hunger in the world today, and with the related challenges of climate change, water shortages, and land scarcity, investment in agriculture represents one of the most effective ways to promote economic growth, strengthen stability and alleviate hunger. As part of the administration's Feed the Future initiative, Treasury has partnered with other countries, the World Bank, other multilateral organizations and civil society organizations to establish the Global Agriculture and Food Security Program (GAFSP).

President Obama and the other G20 Leaders called for this program at the Pittsburgh summit less than a year ago. And today, the multilateral fund is already operational and making high-impact investments in poor countries, working through implementing partners such as the International Fund for Agricultural Development, the African Development Bank, and the World Bank. The fund has mobilized pledges and contributions totaling $880 million from a variety of governments, as well as the Bill and Melinda Gates Foundation. In June, the fund awarded $224 million in grants to five poor countries with sound and country-led agricultural reform strategies—Bangladesh, Haiti, Rwanda, Sierra Leone, and Togo.

Tackling Climate Change

The administration is also leading efforts to forge a global solution to the climate challenge, and is pursuing a global agreement with meaningful participation from all countries. Key to that effort is our work throughout the MDBs and especially our contribution to two multilateral programs, the Global Environment Facility (GEF) and the Climate Investment Funds (CIFs).

These programs address the climate challenge in developing countries from three perspectives. First, they help the poorest and most vulnerable countries prepare for and respond to the impacts of climate change, which helps reinforce stability and security. Second, these programs spur the deployment of the clean energy technologies (including energy efficiency, wind, solar and geothermal) that will not only curb the growth of greenhouse gas emissions, but will provide the clean energy jobs of the future. Third, they contribute to the reduction of emissions from deforestation and forest degradation in developing countries-a critical component of the global effort. A good example is the GEF-supported Amazon Region Protected Area Program, which is the largest program for conservation and sustainable use of tropical forests in the world.

Our participation in these multilateral environmental programs magnifies our "bang for the buck" in two important ways. First, our contributions bring in other donors; specifically our contributions bring in almost $5 for every $1 the U.S. contributes. Second, these programs leverage MDB, government, and private sector sources. For example, the Clean Technology Fund, part of the CIF, in the past year approved clean energy investment plans that blend $4.3 billion of fund money with other financing to mobilize total planned investments of over $40 billion—leveraging nearly $10 from other sources, including the MDBs, for each CTF dollar spent.

SUPPORTING THE POOREST

I also want to highlight the role of the MDBs in supporting the very poorest members of our global community. These are countries like Haiti and Liberia that have no capacity to tap financial markets, and lack the domestic resources to invest adequately in their people or their country. For these countries, the MDBs provide low interest and grant financing, funds that are absolutely essential for leveraging growth and lifting people out of poverty.

The MDBs are particularly vital in mobilizing assistance for the poorest countries suffering from sudden external shocks, such as natural disasters. Following the earthquake in Haiti, for example, the World Bank and Inter-American Development Bank (IDB) moved swiftly to support the devastated nation.

And, although the MDBs were not founded to be front-line responders to disasters and humanitarian responses, both the World Bank and the IDB provided vital assistance in the immediate aftermath of the disaster. For example, the IDB worked closely with the U.S. Government and money transfer agencies in Haiti, to ensure an adequate supply of cash so that Haitians in need could receive remittances sent by relatives abroad. And the IDB is financing the design, construction and maintenance of temporary housing, assisting businesses to restore production, helping microfinance institutions resume lending, and rebuilding the government's financial and administrative capacity.

The World Bank helped coordinate Haiti's post-disaster needs assessment and quickly established a multidonor trust fund that, to date, has received over $130 million in donor support. The World Bank has acquired and equipped offices for destroyed government ministries, provided solar lanterns, funded water supply systems, and is continuing to focus on infrastructure, agriculture, and disaster risk mitigation, among other sectors.

The substantial financial support provided by the MDBs is only one of several benefits that they offer to the poorest countries. The MDBs also work actively with recipient governments to develop coherent development frameworks; mobilize additional bilateral funds, predominantly in the form of grants; provide technical assistance to build institutional capacity; and help capacity-strained countries work effectively with multiple development partners.

This year, the concessional facilities at the World Bank and the African Development Bank (AfDB) that support the poorest countries are being replenished. Because the global financial crisis drained institutional resources faster than anticipated, the G20 called for ambitious replenishments of the concessional facilities for both institutions. Strong support from the United States will help provide the World Bank and the African Development Fund with resources necessary to help preserve fragile development gains and make further—and much needed—progress toward achieving the Millennium Development Goals.

MDB RESOURCES AND REFORMS

During the global financial crisis, the G20 recognized the vital role of the MDBs in mitigating its impact, and called on them to strengthen capacity on food security, fragile states, climate change, and private-sector-led growth. However, the rapid increase in lending levels led to an accelerated depletion of capital at the MDBs, prompting the World Bank and the regional development banks to seek new donor resources. (Because it was capitally constrained before the crisis, the AsDB request was already under consideration when the financial crisis hit.) In response, G20 leaders committed to "help ensure that the World Bank and the regional development banks have sufficient resources to fulfill these four challenges and their development mandates."

To assess each institution's financial and institutional capacities, as well as their capital needs, this administration conducted detailed analyses and held numerous discussions. During this process, we did not take a "one size fits all" or "bigger is better" approach. Rather, we carefully considered the medium- and long-term capacity of each MDB (which, in turn, reflected the impact of crisis-related lending, as well as each bank's own financial management policies). We also considered the potential for escalating demand for MDB resources, especially in Africa, while at the same time promoting a focus on core mandates to avoid the risk of mission creep at the MDBs.

OUR REFORM AGENDA

We pressed hard for robust reforms that we believed would have a positive and enduring impact on the MDBs. At each MDB, we focused on policies designed to strengthen financial discipline and protect capital, improve governance and accountability, and enhance development impact and effectiveness. During the negotiations, we transformed these policy priorities into concrete reform proposals, tailored to each institution. Many of our priority reforms were directly responsive to concerns raised during consultations with Congress, and I would like to thank the committee and its staff for their helpful input in the negotiations.

I would also like to share briefly some examples of the significant and concrete outcomes that we achieved.

Fiscal Discipline

Fiscal responsibility is the first area of reform we targeted because we believe it is fundamental to ensuring appropriate burden-sharing between donor countries and borrowers in the MDBs. Specifically, we emphasized the need for revised loan pricing policies that fully cover administrative costs, incorporate transfers to the concessional windows—ensuring more resources for the poorest borrowers—and build up internal capital. As a result of our efforts:

- The World Bank agreed to overhaul its budget process to ensure that decisions on pricing, compensation and administrative costs are closely integrated and aligned with the Bank's strategic priorities;
- The AfDB agreed to a comprehensive financial model that has parameters on loan pricing, locks in a minimum level of transfers to low-income countries, covers administrative expenses, and supports capital adequacy.
- The IDB agreed to adopt a new income allocation model that sets loan prices consistent with the IDB's financial constraints and priorities, including annual grants to Haiti of $200 million and provision of highly subsidized loans to its poorest borrowers. The IDB also crafted a new capital adequacy policy and investment guidelines that we believe successfully address the risks associated with the Bank's portfolio losses in 2008.
- The EBRD adopted a new Economic Capital Policy to provide it with additional lending flexibility while protecting its AAA status, despite its high risk predominantly private sector portfolio.

Governance and Accountability

We also pushed for—and achieved—improvements in internal governance, since we share the view of the members of this committee that anticorruption efforts and transparency are absolutely integral to the credibility of the MDBs. An example of the significant new commitments that we obtained is the World Bank's revised disclosure policy. This policy now reflects a presumption of disclosure, a major improvement over past practice, which only allowed disclosure of a narrowly drawn list of documents. Similarly, the IDB and AfDB each committed to a new disclosure policy that meets international best practices.

In addition, the IDB enhanced the scope and credibility of its inspection panel, a forum for citizens who believe they have been adversely affected by MDB operations. The IDB also committed to update its environmental and social safeguards in line with international best practices by the first quarter of 2011. As an example, current international best practice would require the IDB to tighten its oversight of financial intermediaries to ensure their lending practices comply with environmental and social conventions.

Finally, the Asian Development Bank agreed to take a number of steps to strengthen its audit function and, at the end of 2009, adopted a new whistleblower policy.

Development Impact and Effectiveness

Third, we focused on strengthening institutional policies that reward the quality, rather than quantity, of lending—another key to development effectiveness. Successes here include a commitment at the IDB to employ metrics intended to improve the quality of the loan portfolio by measuring the degree to which the economic rationale of potential projects is well articulated and evaluable, risks are assessed, and monitoring and evaluation plans are in place. In addition, both the World Bank and AfDB agreed to improve measurement and aggregation of project impacts and related country development outcomes, rather than focusing solely on outputs.

In sum, I believe that we succeeded in securing robust reforms, and in many cases, promoted an upward harmonization of policies across the MDBs. Of course, as significant as these commitments are, the key will be their effective and timely implementation. At the IDB, which has an especially robust agenda, shareholders agreed that the IDB's independent evaluator should assess the timing and effectiveness of their implementation in a report to shareholders in March 2013.

GENERAL CAPITAL INCREASES

All of the reforms we sought and have achieved were linked to the size and structure of the capital commitments that we were prepared to negotiate for each institution. In some cases, we made a commitment lower than what management and other shareholders were seeking. We also used innovative mechanisms, such as temporary capital commitments and the creation of triggers for the return of unused capital to shareholders. As a result, the administration's commitments for general capital increases have ranged from 30 percent at the World Bank, 70 percent at the IDB, and 200 percent at the AfDB.

For the current fiscal year, the administration seeks authorization and appropriations for the general capital increase at the AsDB only. Mr. Curtis Chin, our outgoing executive director at the AsDB, will address the details of the administration's request and why we believe it merits the committee's immediate support. I want to take this opportunity to thank Mr. Chin for his pivotal role in securing a number of robust reforms at the AsDB, which I believe are making the institution more effective, accountable, and transparent.

CONCLUSION

While this is only a brief summary of the unique, sizable, and enduring benefits of supporting multilateral development banks, I hope I have conveyed a sense of the vitality and necessity of these institutions to the United States global agenda. Ideally, a time will come when the world is sufficiently prosperous and stable to no longer require support from the MDBs and other donors, but today the world still requires U.S. leadership, support, and strategic investment. The MDBs should remain our partners in this effort.

In the coming year, this administration will continue its intense focus on timely implementation of the reform agenda, and will push for further improvement in order to make the MDBs the most effective partners possible. However, the United States must do its part if we wish to continue influencing these institutions. We must be a member in good standing that pays its fair share. We look forward to working closely with this committee on securing the legislation necessary to meet our MDB commitments, and retaining our leadership and influence.

The CHAIRMAN. Thank you very much, Madam Secretary.

Mr. Director, thank you.

STATEMENT OF IAN SOLOMON, U.S. EXECUTIVE DIRECTOR, WORLD BANK

Mr. SOLOMON. Chairman Kerry, Ranking Member Lugar, thank you for the opportunity to testify today. I will discuss how continued U.S. support for the World Bank is vital to U.S. interests. I will address the World Bank's response to the financial crisis, its request for capital, and how the United States has worked to enact reforms that improve results, transparency, and accountability for the institution.

The global financial crisis, as we know, has caused real suffering here at home and abroad, and in 2009, President Obama and other world leaders called on the World Bank to help shore up the global economy. In response, the World Bank committed over $106 billion and accelerated disbursements to an unprecedented $80 billion in 2 years. This was an extraordinary countercyclical response that improved confidence and macroeconomic stability, helped maintain public spending programs for millions of poor and vulnerable families, and strengthened financial sectors to ensure access to credit for small- and medium-sized businesses.

In heeding the call of world leaders, the World Bank stretched its balance sheet, and as a consequence, the Bank's capital position will decline below prudential levels by 2012 unless action is taken. The effect of this decline would be a drop in lending from an average of $15 billion per year, in real terms, before the crisis to less than $8 billion a year starting next year.

To restore the IBRD's lending capacity and maintain its credit rating, the Bank is seeking an increase in capital of approximately $80 billion. This would require a U.S. contribution of $865 million over 5 years. The administration supports this capital increase for the World Bank for the following reasons.

First, the U.S. contribution would enable the Bank to continue to assist countries in the fragile global recovery. Developing countries and their emerging markets now contribute about half of global growth and are leading the recovery in world trade with an import demand rising twice as fast in developing countries as in high-income countries, creating greater demand for U.S. exports.

Second, a capital increase for the IBRD secures support for IDA by enabling IBRD income transfers to IDA. IDA is among the most effective tools we have for fighting global poverty and supporting good governance and stronger institutions in the developing world.

Third, U.S. support for the Bank's long-term capital adequacy is important for the Bank's AAA credit rating and the value of U.S. capital and our influence in the IBRD.

Finally and most importantly, the capital increase will strengthen the Bank's capacity to complement U.S. bilateral programs and support U.S. policy priorities for promoting our national security, poverty reduction, and economic growth, playing a key role, as the chairman said, to lay the foundations for stable, well-governed societies.

For example, the Bank has renewed its commitment to agriculture and food security, improving agricultural productivity, the role of women in agriculture, and reducing the vulnerability of farmers. The Bank supports and helps to multilateralize the administration's important Feed the Future initiative.

On climate issues, with United States leadership, the Bank has increased financing for renewable energy and energy efficiency projects by 88 percent and works with countries to invest for sustainable growth. In fragile states such as Liberia and Pakistan, the

Bank is increasing its presence and employing innovative approaches to improve development effectiveness and results.

And critically, the Bank supports strong governance, transparency, and anticorruption activities which not only gives us confidence that our resources are used for the purposes intended, but also addresses the debilitating development challenge of corruption.

While indispensable, the Bank is also imperfect. As you said, Senator Lugar, it can be improved significantly. It needs to reform if it is to meet the great challenges of the 21st century. Thus the administration successfully made reform a central tenet of the capital increase negotiations.

First, the World Bank has agreed to a new financial framework to ensure it will be prepared for future crises with a sound and sustainable business model.

Second, the Bank has become significantly more open, transparent, and accountable through its new access to information policy and by expanding free access to its institutional knowledge and development data.

Third, the Bank is improving its focus on results by expanding results tracking, increasing the use of impact evaluation on projects, institutionalizing learning from projects, linking staff performance to results, and creating a corporate scorecard to improve management's accountability.

Fourth, the Bank adopted a new strategy based on its comparative advantages and greater selectivity which aligns it with U.S. priorities such as addressing our transnational challenges, promoting sustainable global growth and private sector development, and rebuilding fragile states.

The reform agenda has seen progress already. We are working to ensure vigorous implementation of the entire reform agenda.

In conclusion, after careful review, the administration determined that the package of reforms and additional capital is essential to the Bank's ability to work with us in effective partnership. Not supporting the capital increase could jeopardize the Bank's credit rating, halve the size of the IBRD, and end IBRD support to IDA. In this regard, I am confident that the World Bank is a worthy and necessary investment of strong, continued U.S. support.

Thank you. I look forward to answering your questions.

[The prepared statement of Mr. Solomon follows:]

PREPARED STATEMENT OF IAN SOLOMON, U.S. EXECUTIVE DIRECTOR OF THE WORLD BANK

Chairman Kerry, ranking member Lugar, members of the committee, thank you for the opportunity to testify.

The World Bank is a critical partner in fighting poverty and promoting sustainable economic growth around the globe. As the Bank's leading shareholder for more than 65 years, the United States has helped shape the global development agenda, advancing maternal and child health, education, good governance, private sector growth, civil society, and responses to pressing global challenges such as food security, fragile states, and climate change, among other issues. Through U.S. investments in the World Bank, we have strengthened our policy objectives by helping to build a more peaceful and prosperous world.

Today I will discuss how continued U.S. support of the World Bank is vital to U.S. interests. I will address the World Bank's response to the financial crisis, the institution's request for additional capital, and how the United States is working with the institution to enact a robust reform agenda. I am pleased to be joined on this panel by Assistant Secretary of the Treasury, Marisa Lago, and by the United States Executive Director for the Asian Development Bank, Curtis Chin.

RESPONSE TO THE ECONOMIC CRISIS

As Secretary Geithner remarked last week, this has been a terribly savage recession. In the United States and around the world, millions of people have lost their jobs, businesses large and small have shut down, families are struggling to regain their savings and livelihoods. Flows of private capital to developing countries dropped precipitously from a peak of $1.2 trillion in 2007 to $454 trillion in 2009, and estimates are that, due to the crisis, an additional 64 million people will fall into the ranks of extreme poverty, surviving on less than $1.25 per day. This has led some economists to estimate that 10 years worth of development gains in some world regions has been erased.

In early 2009, President Obama and other world leaders called on the World Bank to help shore up the global economy and protect the world's poorest by increasing lending in both middle-income and low-income countries. In response, the World Bank Group (WBG)—comprising the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—committed to triple its lending to over $100 billion over 3 years and to bolster antipoverty efforts.

Given the depth of the crisis and the demand among developing countries for countercyclical lending, the World Bank exceeded this goal. It made $47 billion in commitments in FY09, $58.5 billion in FY10, and plans an estimated $33 billion in commitments for this year. Importantly, the Bank accelerated disbursements of funds to an unprecedented $80 billion in 2 years, more money than any other multilateral development bank (MDB). The World Bank was in a position to help address these extraordinary needs of developing countries thanks to years of sound financial management and accumulation of reserves.

Applying lessons from the Asian Financial Crisis and other financial crises, the Bank proved to be a strong partner in coordination with other donors and the IMF, focusing its response on its comparative advantages in protecting the vulnerable through support for social safety nets, supporting financing for infrastructure investment, and securing financial sectors to ensure credit for small- and medium-sized enterprises, which are vital engines of economic growth worldwide.

While we are still in the early days of assessing the World Bank Group's overall results, let me highlight a few examples. In Colombia and Mexico, the Bank supported conditional cash transfer programs, which expanded assistance to 2.7 million and 5.8 poor families respectively, through programs that promote school attendance and medical care for children. In Tanzania, the Bank provided interest-free credit to improve the access of the poor and vulnerable to job opportunities. In hard-hit regions of Central Asia, the Bank's infrastructure investments, which account for 29 percent of the overall increase in Bank commitments, improved regional transportation infrastructure. A clean energy project in Turkey helped reduce greenhouse gas emissions by an estimated 1.7 million tons of CO_2 equivalents.

The IFC, with a focus on private sector investments, developed a $5 billion risk-sharing mechanism through the Global Trade Liquidity Program (GTLP) to help build confidence between trade financiers who were concerned about counterparty bank risk. In one project, the GTLP supported a $100 million loan to a bank in South Africa to support trade in consumer goods, commodities, and small machinery in Africa. The IFC also launched a local currency bond to support lending to small and medium enterprises and strengthen capital markets in Central Africa, and developed a bank recapitalization fund to support banks of systemic importance.

MIGA, which provides political risk insurance, has been on the front line addressing financial sector vulnerabilities in Eastern and Central Europe by providing guarantees to key financial institutions in the region, helping to keep down borrowing costs and providing reassurance to banking regulators and investors.

For the poorest countries, the response by the WBG has also been rapid, though constrained by IDA's overall financing envelope, which is replenished every 3 years by donors. IDA is the multilateral fund to support the poorest people in the world and plays an essential role helping 79 low-income countries achieve sustainable growth and respond to both economic crises and natural disasters. IDA increased its lending by 25 percent and accelerated the pace of disbursements to provide appropriate fiscal support for countries. At the same time, the IFC increased its investments in IDA countries to almost 50 percent of all projects to catalyze additional private-sector growth and provide advisory services to improve the business climate.

These examples point to successes of the Bank's response, but we also know that there were areas of weakness as well. The World Bank's Independent Evaluation Group's (IEG) initial review of the crisis response noted that the Bank should have recognized the impact of the crisis earlier, and that in some cases, it underestimated the challenges associated with implementing new initiatives. Additionally, the Bank's analytical work in certain sectors and countries was uneven. Emerging lessons to be incorporated in the Bank's strategies going forward include: the continued importance of ensuring country ownership even in the face of global response in order to ensure the best results, the need to better anticipate crises in order to allow the Bank to intervene more effectively earlier and with better donor coordination, and the recognizing the value of the Bank's knowledge, which is generated through economic diagnostics and on-the-ground analysis, in helping the Bank and countries prioritize expenditures when resources are constrained.

The reach and effectiveness of the World Bank Group as demonstrated by its response to crisis and the ongoing recovery efforts underscore the importance of the Bank to advancing, in the words of President Obama, "the common security and prosperity of all people."

INVESTING FOR THE FUTURE: THE CAPITAL INCREASE

In responding to the crisis and helping fill the void created by the fall-off in private investment and government budgets, the World Bank stretched its historically strong balance sheet. As a result the Bank's equity to loan ratio, the traditional measure of the Bank's capital adequacy, is projected to fall below its prudential ratio of 23 percent starting in July 2013, unless some action is taken. The effect of this decline would be a drop in lending authority from an average of $15 billion a year in real terms before the crisis to less than $8 billion a year starting next year. This level would be less than a quarter of current projections for lending this year and is a small fraction of projected demand going forward.

To restore its capacity and better meet demand for its services, the Bank is seeking a 31-percent increase in capital, approximately $80 billion, through a number of measures, including increasing loan prices and securing shareholder contributions of both paid-in and callable capital. With a capital increase of this level, the Bank would have to scale back its elevated crisis lending to precrisis levels but could continue lending about $15 billion annually while sustaining its AAA credit rating. Without this capital increase, the Bank would need to sharply curtail its lending program.

The administration supports the general capital and selective capital increases for the World Bank, which would require a contribution from the United States of $865 million over 5 years. This would be the first capital increase for the Bank since 1988, and would provide a highly effective way to advance several important policy objectives.

First, the U.S. contribution would be leveraged 55 times by the Bank and enable additional development lending of $48 billion over the next 10 years. The increase would enable the Bank to continue to assist countries in the fragile global recovery and to strengthen emerging and development markets for more balanced economic growth, including greater demand for U.S. exports.

Second, capital for the IBRD also secures support for IDA and the world's poorest. Every $1 contribution to capital will leverage close to $8 in income transfers from IBRD to IDA for a total of $6.6 billion IBRD income transfers to IDA over the next 10 years. Moreover, without the capital increase, annual IBRD support on which IDA has come to rely would be impossible to fund for years to come—placing a greater burden for IDA contributions on the shoulders of IDA donors. In this context, the upcoming IDA16 replenishment is a critical moment for not only shoring up IDA's capacity to help countries meet their development objectives but for building contingent support within IDA to enable a better and more robust crisis response capacity.

Third, the U.S. contribution to the capital increase will demonstrate U.S. support for the Bank's long-term capital adequacy, which we believe is important for the Bank's AAA credit rating and the value of the U.S. capital in the IBRD.

Finally, and most importantly, the contribution will strengthen the Bank's capacity to complement U.S. bilateral programs and support U.S. policy priorities. Hence, there is no viable alternative to the capital increase without jeopardizing the Bank's credit rating, halving the size of the IBRD, and ending IBRD support to IDA. We want to continue to support the Bank's effective engagement throughout the development world. In particular, the Bank uses its global reach, expertise, strong fiduciary controls, and leverage to address many pressing global challenges, disseminate development knowledge and standards, and advocate sound economic and development policies at the country level. Some examples include:

Food Security. After years of neglect by nearly all donors, the Bank has revamped its commitment to the agricultural sector through the Agricultural Action Plan that focuses on improving productivity gains, strengthening value addition, reducing risk and vulnerability of farmers, and enhancing environmental sustainability of agricultural practices. This renewed commitment is a strong complement to the recently launched Global Agricultural Food Security Program (GAFSP), a multidonor trust fund championed by the United States and other G20 members, that will catalyze investments in country-developed agricultural development plans. With the risk of another food price shock on the horizon, the Bank's experience from the 2008 food and fuel crisis provides timely assistance to the world's poorest countries to mitigate the shocks. For example, the Bank helped the Senegalese authorities implement a school feeding program. Similarly, Bank assistance in Nepal supported the supply of fertilizer, local seed development, and small irrigation schemes for remote communities.

Climate Change. The United States has been at the forefront of pushing the World Bank to help countries develop low-carbon growth strategies with alternatives to traditional fossil-fuel based plans, and including climate issues in the Bank's country strategies. In recent years, the Bank has moved climate change from the periphery to the center of its mission to reduce poverty and support growth. The Bank's growing focus on climate is evident in three areas: (1) the development process itself; (2) financing, and, (3) knowledge and capacity-building. This has translated into an 88-percent increase in renewable energy and energy efficiency financing. In addition to its engagement with borrowing countries, the Bank has become a go-to source for research and data on climate and its impact on development.

Afghanistan. The United States has also benefited from the Bank's knowledge of working in fragile states. For example, in Afghanistan we turned to the Bank to set up the Afghanistan Reconstruction Trust Fund (ARTF) following the fall of the Taliban as a means to help meet the recurrent costs of running the government. The ARTF has expanded to support other national programs, such as the Afghan-owned and successful community-driven National Solidarity Program, which is helping communities build inclusive government through the selection and construction of development projects. Among other things, the ARTF leverages the Bank's comparative advantage as a fiduciary agent with strong financial management systems.

Governance, Accountability, Transparency. The U.S. relies on the Bank as a strong advocate of improving governance and transparency in developing countries. Its strong governance program not only gives us confidence that our aid dollars to the Bank are being used for the purposes intended, but also addresses the debilitating development challenge of corruption. For example, the Bank helped improve accountability mechanisms in Indonesia's Urban Poverty Program, which currently disburses about $100 million per year to over 8,000 villages across the country, through the election of 100,000 volunteers to serve as project overseers; the establishment of a Web site to report on implementation details, status of disbursement, details on project-related expenses; and a complaints-handling mechanism. The Bank also supports revenue transparency initiatives to promote government and private sector accountability through the Extractive Industries Transparency Initiative (EITI) and has recently launched the Stolen Assets Recovery (STAR) initiative to work with developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.

Disaster Response and Recovery. The United States benefits from the Bank's repository of development knowledge and capacity to react quickly. In the wake of the devastating earthquake in Haiti and the rising flood waters in Pakistan, the United States called upon the Bank for advice on the response, to assess the needs, to strengthen local institutions, to help coordinate donors, and to help lead the reconstruction. The Bank has significant comparative advantages in this regard given its experience in events such as the 2004 tsunami, 2005 Pakistan earthquake, and numerous droughts and floods and other calamities throughout the years.

Private Sector Growth and Standards. Primarily through the IFC, the Bank plays a leading role helping to "crowd in" private sector finance, and in a way that strengthens environmental and social safeguards. For example, IFC's performance standards ensure not only that IFC must operate at increasingly high levels of responsibility, but the standards have been adopted, following IFC's lead, by almost 70 private sector financial institutions. The "Equator Principles," as they are known, now govern the way many of the world's largest lenders measure and treat environmental and social sustainability.

Gender. Recognizing that inclusive growth is also smart growth, the Bank has been a leader in promoting economic opportunity for women. For example, in Tanzania by training commercial bank staff to better serve women entrepreneurs and enhance their financial literacy, women-owned small- to medium-sized businesses were able to access over $5 million in lending.

ENSURING THE EFFECTIVENESS OF U.S. INVESTMENTS: REFORM AND RESULTS

While the Bank continues to be an indispensable partner, it is also an institution in need of reform. This past spring, Secretary Geithner said that "leverage alone is not sufficient to justify a substantial new financial commitment," rather it must be accompanied by "full implementation of a bold reform agenda, so that the world's leading development institution is vital and fully effective in meeting the challenges of the 21st century."

Recognizing the importance of a World Bank that is fully effective in meeting our challenges as well as the opportunity presented by the capital increase negotiations, the administration increased its pressure for a robust set of reforms. Our persistence has been successful in the following ways:

First, the Bank has agreed to a unified financial framework to align financial decisions with the Bank's strategic priorities for the first time, enhance budgetary discipline, ensure loan prices cover costs, and create clear rules for transfers to IDA. The financial reform measures will help ensure that the Bank can be financially prepared for future crises with a sound and financially sustainable business model.

Second, we have emphasized the need for the Bank to be more open and accountable. In response the Bank has adopted a new access to information policy. This new policy will set the standard of best practice among global development institutions and help ensure the World Bank is transparent and accountable to all stakeholders. In addition, the Bank has moved to expand free access to its institutional knowledge and valuable development data through its OpenData initiative. The Bank is also piloting additional transparency innovations, including the use of geo-spatial mapping technology to illustrate the geography of investments made by the World Bank and other development partners alongside poverty and other demographic indicators.

Third, the Bank is improving its development effectiveness with increased attention on measuring and learning from results. This includes the commitment to develop a new compensation framework that will link performance to results, the creation of a corporate scorecard to improve management accountability for results, growing use of impact evaluation, and the expansion of the IDA Results Measurement System, which the U.S. championed, to the IBRD.

Fourth, the Bank developed a new strategy based on its comparative advantages, recognizing that it should not do everything and does not do everything best. The United States has been instrumental in helping to shape the strategic focus in alignment with our priorities, which includes: (1) Targeting the poor and vulnerable, especially in sub-Saharan Africa; (2) creating opportunities for growth with a special focus on agriculture and infrastructure; (3) promoting global collective action on issues from climate change and trade to agriculture, food security, energy, water and health; (4) strengthening governance and anticorruption efforts; and (5) focusing on crisis response.

Commitments to reform have been made and progress in implementation has already been realized. Our task now is to stay vigilant and ensure vigorous implementation of the entire reform agenda.

CONCLUSION

A strong World Bank complements our government's capacity on development issues that demand attention. Nearly every day I receive requests from Treasury, the State Department, USAID, the National Security Council, the Commerce Department, USTR, and other agencies and government offices regarding work the World Bank is doing in countries from Afghanistan to Sudan, or on issues from fragile states to energy policy. We know that the World Bank's efforts can help us achieve our objectives, and our ongoing support of the institution ensures it.

After a long and careful review, the administration determined that the general capital and selective capital increases are essential to the Bank's ability to work with us in effective partnership, both in recovery from crisis and on priority issues into the future. Not supporting the capital increase could jeopardize the Bank's credit rating, halve the size of the IBRD, and end IBRD support to IDA. We are confident that the package of capital and reforms will benefit all shareholders of the Bank, our interests, and especially the clients and beneficiaries of World Bank Group work across the developing world.

Finally, I take very seriously the responsibility to ensure that taxpayer resources are spent responsibly and seek to advance America's interests as effectively and efficiently as possible. In this regard, I am confident that the World Bank is a worthy and necessary investment of strong, continued support.

STATEMENT OF CURTIS CHIN, U.S. EXECUTIVE DIRECTOR, ASIAN DEVELOPMENT BANK, MANILA, PHILIPPINES

Mr. CHIN. Thank you, Ranking Member Lugar. Thank you for this opportunity to discuss the Asian Development Bank, which I will in shorthand refer to as the AsDB.

To complement my detailed written testimony submitted to this committee, I will highlight briefly this morning how the AsDB has furthered U.S. goals including contributing to broad and sustainable economic growth and development at home and abroad, supporting our national security objectives, and responding to the financial crisis in line with the G20 call for support. I will also address the administration's request for a general capital increase and our ambitious reform agenda at the AsDB.

First, though, allow me to note that I am concluding my tenure as the U.S. Executive Director for the Asian Development Bank. It has been a great honor and privilege for me to represent the United States on the board of directors of this institution and it is certainly also a great honor to appear here again today before this committee.

In summary, let me note that I believe the state of the Asian Development Bank today is sound. Key institutional reforms are taking hold, but certainly continued U.S. engagement and oversight will be essential to ensure that it is not two steps forward but three steps back.

With strong, continued U.S. support and attention, the Asian Development Bank has responded to the region's needs, including in times of crisis. The Asian Development Bank has complemented the United States own response to crises ranging from the devastating Indian Ocean tsunami some 5 years ago to the ongoing recent floods in Pakistan.

In response to the G20's call to accelerate and expand lending to mitigate the impact of the global economic crisis on the world's poorest, the Asian Development Bank responded in force. It increased lending to the benefit of nations as diverse as Georgia in the Caucasus region, to Bangladesh in the heart of South Asia, to the small Pacific island nation of Tonga. This crisis-related assistance included program and project lending, grants, private sector loans and guarantees, a countercyclical support facility, and a trade finance facilitation program. AsDB also approved commitment authority for some $400 million to the region's poorest nations through its Asian Development Fund, or ADF.

Yet, despite the numerous success stories in the Asia and Pacific region, inequality and poverty remains a fact of life for the some 1.8 billion people who live on less than $2 a day. Today some 900 million people in the region struggle on less than $1.25 a day, and Asia and the Pacific remains home to two-thirds of the world's poor.

Further, all too often the burden of poverty falls on societies most vulnerable. This includes women and children, the region's many indigenous peoples, the landless, and the marginalized.

As a founding member of the Asian Development Bank, the United States has been successful in many ways in ensuring that the institution's limited resources complement U.S. foreign policy goals, as well as our own official development assistance efforts in the region. Indeed, failed development contributes too often to failed nations. With strong U.S. support, the AsDB can continue to help the nations of the region to help themselves as they themselves commit to put in place the rule of law, the governance systems, and the conditions to ensure an environment for further sustainable economic growth and development.

For example, the Asian Development Bank is the largest provider of nonmilitary assistance to Pakistan, averaging as much as $1.5 billion per year these last few years. With strong U.S. encouragement, the AsDB is now providing some $2 billion of reconstruction and development assistance to Pakistan as it grapples with the massive flooding that has so captured the world's headlines. Attention rightly is also being paid to ensure strict compliance with AsDB and government anticorruption measures and procurement rules.

In addition, the Asian Development Bank is now one of the largest donors to Afghanistan, along with the United States, the United Kingdom, and the World Bank. AsDB's infrastructure projects include reconstruction of portions of Afghanistan's main highway artery and the construction of the country's first railway link to Uzbekistan, opening up alternative routes for national and international trade, as well as for humanitarian relief. In the energy sector, the Asian Development Bank is helping Afghanistan to expand its national power grid. In the agriculture and natural resources sector, AsDB is financing an effort to develop and rehabilitate irrigation and water resources infrastructure.

The United States also directly benefits from strong, continued support to the Asian Development Bank. U.S. businesses and consultants routinely and successfully pursue Asian Development Bank projects. Since the institution's inception in 1966, U.S. firms have won contracts worth $7.16 billion under AsDB-funded procurement. In 2009, U.S. firms won $508 million in contract awards. For the last 5 years, the United States has been the No. 1 recipient of procurement contracts among the biggest donor nations, and for every $1 that the United States has contributed to the AsDB since the institution was founded, U.S. companies have won some $1.63 in procurement contracts. In 2008 and 2009 alone, U.S. contractors, suppliers, and consultants from more than 25 States representing every region in the country benefited from AsDB projects. These awards represent a true cross section of American companies in States as varied as the great State of Indiana, but certainly also Delaware, Massachusetts, New Jersey, Wisconsin, Virginia, among many others. With strong U.S. support to the Asian Development Bank, this will continue.

Despite all these achievements, though, we must certainly remain vigilant that U.S. taxpayer funds are employed with the highest standards of efficiency. For that reason, we have been successful in working with our partners at the Asian Development Bank to help shape and drive a robust program for reform of the Asian Development Bank. Such reforms include: one, improving risk management and internal controls and other institutional reforms, particularly in the areas of anticorruption and integrity; two, strengthening the governance of human resources; three, ensuring strong safeguards in the areas of resettlement, indigenous peoples, and the environment; four, bringing new focus to the Asian Development's work in the middle-income countries, including reorienting lending to China; and five, providing more resources to the very poorest countries in the region. Implementation to date remains mixed to strong, underscoring as ever the need for continued, strong U.S. engagement.

Through a very active U.S. role on the Audit Committee of the Board of the Asian Development Bank, we have also helped win progress in a range of areas that some members of this committee have long pressed U.S. administrations, past and present, to achieve. As examples, the Asian Development Bank has introduced strengthened protections for whistle blowers and witnesses.

The Asian Development Bank also have established strong, separate offices focused on internal audit and on anticorruption and integrity and elevated its risk management operations to office level with added authority and resourcing.

The AsDB also became the first of the multilateral development banks, the MDBs, to introduce a comprehensive development effectiveness review, somewhat akin to a corporate scorecard. This regular report, posted on the AsDB's Web site, outlines where the institution is ahead of, on track, or falling behind in key areas.

This is not to say, though, that there is not much more to be done. Indeed, there is. Change has come incrementally, and a fully engaged United States at the AsDB can help drive further change. In the months ahead, strong U.S. involvement and engagement also will be critical as we work to ensure robust, credible reviews of the AsDB's information technology governance and organization, as well as its public communications policy and its accountability mechanism. Now is not the time for the United States to pull back from what has been a strong and beneficial ownership stake in the Asian Development Bank.

As has been noted, the Board of Governors of the Asian Development Bank recently approved the fifth general capital increase for the institution, the first in some 15 years, and the United States has pledged to participate.

For fiscal year 2011, the administration is requesting capital subscription for General Capital Increase V, or GCI V. In addition, the administration is requesting $115.3 million for the second installment of a 4-year commitment under the agreement of the ninth replenishment of the Asian Development Fund which provides grant assistance to the region's poorest nations.

These contributions that are important to the continuity of the AsDB's development assistance. More importantly, these commitments are crucial to our ability to engage and shape the Asian Development Bank, and the assistance it provides, in ways that are favorable to U.S. interests.

From my perspective of having served for nearly 3½ years as U.S. Executive Director and having for many more years than that worked and lived in the Asia Pacific region, first as the son of a U.S. military officer and then as a member of the private sector, I can attest the money is needed and it is very much in America's interest. A strong, focused Asian Development Bank that continues with the United States as its coequal largest shareholder is very much in America's interests.

The AsDB has responded to date, slowly but increasingly surely, to our calls for change and for added transparency and accountability. Clearly reform is an ongoing process. Indeed, reform is a never-ending process.

As I prepare to step down from my post, my hope is that reforms achieved through strong U.S. involvement at the Asian Development Bank will not be lost. A general capital increase fully subscribed to by the United States will help ensure a continued, strong U.S. role and will help ensure that the Asian Development Bank will continue to move forward changing to meet the needs of a region that has changed faster than the institution designed to serve it. Achieving this and further progress on reforms will require strong, continued U.S. support and engagement that is to the benefit of not just the people of the Asia and Pacific region but also the United States.

Thank you very much, Senators.

[The prepared statement of Mr. Chin follows:]

PREPARED STATEMENT OF CURTIS S. CHIN, U.S. EXECUTIVE DIRECTOR TO THE ASIAN DEVELOPMENT BANK, MANILA, PHILLIPINES

Mr. Chairman, Ranking Member Lugar, members of the Senate Foreign Relations Committee, thank you for the invitation to discuss the Asian Development Bank (AsDB).

The AsDB is an integral part of the United States engagement in the Asia and Pacific region, and today I will discuss how the institution has been central to furthering our goals in the region, including responding to the financial crisis, supporting our national security objectives, and driving broad and sustainable economic growth and development. I will also address the administration's request for a General Capital Increase and our ambitious reform agenda.

First, I would like to note that I am concluding my tenure as the U.S. Executive Director for the AsDB, and that it has been a great honor and privilege for me to represent the United States on the board of directors of the institution. I believe the state of the AsDB today is sound, and that continued U.S. involvement and leadership will be essential to maintaining strength of impact in the region.

You may well already know of the status of many of these and other reforms through my having met routinely with committee staff members for more than 3 years as part of my regular twice yearly consultation trips to Washington, DC. Indeed, our push for change has benefited from those updates and interactions, and several of the changes that we have achieved stemmed in no small part from the suggestions and encouragement of this committee. Key institutional reforms are taking hold, but continued U.S. engagement and oversight will be essential to ensure that it is not two steps forward, three steps back.

As of December 31, 2009, the AsDB had provided some $155.89 billion in loans for 2,205 projects in 41 countries, $5.19 billion for 315 grant projects and $3.809 billion for 6,863 technical assistance projects. Much of this assistance takes the form of financing for large-scale infrastructure projects, particularly in transport, energy, and agriculture, all with the aim of improving people's ability to engage in economic activity and access critical public resources.

The AsDB is the largest regional development bank of which the United States is a member. Today, there are some 67 members of the AsDB—48 from the Asia and Pacific region. As of December 31, 2009, Japan and the United States were the coequal largest shareholders, each having contributed some 14.198 percent of the institution's capital stock. That large shareholding in turn brings, of course, influence, and also underscores the critical roles of as well as expectations of both the United States and Japan at the institution.

With strong U.S. support and attention, the AsDB has over these past four and one-half decades responded to the region's needs, including in times of crisis. In the last 5 years alone, we have seen the AsDB complement the United States own response to crises ranging from the devastating Indian Ocean tsunami and earthquakes that have hit the region, to spiraling food prices that threatened to add hundreds of thousands more to the ranks of the poor and hungry, to the ongoing floods that have impacted thousands of people in Pakistan today.

In response to the G20's call to accelerate and expand lending to mitigate the impact of the global economic crisis on the world's poorest, the AsDB responded in force. It increased lending to the benefit of nations as diverse as Georgia in the Caucasus region, to Bangladesh in the heart of South Asia, to the small Pacific island nation of Tonga. Ultimate beneficiaries ranged from schoolchildren in Mongolia who might have otherwise gone hungry to rural villagers in Indonesia. This crisis-related lending assistance including some $5.4 billion for program and project lending, grants, private sector loans and guarantees; $2.5 billion for a Countercyclical Support Facility; and $850 million for a Trade Finance Facilitation Program. AsDB also approved commitment authority for some $400 million to the region's poorest nations through its Asian Development Fund (AsDF).

Yet, despite the numerous success stories in the Asia and Pacific region, inequality and poverty remains the fact of life for the some 1.8 billion people who live on less than $2 a day, according to the AsDB. Beyond the images of sparkling skyscrapers are still the all too common images of people who go to sleep hungry and who collectively drive home the reality that the Millennium Development Goals will not be fully met in many Asia-Pacific nations. Today, according to AsDB statistics, 903 million people in the Asia and Pacific region struggle on less than $1.25 a day, and the region remains home to two-thirds of the world's poor. Further, all too often, the burden of poverty falls on society's most vulnerable: this includes women and children, the region's many indigenous peoples, the landless and the marginalized.

THE UNITED STATES AND THE ASDB

As a founding member of the Asian Development Bank, the United States has been successful in many ways in ensuring that the institution's limited resources complement U.S. foreign policy goals as well as our own official development efforts in the region. The AsDB and the Asia and Pacific region are as important to the United States now as at any time since the AsDB's establishment some 45 years ago. That was a time when conflicts threatened Southeast Asia, and many of today's Asian and Pacific island nations had yet to forge their own independent paths forward two decades after the close of the Second World War. Today, sadly, conflict or unrest continues in many parts of the region, and the demands on—and the benefits of continued engagement and leadership by—the United States continue as strong as ever.

In many ways, the AsDB's work today is also a crucial contributor to the United States security. As an apolitical, international body, the AsDB has the power to convene, bringing sometimes less than friendly neighbors together in a shared goal of a more prosperous and peaceful region—a goal in which the United States, as a Pacific nation, certainly shares.

To frame the United States strategic foreign priorities, officials have spoken of the importance of the three Ds: diplomacy, defense, and development. Here too, from a U.S. perspective, the AsDB plays a critical role. At the Asian Development Bank and in the Asia and Pacific region, we bear witness to these interlinkages. Indeed, failed development contributes too often to failed nations. With strong U.S. support, the AsDB can continue to help the nations of the region to help themselves, as they themselves commit to put in place the rule of law, the governance systems, and the conditions to ensure an environment for further sustainable economic growth and development.

For example, the AsDB is the largest provider of nonmilitary assistance to Pakistan, averaging as much as $1.5 billion per year. With strong U.S. encouragement, the AsDB is now providing some $2 billion of reconstruction and development assistance to Pakistan as it grapples with the massive flooding that has captured the world's headlines. Attention rightly is also being paid to ensure strict compliance with AsDB and government anticorruption measures and procurement rules. The AsDB assistance focuses on reconstruction of Pakistan's battered transportation and energy infrastructure. Even before the flooding crisis, my own Board oversight visits to Pakistan—to the cities of Islamabad, Lahore, and Karachi as well as to rural communities that are benefiting from AsDB-supported water and sanitation projects and mountain villages benefiting from earthquake reconstruction efforts—underscored to me that AsDB was clearly a leader among multilateral organizations delivering assistance to Pakistan.

In addition, the AsDB is now one of the largest donors to Afghanistan, along with the United States, the United Kingdom and the World Bank. Since the AsDB's resuming of operations in Afghanistan in 2002, AsDB projects are now helping the country recover from nearly 30 years of continuous conflict. AsDB's infrastructure projects in the transport sector include the reconstruction of significant portions of Afghanistan's main highway artery and the construction of the country's first railway link to Uzbekistan, opening up alternative routes for national and international trade, as well as for humanitarian relief to Afghanistan. In the energy sector, AsDB funding is helping Afghanistan to expand its national power grid and connect to Tajikistan's grid, allowing Afghanistan to import surplus electrical power from its northern neighbor. In the agriculture and natural resources sector, AsDB is financing a $303 million effort to develop new irrigation and water resources infrastructure, and rehabilitate and upgrade existing infrastructure. My predecessor as U.S. Executive Director and I have both traveled in our Board oversight role to Afghanistan to meet with our U.S. Embassy Kabul colleagues, Afghan Government counterparts and AsDB staff. To all of them as well as to our American colleagues on the front lines of diplomacy, defense, and development in both Afghanistan and Pakistan, let me pause to encourage and applaud their work under difficult circumstances.

The AsDB is also a major provider of assistance to Bangladesh, India, and Indonesia, homes of some of the largest Muslim populations in the world. These are also countries that have deep challenges in poverty and have been afflicted by numerous natural disasters.

BENEFITING U.S. BUSINESS

The United States also directly benefits from strong, continued support to the Asian Development Bank. U.S. businesses and consultants routinely—and successfully—pursue AsDB projects. According to the AsDB, since the institution's inception in 1966, U.S. firms have won contracts worth $7.16 billion under AsDB-funded procurement. The AsDB reports that in 2009, U.S. firms won $508 million in contract awards. For the last 5 years, the United States has been the number one recipient of procurement contracts among the biggest donor nations. (The others are Japan, Germany, United Kingdom, and Australia.) Using numbers from the AsDB Controller's office for the period January 1, 1967 to December 31, 2009, AsDB staff also recently informed the U.S. Department of Commerce that for every one dollar that the United States has contributed to the AsDB since the institution was founded, U.S. companies have won some $1.63 in procurement contracts.

Regarding its relationship with the business community, the U.S. Commercial Service has noted that the AsDB is among the most open of the multilateral banks, and AsDB staff regularly meet with U.S. company representatives. It is also not only large companies that benefit from AsDB projects and programs. Small- and medium-sized enterprises also benefit from AsDB procurement, and these firms are integral to fueling economic growth.

In 2008 and 2009 alone, U.S. contractors, suppliers, and consultants from more than 25 states, representing every region in the country benefited from AsDB projects. AsDB contract awards for those 2 years show that in the North and Northeast, companies in New Hampshire, Maine, Vermont, Massachusetts, New York, New Jersey, Delaware, and Pennsylvania have all landed AsDB contracts; in the South, companies in Alabama, North Carolina, South Carolina, Virginia, and Maryland have won AsDB contracts; in the Midwest, companies in Illinois, Wisconsin, Ohio, Indiana, Kansas, Missouri, Nebraska, and Iowa have landed AsDB contracts; and in the West, companies in Colorado, Utah, California, Washington, and Hawaii have also benefited from AsDB contract awards. These awards represent a true cross section of American companies.

As further illustrations of the interest of U.S. companies in AsDB projects, the U.S. Commercial Service maintains an up-to-date database of approximately 1,700 contacts that have asked to receive monthly project alerts for all current and planned AsDB projects, and in just the first 9 months of this fiscal year, the Commercial Service AsDB Liaison Office in Manila counseled nearly 125 U.S. companies who were seeking information about how to do business with the AsDB. They also arranged 85 individual meetings at the Bank for interested firms.

The U.S. Government works hand in hand in assisting U.S. companies in becoming aware of AsDB project opportunities as far in advance as possible, and in intervening on their behalf, as appropriate. With strong U.S. support, this will continue.

A CONTINUING FOCUS ON REFORMS

Despite all these achievements, however, we must remain vigilant that U.S. taxpayer funds are employed with the highest standards of efficiency.

For that reason, we have been successful in working with our partners at the Asian Development Bank to help shape and drive a robust program for reform of the AsDB. Such reforms include: (1) improving risk management and internal controls, and other institutional reforms particularly in the areas of anticorruption and integrity; (2) strengthening the governance of human resources; (3) ensuring strong safeguards in the areas of resettlement, indigenous peoples, and the environment; (4) bringing new focus to the AsDB's work in the Middle Income Countries, including reorienting lending to China; and, (5) providing more resources to the very poorest countries in the region. Implementation remains mixed to strong, underscoring as ever the need for continued U.S. engagement.

Through a very active U.S. role on the Audit Committee of the Board of the AsDB, we also have helped win progress in a range of areas that some members of this committee have long pressed U.S. administrations, past and present, to achieve through our engagement at the AsDB. As examples, the AsDB has introduced strengthened protections for whistleblowers and witnesses. The AsDB also has established strong, separate offices focused on internal audit, and on anticorruption and integrity, and elevated its Risk Management operations to office-level, with added authority and resourcing. The AsDB these last 3 years also became the first of the multilateral development banks to introduce a comprehensive Development Effectiveness Review, somewhat akin to a corporate scorecard. The regular report, posted on the AsDB's Web site, outlines where the institution is ahead of, on track or falling behind in key areas.

This is not to say though that there is not much more to be done. Indeed there is. The AsDB's own corporate scorecard makes this clear. Change has come incrementally, and a fully engaged United States at the AsDB can help drive further change. Let me cite one area where our continued U.S. focus and engagement, I believe, can continue to help us win progress. As members of this committee might know, the AsDB continues to decline to make public the names of firms and individuals that it has barred from future work at the AsDB although it acknowledges that there is some deterrent effect to publicizing its debarment list. With strong U.S. urging, AsDB now publishes and make publicly available on its Web site the names of firms and individuals that have been: debarred by AsDB for second or subsequent integrity violations; debarred by AsDB for sanctions violations (for example, attempting to participate in an AsDB-financed activity while ineligible); debarred by AsDB but who AsDB has found impossible to notify (so-called "process avoiders"); or cross-debarred by AsDB pursuant to a Cross-Debarment Agreement (Agreement for Mutual Enforcement of Debarment Decisions) entered into in April 2010 by the World Bank Group, the AsDB, the African Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. Continued U.S. engagement is necessary to achieve further improvement in the disclosure of firms and individuals debarred from MDB procurement activities.

Firms and individuals who are on AsDB's publicized list subsequent to the Cross-Debarment Agreement being declared in force are subject to cross-debarment by the other MDBs. The list of firms and individuals sanctioned by AsDB as first-time violators is published on AsDB's intranet for AsDB staff and AsDB's Board of Directors. Currently, AsDB shares this debarment list via e-mail with international organizations, government agencies that implement AsDB projects, bilateral aid organizations and others with a demonstrated need to know. AsDB also is currently developing a password enabled Web site to provide all of the foregoing with direct access to the list of initially sanctioned firms and individuals, and expects to have the site operational before the fourth quarter of 2010.

In the months ahead, strong U.S. involvement and engagement—in part through full participation in a General Capital Increase for the institution—will also be critical as we work to ensure robust, credible reviews of the AsDB's Information Technology governance and organization, as well as of its Public Communications Policy and its Accountability Mechanism. Now is not the time for the United States to pull back from what has been a strong and beneficial ownership stake in the Asian Development Bank.

As has been noted, the Board of Governors of the AsDB—with Secretary of Treasury Geithner serving as the governor for the United States—recently approved the fifth General Capital Increase for the institution, the first in some 15 years, and the United States has pledged to participate. For FY 2011, the administration is requesting capital subscription for General Capital Increase V (GCI V). Participation in the GCI requires $106.6 million for FY 2011 (and a similar amount for the following 4 years for a total U.S. 5-year commitment of approximately $533 million). This will allow the AsDB to continue lending at a sustainable level of $10 to $11 billion for the next 10 years.

In addition, the administration is requesting $115.3 million for the second installment of a 4-year commitment under the agreement of the ninth replenishment of the Asian Development Fund. The U.S. total 4-year commitment for AsDF 10 of $461 million contributed to a total $11 billion replenishment, allowing the AsDB to provide up to $2.75 billion in grant assistance per year via the Asian Development Fund to the poorest nations of the region.

These contributions are important to the continuity of the AsDB's development assistance; failure to fully fund these commitments impairs the ability of the AsDB to deliver timely assistance. Furthermore, these commitments are crucial to our ability to engage and shape the AsDB and the assistance it provides in ways that are favorable to U.S. interests.

Six months ago, in March of this year, the ranking member of this committee transmitted to the full Committee on Foreign Relations a report entitled "The International Financial Institutions: A Call for Change." This report followed on an oversight project on the multilateral development banks that had begun some 7 years earlier, focused on ensuring that the MDBs' financing reached the intended people and projects. In it the report said, "As the requests for capital are negotiated with the international donor community, there is a window of opportunity for significant reform." The report also said that "Congress must be able to assure taxpayers that the money is needed, and that it will be used efficiently."

These are critical points. From my perspective, though, of having served for nearly 3½ years as U.S. executive director at the AsDB, and having for many more years than that worked and lived in the Asia and Pacific region, first as the son of a U.S. military officer and then as a member of the private sector, I can attest: the money is needed and is in America's interests. Further, a strong, focused Asian Development Bank that continues with the United States as its coequal, largest shareholder is very much also in America's interests.

The AsDB has responded to date, slowly but increasingly surely, to our calls for change and for added transparency and accountability. Clearly reform is an ongoing process. Indeed, reform has rightly been called also a never ending process. As I prepare to step down from my post as U.S. executive director, my hope is that reforms achieved through strong U.S. involvement at the AsDB will not be lost. A General Capital Increase fully subscribed to by the United States will help ensure a strong U.S. role; and that the Asian Development Bank will continue to move forward, changing to meet the needs of a region that has changed faster than the institution designed to serve it. Achieving this and further progress on reforms will require strong, continued U.S. support and engagement. That is to the benefit of not just the people of the Asia and Pacific region, but also of the United States.

The CHAIRMAN. Well, thank you very much and thank you for your service there.

By prior understanding, Senator Lugar knows I am going to be very, very brief in the questions. I am already late for a meeting that I had to be at. He is going to continue the hearing and close out if necessary. And I will leave the record open for a week in the event that other colleagues want to submit questions. I know I want to submit some additional ones in writing.

But let me just very quickly ask you, Director Chin, picking up on your last comment about reforms being ongoing and never-ending. That may be true, but be advised that for Congress to get excited about recapitalizing and to moving forward, there is a certain de minimis level of expectation with respect to what has to be done now. I mean, reforms may be ongoing, but nobody is going to accept that major accountability and transparency or other kinds of steps is somehow going to be never-ending. That is not going to satisfy people. And I think that there is going to be a higher expectation of performance and standard as we go forward here.

The G20 has called for more open, transparent merit-based selection for the IMF and the World Bank, and I would just like to ask quickly, Secretary Lago, what is the administration's position on exactly how that ought to be implemented in practice?

Ms. LAGO. Thank you, Chairman.

This is a topic that has been introduced in the G20 discussions, and the United States has been clear about the benefit that we have seen from U.S. leadership in the World Bank, and we also know that any decision with respect to changing the understandings with respect to the appointments of the head of the World Bank and the IMF is something that would have to be done across the IFIs and only after consideration at the most senior political levels. We have been well served. American interests have been well served and the World Bank has been well served by having strong, competent, capable American leadership.

The CHAIRMAN. What is the interpretation of that with respect to what the merit-based selection process might produce in terms of enabling a candidate from a nontraditional country to actually lead one of the institutions? Can you say?

Ms. LAGO. I think that different countries within the G20 may have different understandings. We believe that we need to have tremendously competent, capable leadership as we do have at the World Bank. It has been well served by——

The CHAIRMAN. You would see that as somewhat limited then.

Ms. LAGO. Excuse me?

The CHAIRMAN. It would be somewhat limited then in your judgment.

Ms. LAGO. That is the understanding that is in place, and if the understanding were to change, it would have to be a discussion about more transparency and accountability—something where America thrives. But any change would have to be discussed only at the highest political levels and in the context of all of the IFIs, including the IMF. And again, I reiterate we have been very well served by the American leadership, and the World Bank has been well served by that leadership.

The CHAIRMAN. And what would you say, Mr. Solomon and perhaps Ms. Lago, is your impression of the level of coordination between the World Bank and the regional development banks? Are you satisfied at the level of coordination between the regional development banks and the World Bank?

Mr. SOLOMON. Thank you, Chairman.

I think the issue of improving coordination between all the international financial institutions is an important priority. I think we have seen some good progress; I think in certain countries extraordinary progress. In other places, there is more work that needs to be done. I think we have seen some good work between the Asian Development Bank and the World Bank working together in the damage needs assessments in Pakistan, for example. We have seen some good cooperation between the World Bank——

The CHAIRMAN. Can it be improved in your judgment?

Mr. SOLOMON. I think coordination can also be improved. I think there is——

The CHAIRMAN. Is there an ongoing effort to actually do that?

Mr. SOLOMON. From my perspective, absolutely there is an ongoing effort, and I think it is something that we continue to press. If I get a sense from someone in the U.S. Government that calls every day from various U.S. agencies——

The CHAIRMAN. Is there a specific set of proposals as to how that coordination could be improved that are on the table in writing?

Mr. SOLOMON. I am aware of broad coordination, but on particular issues, like there is a group of all the procurement officers, for example, across the different multilateral banks that work together to implement cross-debarment process that this committee was so effective in championing to try to improve how procurement is done on a coordinated basis and improve information-sharing about corrupt practices. We are taking information we get in one Bank and applying it across the board. As you know, as the President of the Bank said, Bob Zoellick said, "To cheat and steal from one, get punished by all." That level of coordination I think has been very important.

I think there are additional ways we can improve coordination around the way we set up some of the new targeted trust funds, so for example, the food security trust fund. The World Bank administers the fund, but the implementing entities can be other multilateral development banks. So it is a way of trying to get them all working together on the same process.

The CHAIRMAN. Well, I thank each of you.

Again, the record will be left open.

Senator Lugar, thank you very much.

Senator LUGAR [presiding]. Thank you, Mr. Chairman.

Secretary Lago, in your written statement, you noted that as the administration weighed the capital requests of the various development banks, it considered the capacity of each MDB, demand for MDB resources, and focus on the core mandates of each MDB. Would you please explain how the administration arrived at the general capital increase requests for each of the MDBs? Why do the requests vary so widely? For example, the request for the Inter-American Development Bank is almost five times more than the request for the African Development Bank.

Ms. LAGO. Thank you very much, Ranking Member Lugar.

In looking at the request for the general capital increases, we looked both at the base number. The different banks started from very different capitalization levels. So we considered both the absolute number but also the percentage increase. So the IDB started out at three times the level of the African Development Bank.

The second thing that we considered was the capacity within each institution. What we saw during the crisis was that the institutions markedly upped their game. They increased their lending, at the request of the G20, to unprecedented levels.

And we evaluated the capital needs of the institutions. Absent the GCIs, the institutions would fall back—would only have resources at levels far below their precrisis lending levels, let alone the lending level during the crisis.

And finally, we considered what the needs were within the recipient countries, within the areas of operation, and by looking at all of those factors and also at the extent of the reform agenda, we reached the requests that were made here, that we are making today.

Senator LUGAR. So you have had to conduct a very careful study literally of each individual country as a component of a larger group that would be borrowing from the banks and you have also considered where the banks started with the capital levels. I ask that question simply because there is this very large difference in the requests and your explanation appears to offer a detailed response to those who would question why this is the case.

Now, second, during the capital increase negotiations, the administration secured commitments from the development banks to make many reforms regarding fiscal discipline, governance, and effectiveness. While the Inter-American Development Bank will have an independent assessment of these reforms, how will implementation by the other development banks be evaluated? And should implementation fall short of commitment, will donors adjust their capital increase contributions?

In addition, what additional steps will you have to take to see development banks make the improvements required in their operations?

Ms. LAGO. Thank you, Senator.

It is clear that the mechanism that we have in place at the IDB is a cutting-edge mechanism of the midterm review. And as Chairman Kerry had asked about coordination among the banks, the American executive directors are always looking at a best practice in one bank and seeing how it can be exported across the other banks. I think of that as a race to the top. It is the kind of competition that serves us well.

With respect to all of the MDBs, we have extremely active and engaged executive directors. It is not a ceremonial post. It is a working post. We pride ourselves on the extent to which we interact with management both through our executive directors and their offices and myself personally as well with the senior management at the Bank. We serve on key committees including, as Executive Director Chin mentioned, the Audit Committee which is clearly one of the key controls.

And finally, it is well known within the banks that the U.S. contribution—and we are a sizable donor in each of these institutions—is appropriated on a year-by-year basis. It is not a blank check. And so through our active participation, our day in, day out presence within these institutions, we drive the reform agenda.

The GCI and the reform agenda that was negotiated at that time is critically important, but as important as reaching the agreement is our day in, day out overseeing of its implementation.

Senator LUGAR. Well, that is very helpful.

Is it conceivable that the other banks may eventually adopt such a procedure? Granted, as you point out, day by day you are looking into these accounts. This is not something that is just simply left to its own accord after a period of time.

Ms. LAGO. I think at this point we are pleased with the pace of reform and the implementation, and if we were to see that there was slippage, that would be the time at which we would raise it. At this point, the agreements have not only been reached by the Board of Directors but endorsed by the management and are in the process of implementation. And as I said, we will continue to keep our eyes on the implementation of the reforms. It will not come as any surprise to senior management that in talking about the GCIs, we spoke first of the reform agenda and then of the amount of capital.

Senator LUGAR. Do other countries monitor operations in the same way that the United States does? For example, as you approach these things, if you were one of the examiners, you could say not only is the administration of our country interested, but you are getting questions from Congress and even the press largely because of hearings such as this. Does the same dialogue occur in other nations that are a part of the structure of these banks?

Ms. LAGO. We actually are very fortunate in having key partners in the other donor nations, and within each bank, the leadership structure is slightly different. So for instance, in the Asian Development Bank, we and Japan have the same shareholding percentage and are the two largest shareholders, and so they are strong partners in implementing the reform. In many of the development banks, the United Kingdom has been a strong presence, and the executive directors routinely work with their colleagues as we are trying to advance a reform agenda.

If I could turn it over to our Executive Director Solomon who might be able to give us some examples.

Senator LUGAR. Very good.

Executive Director Solomon.

Mr. SOLOMON. Thank you, Ms. Lago. Thank you, Mr. Chairman or Ranking Member Lugar.

I work quite closely with the other executive directors, and I think that there is a variety. Some are deeply engaged and their Parliaments and other governments are very much on top of every single decision the Bank makes, and other times it's a somewhat complicated situation because some executive directors represent not one country but a group of countries. So their ability to get the feedback from their capitals that we benefit from here can be more complicated. But on a number of decisions, a number of individual loan projects, we will work very closely with other chairs, and they are often hearing from their governments as well as their Parliaments.

Senator LUGAR. Let me just continue with a couple of questions for you, Executive Director Solomon.

The current global financial crisis led to an increase in lending at the MDBs across the board and a particularly dramatic increase at the World Bank in particular. Are these unprecedented high lending levels expected to return to precrisis levels, or are we seeing a perpetual increase in the volume of lending by the World Bank? And are there any additional measures that can be taken to ensure that the increased lending does not result in inappropriate debt levels for the poor countries?

Mr. SOLOMON. Thank you for the question about lending levels and debt. I think both are critically important to how we view our roles in these institutions.

The extraordinary response from the World Bank was unprecedented. It was also necessary, but it was also unsustainable at that level. So when we looked at the capital increase request and looked at the role of the Bank going forward as we continue with recovery and get beyond the crisis. The level of capital we were comfortable with was a level of capital that would enable the Bank to return to its precrisis lending levels of lending. So the answer to your question is "No," this is not a perpetual increase in lending. It is a return to precrisis levels.

And I think that means that the Bank is going to have to be increasingly selective, increasingly careful about where it spends its money, and increasingly realizing that its value added in the world of development is not always going to be the volume of resources but the development knowledge it brings to the table, its ability to identify and scale up innovative solutions to problems.

So the volume game is one. It was an issue that you spent a lot of time working on. The interest in big, large lending volumes is a culture in some of the banks about a pressure to lend. You have documented that in your reports. We need to change that culture to one that is focused on results and meeting the development needs, and I think there has been great progress on a much greater focus on results. I can talk more about that if you would like.

The issue of debt is one that we take very seriously and worry about greatly. I think we do not want to get back in the cycle of lend and forgive. That is not effective for development. For the World Bank and particularly in IDA for the poorest countries, they have implemented a debt sustainability framework at the World Bank. So we very clearly look at every country's situation before deciding whether or not loans are appropriate and have also increased the amount of grants that are given because some of these countries cannot afford to pay back loans. So grants are the more appropriate development instrument to use. We will continue to monitor this, both the poorest countries and the middle-income countries. Every time we review a potential investment, one of the things we look at whether it is a sustainable investment for that country.

Senator LUGAR. Well, I appreciate your thoughtful answers. This is a subject, as you pointed out, that was addressed in our extensive report. And it is a dilemma for anyone who is a compassionate observer of the world because the number of situations that could be assisted by appropriate lending and correspondent appropriate spending on the part of the borrower are legend. Yet at the same time, it is difficult to understand the level of debt that could be sustained by a particular borrower without there being a perpetual lend-and-forgive situation, which, to say the least, does not lend confidence to the international banking system. At the same time, there has to be funding at the precrisis level so that when huge crises do occur, there will be funds for borrowers to draw on and utilize. But I appreciate very much the sophistication with which you and the other executive directors approach this.

Let me ask one more question of you. Do you see an inherent contradiction between providing general budget support, especially in poor countries with weak government institutions, and ensuring that funds are not stolen or appropriated for other purposes? For instance, given the World Bank's increasing interest in budget support and in sectorwide programs, what should the World Bank do to ensure that these funds are used as intended in these countries with weak institutions and perhaps weak accounting?

Mr. SOLOMON. Thank you.

I think the question of the appropriate lending instrument and what is the appropriate oversight role for us as the major shareholder of the World Bank I think is an important issue. Let me be clear. No matter what instrument is used—whether it is an investment loan for an individual project or budget support—we need to have the same standards on safeguards to ensure that the poor benefit. We need to be applying the same level of oversight and analysis to make sure that is an appropriate investment.

And I think as we look at some of the budget support operations, we need to make sure that the prior actions and the policy reforms that we hope to be getting for the budget support are actually being achieved and that the evaluation of the investments is robust so we know where were results achieved. Are we learning from the examples of budget support that we have given in the past?

I think it is important to realize that to tackle some of these development challenges, policy reform is quite important in a lot of these countries. So we need to have a range of instruments we can provide. Sometimes it will be building a particular infrastructure project, for example. Other times it will need to be a close, longtime engagement with the Department of Education, for example, about how to improve enrollment of women in schools, girls in schools. So I think having a range of instruments is very important, but having strict standards of oversight and accountability for them is also important.

Senator LUGAR. Thank you very much.

Executive Director Chin, I have some questions for you. I wanted to ask, first of all, with regard to China, China's rising financial and strategic power is a crucial factor in our approach to global problems generally. What is China's role at the Asian Development Bank? How much of the ADB's financing goes to China, and why is the ADB lending to China when it is the major lender to other countries? Namely, Chinese buy some of our Treasury bonds from time to time.

Mr. CHIN. Thank you, Ranking Member Lugar. Those are important questions and ones that I actually always ask the Asian Development Bank.

Let me share with you some of the factual numbers and figures—you know, when I pose that question, what they respond to me with, but then I also want to share with you some broader thoughts on what we are doing to change that situation that you described.

Number-wise, China is both a major shareholder and, as you noted, a major borrower from the Asian Development Bank. Shareholder-wise, as of December of last year, China was the third-largest shareholder in this institution. So Japan and the United States——

Senator LUGAR. Behind the United States and Japan?

Mr. CHIN. I'm sorry. Japan and the United States are coequal largest. China was No. 3 as of December of last year.

Senator LUGAR. About what percentage——

Mr. CHIN. Sorry. The United States and Japan together are about—each have about 15 percent, and if you look at China, it is about 5 percent. But clearly those numbers will change based on how all the shareholders subscribe to this GCI, again underscoring the importance of a full subscription from the United States. So that is the role as a shareholder.

In terms of a borrower, if you look at just historically, if you add up all of the borrowing from China, about 20 percent of the Bank's hard window lending, what they call from its ordinary capital resources, has gone to China. But then when you look at it in the more recent years, China has now voluntarily capped its sovereign guaranteed borrowing at about $1.5 billion a year. It could go up. I think I looked at the most recent figures. It went up to 1.9 when it included a nonsovereign borrowing.

But to the question as to why does China borrow, I broke it down. You will see that China has made clear that its borrowing really is not about the money. In some cases, the money that the ADB will lend to China might only be 10 percent of the overall size of a project. And let me just highlight one which would be this past year they came to the ADB to borrow, I think, about $400 million for a loan to help with reconstruction of the Sichuan province area that was devastated by that earthquake with tens of thousands of peoples dying. They borrowed specifically to gain some of the knowledge that came with the borrowing. So, for example, to help them strengthen building codes so that schools would not collapse on their young people.

And I think with strong U.S. pressure, we are continuing to see the Bank encourage China that when it looks at its relationship with the ADB, that it no longer be based on additional borrowing. And actually there is a bank commitment that by 2020 the relationship with China is no longer one of borrowing, but one of the knowledge that they can benefit from by engaging with the Bank.

The only other thing I would note there—and this is again very much in the United States interest. Even if China were to only borrow a little bit for a project, that overall project will have to follow the strong environmental, indigenous peoples, and resettlement safeguards that the United States insists on for everything that is part of that project. And so clearly that is to the benefit of the world also.

Senator LUGAR. These are very important points, both the fact that the Chinese might borrow in order to benefit from the Bank's expertise and knowledge in, as you say, reconstructing a school in a fashion appropriate for an area vulnerable to earthquakes, but then they also take on the obligations of following environmental and other standards that are conditions of borrowing the funds. So it is an interesting interplay in terms of money and the sharing of knowledge.

Let me ask, should the United States not fund or only partially fund the capital increase request for the ADB that has already been submitted to the Congress? How would that impact United States shareholding and influence at the Asian Development Bank?

Mr. CHIN. Very clearly it will weaken the United States influence. In the long run, if the United States does not fulfill its subscription, clearly our shareholding will go down. Right now, the

United States and Japan are, I think, seen as both not just major shareholders but as leaders at the Bank, and my fear would be the unintended message that maybe the ADB is seen as less. I think the chairman referred to it in his opening comments as a critical tool, one more tool in our box to help advance kind of our U.S. interests. Clearly that would be at risk over time if, indeed, the subscription was not fulfilled.

Senator LUGAR. Speaking of U.S. interests, given the Asian Development Bank's sizable funding in Afghanistan and Pakistan, how is it coordinating with the United States and other donors? How do the ADB's investments complement the activities of the United States in Afghanistan and Pakistan?

Mr. CHIN. Sure. I would argue that Afghanistan is one of the biggest success stories for actually the ADB in its coordination with the United States. Pakistan, getting better, as my colleague, Ian Solomon, said, but it is coordinated at a number of levels. I would say first at the individual country level, the Asian Development Bank representative office will work closely with our U.S. mission, our U.S. Embassy there, but certainly also with the other major development partners in that country.

So specific examples from Afghanistan. I just had in my office in Manila representatives of the U.S. Corps of Engineers who are working very closely with the Asian Development Bank in finishing that section of the Ring Road through a very cooperative arrangement.

This Sunday I was with the U.S. COO of USAID about a possible partnership arrangement between ADB and USAID as another step forward in trying to better coordinate our approach in countries that are so critical to our United States interests in not just Afghanistan, but Pakistan.

In his old role, General Petraeus, when he was head of Central Command—you know, now he is head of our Afghanistan command—he wrote in a letter to Secretary Geithner of the great coordination that was taking place between ADB and our U.S. Government in some key countries of interest to the United States. There he flagged not just Pakistan and Afghanistan, but also the nation of Georgia in the Caucasus region.

Senator LUGAR. Well, that is a very interesting point. And I presume a majority of the shareholders share the desire to make these loans to Afghanistan and Pakistan in the midst of warfare or certainly conflict in which there could be some disagreements or debates over American policy or the policies of our NATO allies and others who are involved there. But at least you have not found that to be the case apparently as these loans have been made.

Mr. CHIN. Yes, very much the case. We have to look at each country individually. In Afghanistan, the assistance is really all grant-based given the poverty of Afghanistan. But unanimously, the shareholders of the Asian Development Bank supported the replenishment of the Asian Development Fund. So that is the concessional window which benefits Afghanistan and thus the request from the administration for the funding of that replenishment.

Pakistan likewise. I think I and colleagues from both the Asia region and non-Asian countries at the board very much push the

Bank to respond quickly with an eye, of course, always to good governance and corruption for the situation in Pakistan. But the members are very much behind that mission of poverty reduction in the Asia Pacific region.

Senator LUGAR. I have one final question. As a member of the Asian Development Bank Executive Board, you have championed reform of its human resources system. What improvements has the ADB made in this regard, and have they impacted operations? And what more should it do to attract and to retain highly qualified men and women?

Mr. CHIN. Thank you, Ranking Member Lugar.

Indeed, the United States has very much championed human resources reform at this institution. The unkind people would say I terrorized the institution, but clearly people are at the heart of development. This is where implementation succeeds or falls apart. Through constant U.S. pressure, we have a number of changes both small and large. You know, the small ones would be introductions of things like flex time, spousal employment, address some of the gender issues with regard to the staffing at ADB.

But much larger, we address things at a governance level. For the first time ever, the Asian Development Bank accepted a new standing committee of our Board of Directors, a Human Resources Committee. So once a month, the Director General of the Bank's Budget and Personnel Division is called before us to address concerns that we have about what more needs to be done.

So these are some steps. Clearly there needs to be more done, and I think again the importance of the full U.S. subscription to a GCI which will allow us to continue to push this Bank forward—clearly the Bank's Human Resources Department needs to further professionalize—that indeed this principle of a merit-based, competitive process for selection of the staff is applied. And I think we are getting there, and I think that is one of the great benefits of this GCI process. We were able to push things. Indeed, I read some of the transcripts of some of the hearings that you all had 7 years ago, and some of these same issues were raised back then. Indeed, with great pride, I would say our U.S. Government was able to get some of those things that have been long pushed for by administrations present and past.

Senator LUGAR. Well, I join Chairman Kerry in congratulations to you on your service. We thank you for testifying today, that your service did not end before this hearing, and that you have been available once again to be most helpful to us. We appreciate that.

Executive Director Solomon, I have a couple of questions. Over the years, many have discussed the "pressure to lend" culture of the development banks which rewards staff for designing the largest loans rather than implementing the most successful loans. Currently the executive boards review the projects at their inception but not all together at their completion. Would you concur with the committee's report I commissioned that recommended loans be reviewed upon completion, as well as to promote a "pressure to succeed" culture?

Mr. SOLOMON. Thank you for raising this issue of pressure to lend. I think it is something that I spend a lot of time figuring out how we can change this to move the Bank away from quantity, more toward quality. And I think there is good progress by getting the Bank to focus more on results, results being both preparing for tracking results by getting good baseline information, actually measuring what is happening and making sure you have proper incentives for people to do the measuring and the tools to do the measuring, and then learning from those results before you do another project. And the Bank does spend a lot of time on projects at the beginning, but also at every project that is completed has a project completion report and the independent evaluation group does an assessment of the project. And I spend a lot of time at the Bank looking at the IAG reports on projects before we go and agree to another project. So for a country assistance strategy, for example, we will always be studying what the IAG said of the previous period of investments made in that country and then asking the team, well, have you learned the lessons from the previous assessments?

And I think there has been a mixed record on learning from results. I think the trend is very positive. I think the use of project completion reports and the important role of the IAG is more greatly appreciated. But I welcome the opportunity to discuss projects at the beginning, in the middle, and the end, and then going back and seeing years later have we applied the lessons we have learned from that experience.

Senator LUGAR. Thank you for your response. The G20 has called for changes to the selection process for the leadership of the International Monetary Fund and World Bank and for more representation of emerging markets in these institutions. Is the administration willing to agree to give up the presidency of the World Bank, which could undermine our ability to promote innovation at this flagship institution? Should leadership of regional banks not likewise be discussed? Also, what is the administration's view of current calls for the United States to give up its veto at the IMF, which could erode American support for that institution?

Ms. LAGO. If I might answer that question.

Senator LUGAR. Yes.

Ms. LAGO. Clearly in the leadup to the G20 meeting that will be occurring in Seoul, there has been a lot of discussions. The United States is proud of the support that we provide to the World Bank and the IMF and of our voting shares there. And as you note, in the IMF it has a veto on certain key decisions. And the administration has been strongly supportive of looking at the share structure of the IMF to ensure that the body maintains its legitimacy by giving increasing voice to emerging and developing countries. Clearly that review of the shareholding is something that needs to be done and that is underway. We do not believe that that calls into question the U.S. veto.

And as I had mentioned earlier, with respect to the presidency of the institutions, we believe that the United States benefits from having strong leadership, having provided strong American leadership at the World Bank and that the World Bank itself benefits from it. Discussions on these topics would have to occur at the highest political levels and in the context of looking at the leadership structure across the IFIs.

Senator LUGAR. So it would be, as you say, a question that would be answered through deliberation at the highest leadership levels as opposed to simply crafting a formula consisting of each nation's shareholding percentage, capital contributions, and other figures?

Ms. LAGO. Certainly with respect to the shareholding percentage in each of the institutions, it is linked to the capital contributions, and in agreeing the capital contributions, we certainly had a keen eye to maintaining our leadership position within these institutions. We know that our ability to lead, to influence, is because of the quality of the team that we have, but it is also because of the influence, that we have with our shareholding.

Senator LUGAR. Well, it is sort of theme and variation that we have discussed with the Executive Director Chin in the Asian Development Bank. Our current shareholding percentage in the ADB is roughly equivalent with that of the Japanese leadership. If we were to fall well behind, then there would be some obvious ramifications and questions about leadership.

Let me just ask, Secretary Lago, one further question, before agreeing to providing the development banks with more funds: Has the international community commissioned a review of potential cost savings at each development bank? If not, is such a study forthcoming?

Ms. LAGO. Thank you, Ranking Member, for raising the question of the fiscal discipline within the institutions. That was a key factor, not just the effectiveness of their loans for the development impact in country, but also how well are they marshaling their resources.

I will point to two specific examples. At the World Bank, the Bank, as was noted, markedly increased its lending into the crisis and without increasing its internal resources. There has not been an increase in its budget since 2006. And we, through the GCIs, were able to put in place an internal check and balance. Part of the fiscal regime within each of the institutions requires a transfer of funds from the hard-loan windows to the concessional windows. This is particularly evident if one looks at the IDB. And so since the loan pricing structure is borne by member countries, there is an internal pressure to keep costs under control, and we think that that is an effective mechanism since it is the borrowers who are paying for the costs of the institution. As we looked at each of the institutions, we sought to make sure that the fees that are charged to the borrowers covered the administrative costs at the institutions. And so that is the internal mechanism that provides this calibration, that provides this cost control that you were mentioning.

Senator LUGAR. Let me ask you, Executive Director Solomon, one additional question. A few years ago, I joined then-Senator Biden, Senator Leahy, Senator Bayh, and others in asking the Government Accountability Office to conduct a review of the World Bank regarding its ability to fight corruption and to conduct environmental assessments. But, at that time, the GAO did not receive clearance from the World Bank to commence its work. What is delaying that review and what could be done to ensure that the GAO has the ability to carry out its work in this endeavor?

Mr. SOLOMON. Thank you.

The GAO, I think, provides an invaluable service to the Congress and the U.S. taxpayer. I am a strong believer in the work that the GAO does holding us all accountable for these taxpayer resources. I think the GAO has been quite involved in a number of studies and audits and evaluations of bank work through the years. However, the particular studies you refer to were before my time on the board.

In discussions with staff, it is my understanding there was a fair amount of discussion between the GAO, the World Bank, and the multilateral audit advisory groups which helped to define the scope of audits by supreme audit agencies like the GAO in this country. And you know, reams of documents went back and forth, lots of discussions. In the final analysis, at least for the environmental assessments one, the GAO decided it was going to allocate its resources elsewhere. But I will continue to look at this issue because I think the GAO provides an important function.

Senator LUGAR. I would appreciate that.

This is a general question that any one of the three of you might want to comment on. One of the effects of our hearings on these issues, which began 7 years ago, is that many times the press in various nations that were being discussed in the hearings learned about loans for the first time. So this commenced a discussion within the political systems of various countries. In some cases, members of their respective Parliaments raised questions about the loans, complaining they had not achieved their stated effects. So this led to a certain degree of commotion initially in the world community.

I think this has calmed down over the years. It is hard for such trends to sustain themselves, but at the same time, the regional development banks, the World Bank, and others have been more transparent.

Do you have any general thoughts about this? It goes well beyond promoting viable, responsible international financial institutions as a component of our broader diplomacy. Sometimes controversies of this variety lead to disruptions at higher levels, as leaders of various countries who either feel embarrassed or put upon by these situations are going to respond to our Secretary of State or others.

Ms. LAGO. Thank you for pointing out the importance, the beneficial aspects of transparency. Because the reform agendas at the MDBs were so broad, we chose to focus on a couple of key areas. Transparency is one of them. It so underpins our American way of doing business, and this is one of the values that we are able to export, and I believe beneficially, through the MDBs.

One need only look at the difference in the Web site of the African Development Bank. It has undertaken a sea change, and as people increasingly are using the Web as the source of information, having a robust Web site has made a significant difference.

In particular, we know that civil society and nongovernmental organizations within the countries look for information about the activities of the banks, as do the governments, as you have noted. We are comfortable with the fact that every decision in the MDBs is posted. That is absolutely essential, and through ongoing reviews that are taking place in a number of the institutions, we are looking always to drive more transparency. We believe that putting information out about the projects is useful to avoid surprises, but also to spread the development impact.

Senator LUGAR. Yes, sir.

Mr. SOLOMON. Thank you. If I could make a few additions to the comments made.

One, I think that Secretary Lago talked about the important role that CSOs can play in helping to improve accountability for what the institutions do. And I think we work closely with the CSO community, the civil society organizations, NGOs around the world, who can provide an important link to some of the rural areas and other areas.

And I think in terms of the Bank's efforts on transparency, there are a lot of efforts. And your team has been looking at the role of technology in these institutions. There are a lot of initiatives underway now to try to find out how do we use new technologies to get information both out to the communities better but also feedback from those communities into the development process, so for example, piloting things like using cell phone text messages to get feedback from farmers about agricultural assistance and things like that.

Senator LUGAR. Do you have a thought?

Mr. CHIN. Yes. I know you are not looking for praise, but I think our engagement with the MDBs is stronger because of these hearings. I am only in the United States every 6 months or so, but I know with strong Treasury support, I have regularly updated and engaged with this committee through its staff members. And the ideas that we have pushed in terms of strengthening risk management or anticorruption in some ways have been stronger because I can say it is not just Treasury and the United States ED that have raised these things, but it is based on consultations with all branches or at least another branch of Government.

I would also echo Assistant Secretary Lago and Executive Director Solomon with regard to the importance of civil society and also to media. I know under my watch and with strong Treasury support, I have engaged regularly with nongovernmental organizations, with civil society. Some of them are even in this room behind me like the Bank Information Center. They really do provide a third party check, and I think that is critical. I think that makes these institutions stronger.

Assistant Secretary Lago referenced some of the reviews taking place. At the Asian Development Bank, two critical reviews address this issue, the public communications policy review and the accountability mechanisms review. And I think the Bank will be stronger thanks to strong Treasury pushes but also the input of civil society.

And to bring it all back to why we are here today, I think this Bank will certainly be much stronger with full U.S. support for a general capital increase because all the more reason they need to listen to our constant pushing for them to be stronger and to be better.

Thank you.

Senator LUGAR. Well, we thank you for not reserving your compliments to our committee. I would just say that the compliments really are deserved by the staff of our committee on both sides of the aisle, especially with respect to the continuity of interest they have displayed on these issues over several years of time.

I would add just one thought which really is beyond the scope of our hearing, but I appreciate your interest as generalists. As a part of a very important element of our diplomacy with the Government of Pakistan, the Congress initiated the so-called Kerry-Lugar-Berman strategy for Pakistan, which provides for as much as $1.5 billion of expenditure over a 5-year period of time. Now, this was initially wildly heralded in Pakistan largely because it constituted a 5-year commitment, but it was sometimes criticized in Pakistan because of the suspicion that there might be some accountability for the spending of this money.

Now, the difficulties of all of this I think are now well known, and we have hearings on this issue from time to time. It is not easy to spend money in Pakistan or in any country even if you have the best intentions, while wishing to maintain some accountability to American taxpayers for the expenditures that are occurring. And the question is how well do the institutions function, and not just the banking and financial institutions in this case, but if money were to go to strengthening educational institutions, infrastructural improvements, the building of a legal system, or a good number of other objectives that would benefit the citizens of Pakistan, are the central and regional governments of that country capable of envisioning the programs, administering them, and accounting for the money?

Now, the returns are fairly sketchy at this point as to what has been allocated, although we know because of the devastating floods that tens of millions of dollars may very well be allocated immediately, even if that was not one of the original intents. However, because these floods have caused a serious humanitarian emergency in Pakistan, the use of Kerry-Lugar-Berman funds for relief purposes is certainly valid.

But I just ask from your experience, as we get into the allocation of funds, what advice and counsel do you have, and is there any intersection regarding the international banks and this money?

Secretary Lago.

Ms. LAGO. Thank you. You raise one of the most challenging questions that any of us involved in development face. We know that in many of the countries where the need is greatest, the challenge is also greatest, with corruption being an ever-present challenge. And I think that we have to go in with our eyes open and with the recognition of what we can do, which is making sure that the institutions themselves have controls over how they spend money, but then also being very wise on a project-by-project basis on how we invest in the institutions within the country. Capacity-building is a key facet. How we, the United States, how we, the MDBs, in which we exercise a large role, operate within country, the expectations that we set, and also the investments that we are willing to make in government ministries to build the capacity are the seeds that are there. But it is not easy and we do have to confront or be realistic about the starting point and measure the progress and be realistic about the rate of progress.

Senator LUGAR. I thank you.

Do either of you have comments?

Executive Director Solomon.

Mr. SOLOMON. I will just add one point to the incredibly important capacity-building point that has been made. I think many donors like to use the World Bank for its strong fiduciary standards and they create trust funds at the Bank because the Bank has demonstrated a comparative advantage in actually managing donor resources. It is sometimes criticized for being slow in that regard because it does try to have very stringent procurement rules and very stringent accountability in setting up separate accounts and doing things in a way that increase donor oversight and donor confidence in the institution.

On top of that, the Bank also has a strong integrity unit within itself that seeks to root out fraud and corruption in Bank projects, and if there is a firm that has defrauded the institution or has had illegal practices, they will find sanctions against that vendor and then in some cases bar that vendor from working with the Bank. I think that creates again a deterrent from fraudulent activities but also strengthens the confidence donors have in the Bank as a fiduciary agent.

Senator LUGAR. Director Chin.

Mr. CHIN. Yes, Ranking Member. I would just echo my colleagues here. One reason that I think the borrowing countries want to work with the Asian Development Bank—these are apolitical institutions, and sometimes it is easier for them to hear the criticisms from an apolitical institution because they themselves know they need to move forward.

With specific reference to Pakistan, I think the reprogramming of some $2 billion in assistance to Pakistan actually provides an opportunity to push this issue even further forward, of how we are particularly watchful of the money that is going to a country that has really been devastated by these floods. And so as in 5 years ago when the terrible tsunami hit Acce in Indonesia, the donor community in their response helped push some things forward in Acce including strengthening governance, it is my hope that with strong United States support for these institutions, we will also see that in Pakistan, that this flood will also generate some changes that in the long run will help all assistance be better and more effective.

Senator LUGAR. Well, I thank you on behalf of our chairman and the committee for your testimony, for your carefully prepared statements, as well as the statements you have delivered here and your responses to our questions.

As the chairman indicated, we will leave the record open for other members as they survey the dialogue we have had. We would appreciate your responses.

But thank you again for coming, and the hearing is adjourned.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]

Additional Material Submitted for the Record

Attachment Submitted With the Prepared Statement of Assistant Secretary Marisa Lago

APPENDIX 1. DETAILS REGARDING ASDB REFORMS

The Treasury Department and the Office of the United States Executive Director will carefully monitor the status of implementation of the following reform commitments, which the AsDB is undertaking in connection with the 2009 capital increase agreement.

- *Professionalize Human Resources.* The AsDB committed to develop a time-bound human resources action plan with input from an external consultant in order to professionalize human resources management. This plan is currently being implemented.
- *Create a Human Resources Committee of the Board.* The AsDB has established this Board Committee, which is helping to increase transparency of human resources decision making, and improve oversight.
- *Updated Safeguards Policy.* The AsDB Board of Directors approved an updated safeguard policy statement in July 2009, with U.S. support. The update included a number of important improvements, including greater clarity with respect to borrower/client responsibilities, clearly identified principles, strengthened safeguard implementation oversight, improvements in consultation and participation, greater clarity in the safeguards requirements for different lending modalities such as framework approaches and financial intermediaries and, for the first time, a specific provision on greenhouse gases.
- *Risk Management.* The AsDB upgraded the risk management office and incorporated its functions into more AsDB operations. In addition, the AsDB has significantly upgraded its technical capacity through the provision of additional resources and hiring more qualified personnel. In 2010, the AsDB is strengthening staffing for private sector operations, public-private partnerships, and credit risk management, all of which have been major priorities in our engagement with the Bank.
- *Separate the Integrity Division from the Auditor General's Office.* This separation has been completed, and is helping to enhance the visibility and functioning of both the internal audit and the integrity (investigations) offices, and align the Bank with best practices. Of the new professional staff in 2010, two positions will strengthen the Anti-Corruption and Integrity Office and one will strengthen the Office of the Auditor General's internal audit function.
- *Further dissemination of the AsDB sanctions list.* Currently, all Board members have access to the AsDB's complete list of sanctioned firms and individuals. Although the list is not posted on the AsDB Web site, it is available to all AsDB staff, other MDBs, and bilateral agencies. We will continue to press the AsDB to make its list publicly available. The AsDB joined other MDBs in signing a cross-debarment agreement in April 2010.
- *Formalize principles for selecting the external auditor.* This is ongoing. We will continue to work with other Board members on the audit committee and the Board of Directors to ensure the highest standards are adopted. We expect to complete this before the next selection of the external auditor in 2012.
- *Establish a revised Whistleblower policy.* The AsDB revised its policy in December 2009, which now generally reflects the best practices of other MDBs, the U.N. and other international organizations. The revision consolidates and extends AsDB's existing protections, which were previously located in several documents. It also improves the protections available to staff (as well as the limited protections available to external parties who report information about integrity violations and misconduct).
- *Increasing Resources for the Poorest.* The AsDB committed to increase net income transfers to the Asian Development Fund (AsDF) from $40 million to $120 million. This occurred in 2009 and again in 2010. This commitment makes the AsDB the second largest contributor to the AsDF10 replenishment, behind Japan.
- *Broaden the use of fee based services.* The AsDB is developing pilot programs for fee-based services to its more advanced developing member countries. The AsDB has had little interest to date from its developing member countries. We expect that this is partly attributable to the financial crisis and its pressure on the fiscal balances of countries in the region, as well as a need for the Bank to refine its approach.

- *Reshape Lending to China.* The AsDB expects that China will eventually decrease its borrowing and become primarily a recipient of "development innovations, knowledge, managerial expertise, and international standard and practices and technology." In the medium term, lending to China will almost entirely be directed towards the poorer inland provinces with a specific focus on energy efficiency and environmental sustainability. For example, in 2007 to 2009, 90 percent of AsDB lending to China was directed towards the inland provinces, and 50 percent of lending supported agriculture, water, and energy projects.

While we recognize that the AsDB has made significant progress in recent years, especially on agreed GCI related reforms, we are continuing to work on the following priority issues.

1. One relates to accountability in the institution, particularly of managers. We are addressing this through improvements in human resources management, and in managing for development results.

2. A second area requiring improvement is gender, as there are few women in senior management. We also want gender equity throughout the institution to be improved, in addition to better mainstreaming of gender in AsDB projects.

3. The AsDB can more fully publicize the names of firms and individuals that have been debarred from future AsDB procurement work. Although we have been successful in improving the dissemination of the AsDB's list, continued U.S. engagement is necessary to ensure progress in improved transparency.

4. The AsDB should update consistent with best practices its Accountability Mechanism and its Public Communications Policy. The Bank is conducting public consultations on each this year, ahead of a decision in early 2011.

5. The separation of the Integrity Division from the Auditor General's Office is welcome. However, the AsDB should further strengthen both offices through the provision of additional staffing.

6. Finally, we are closely monitoring actions that the AsDB is taking following a recent fraud case in the Bank's information technology department; an external review of governance, with a specific focus on information technology, is expected to be completed by end-September of this year.

APPENDIX 2. IMPROVEMENTS IN THE MDB'S ANTI-CORRUPTION EFFORTS AND TRANSPARENCY

Strengthening accountability and improving effectiveness of the MDBs is a top Treasury priority. We have championed efforts to fight corruption and increase transparency on three levels—within each institution, through MDB-funded projects and country programs, and in the MDB system as a whole.

- At the institutional level, Treasury advocates for strong internal governance mechanisms, such as ensuring functional independence of internal auditors and effective Board oversight of the external audit function, establishing and strengthening integrity and investigative mechanisms, designing effective whistle-blower protection mechanisms, and setting new standards for information disclosure policies.
- At the country level, Treasury has encouraged the MDBs to provide extensive support for governance reforms in borrowing member countries through loans and grants for capacity building in key areas such as public financial management, judicial reform, and efforts to fight corruption.
- In the system as a whole, we have supported the establishment of IFI working groups or task forces in a number of areas (such as procurement, public financial management and internal audit) to improve coordination, harmonize standards, and measure performance all intended to increase aid effectiveness.

Treasury shares the concerns and commitment of Congress to improve the accountability and transparency of the multilateral development banks. Notable progress has been made since 2003, and achievements on the three levels (institutional, country, and system-wide) include:

1. Institutional Level

All of the MDBs have established anti-corruption/integrity investigative units, publish annual reports of the results of the investigations, and make the reports publicly available on their Web sites. All MDBs have whistle-blower protection policies in place.

- Treasury supported external reviews led by former U.S. Federal Reserve Chairman Paul Volcker for the World Bank in September 2007 and former Attorney General Dick Thornburgh for the IDB in 2008. These reviews have had far reaching consequences.

- The World Bank has implemented all 18 recommendations of the Volcker Report to strengthen its Department of Institutional Integrity (INT), which investigates fraud and corruption in Bank programs. The key recommendations were raising the status of the Integrity Unit to the Vice President level, providing sufficient budget and staff to get the work done more efficiently, and improving disclosure of INT reports making results of investigations publicly available. Treasury has consistently pushed the Bank to provide adequate resources for offices responsible for upholding high fiduciary standards in Bank lending and addressing potential corruption in Bank-financed projects, including Procurement Policy and Services, Institutional Integrity, and Internal Audit. The Bank has also worked to complete investigations in the 12–18 month timeframe recommended by the Volcker Panel. As a result, 82 of the 138 cases opened in WBFY 2009 were also closed within the same fiscal year. In WBFY 2010, INT closed 238 cases, which is a 56 percent increase over the previous fiscal year.
- The IDB is implementing the recommendations of the 2008 Thornburgh Report to improve its overall anti-corruption framework. Key changes include increasing the status of the Office of Institutional Integrity by making it an independent unit within the Bank's basic structure, establishing an Anti-Corruption Policy Committee, creating a new Sanctions Committee (four of whose seven members will be from outside the IDB), and increasing protection for whistleblowers.
- At the AfDB, the Integrity Function began working in 2006. Initially created to be housed under the Auditor General, the office now reports directly to the President. It is both reactive to and proactive in preventing corruption and fraud. The AfDB also has a Whistle Blower Policy and a corruption/fraud hotline.
- At the AsDB, the separation the Integrity Division from the Auditor General's Office was a key deliverable for the United States in the GCI–V negotiations. This separation has been completed. The purpose of this reform was to enhance the function of both offices, and align the institution with best practices. Of the new professional staff in 2010, two positions will strengthen the Anti-Corruption and Integrity Office and one will strengthen the Office of the Auditor General's internal audit function. Our view is that the AsDB can further strengthen both offices through additional staffing and we will continue to press them to do so. Furthermore, we will press the AsDB to improve accountability in the institution.
- The EBRD's Chief Compliance Office (CCO) has been in place since 1999. As of January 2008, the EBRD requires automatic referral of any potential investments that involve Politically Exposed Persons and High Risk Sectors (property, natural resources) to the Chief Compliance Officer. The CCO reports functionally and administratively to the President, and has full and free access to the Chair of the Audit Committee. The EBRD's Integrity Risk Policy and the Compliance Office's Terms of Reference were updated in April 2009.

All MDBs have functionally independent internal audit departments. The internal audit departments in all of the Banks conduct regular audits of internal management controls and procedures.

- Most recently in 2010, the IDB revised the terms of reference for the Audit Committee to conform to internationally-recognized principles. These changes enhanced the functional independence of the internal audit department, by having this department report both to the President and to the Audit Committee of the Board. The IDB also updated and improved the charter of the Auditor General.
- At EBRD, the Internal Audit Department (IAD) terms of reference were updated in April 2008. The Terms of Reference include specific provisions designed to protect the independence of all IAD staff reporting to the Head of Internal Audit, who reports functionally and administratively to the President and has full and free access to the Chair of the Audit Committee.
- At the AfDB, the Auditor General reports to the President and to the Audit Committee and implements a robust, risk-based annual work plan of audits.

Treasury has also pressed for strong Board oversight of the external audit function. We have urged the MDBs to put in place requirements regarding the appointment and governance of external auditors that will conform with international good practices.

- In 2003, the World Bank Group adopted best-practice "Principles" for the appointment of the external auditor. The Principles include: a tenure of 5 plus 5 years with the ability of the incumbent to re-bid after the first 5 years; mandatory rotation of the audit firm after 10 years; senior partner rotation every 5 years; evaluation of the external auditors' performance after 2.5 years; exclusion from pure consulting services; and only very limited 'audit-related' consulting services to be approved on a case-by-case basis by the Executive Board upon the recommendation of the Board's Audit Committee.

- Since 2003, the IDB and AfDB have adopted, either formally or in practice, similar requirements for the hiring of their external auditors.

One of the core elements in the U.S. strategy to increase MDB accountability is to improve disclosure of information on MDB operations and activities.

- A signature achievement in 2009 was the revision of the World Bank's information disclosure policy, which called for a major shift in approach under which disclosure is the norm, not the exception. In addition, the Bank has created a formal, independent appeals process, through which members of the public can seek disclosure if they believe it was wrongfully denied, and will release significant policy documents and certain project documents to the public at the same time that they are released to the Board. The process leading up to adoption of the new information policy was extensive, involving consultations in 33 countries and through the Bank's external Web site. This allowed the Bank to consider the views of the public, including civil society organizations, parliamentarians, the private sector and other international organizations.
- In 2010, the IDB agreed to a fundamental change in its access to information policy. The new disclosure policy is consistent with the highest standards applied by the revised World Bank policy, including the replacement of a "positive list" of documents that could be disclosed with a narrow "negative list" of reasons why a document could be withheld, a presumption of disclosure, release of Board/Committee minutes, an independent appeals mechanism, voluntary disclosure of Executive Directors' statements, and disclosure of project-level results.
- The AsDB's Public Communications Policy is currently under review and is open for public comment on the Bank's Web site. Furthermore, the AsDB just completed an outreach tour, which included Washington, DC.
- The AfDB is reviewing its 2005 Information Disclosure policy this year. In keeping with best practice, the new policy will have an explicit presumption of disclosure, and will include the disclosure of Board and Committee minutes. The Bank continues to modernize and improve its Web site, where most of its documents can now be found.
- The IFC is also reviewing its Information Disclosure Policy this year.
- For its own account, the Treasury Department posts U.S. votes on all MDB projects on our Web site. Treasury posts U.S. positions on significant operational policies and on projects that have a significant impact on the environment, as well as reports to Congress, on topics such as extractive industries.

All of the MDBs now have put in place project and institutional-level results frameworks. The United States has used negotiations for replenishments and capital increases to urge that the results frameworks are more extensive in scope, robust in measurement, and transparent in releasing results.

- The AsDB management developed a robust AsDF results framework to guide the implementation of the AsDF–10 replenishment. Further, the Bank subsequently expanded the framework to an AsDB-wide results framework to be updated annually, called the Development Effectiveness Review (DER). The results framework covers key benchmarks and indicators on the country, regional, and project levels, as well as on the institution's operational effectiveness. The DER feeds directly into the development of the AsDB work plan and budget. This is a major accomplishment for the AsDB.
- One of the most significant outcomes of the IDB GCI process is the requirement that the IDB now publicly disclose, ex-ante, project-level evaluability analyses, compliance with institutional priorities, and economic rate-of-return calculations for projects approved that year. The IDB must also publicly disclose, ex-post, impact evaluations for any projects evaluated in that year, including private sector projects.
- In the negotiations for the AfDB GCI, Bank Management agreed to expand its Results Framework into a Bank-wide effort, with core sector indicators, and results reporting for middle income and private sector lending (concessional financing for low-income has already been covered). In addition, Management will implement cross-disciplinary "readiness reviews" for country strategy papers. ("Readiness reviews" are already being implemented to improve the quality of project design.) A major upgrade of the Bank's project supervision is aimed at making supervision more risk-based and results-oriented.

- The World Bank's IDA16 Results Measurement Framework will expand the use of common "core sector indicators," which can be measured across countries. The United States is also pressing for IDA to more effectively incorporate project impact evaluation to improve accountability and inform the deployment of limited development resources.
- The EBRD has a robust results framework. All projects considered by the EBRD are assigned an ex ante "transition impact potential" rating and a "risk to transition impact" rating by the Office of the Chief Economist. In its Annual Report, the EBRD reports on the share of new projects approved that year that were given a "good" or "excellent" transition impact rating. For 2009, the level was 89 percent. In addition, the EBRD maintains a Transition Impact Monitoring System that tracks the progress of projects through their life cycle, assessing whether transition impact benchmarks have been met and adjusting project ratings accordingly.

All of the MDBs have functionally independent evaluation units that are essential to make sure that there is credible, impartial assessment and reporting on their work.

2. Country Level

All of the MDBs recognize the risk that corruption poses to the fulfillment of their mandates to promote economic growth and poverty reduction. They each have developed strategies to combat corruption both in their institutions and on the projects and programs that they finance.

- In 2009, the IDB approved a new action plan for Bank support to its member countries in their efforts to fight corruption and foster transparency. The plan calls for the Bank to support countries' implementation of international conventions against corruption, and encourages the involvement of the private sector and civil society in institutional strengthening.
- The AfDB's Governance Strategic Directions and Action Plan guides AfDB work at the country, sector, and regional levels. The Bank is helping strengthen Africa's economic and financial governance structures so that public resources are managed transparently and accountably. The AfDB is focusing heavily on the fragile states that are coming out of conflict where institutions are weak or nonexistent. Given that the Bank is heavily engaged in infrastructure, the Bank has focused on the importance of addressing corruption and fraud in procurement practices. The Bank has recently released guidelines for identifying fraud in infrastructure projects. The Bank also recently released its guidelines for developing projects in resource-rich countries. It is working on a natural resources strategy as well, another area prone to corruption and abuse.
- The World Bank's Governance and Anticorruption Strategy (GAC) was endorsed by the Board in 2007. Since that time, the Bank has identified 27 countries for heightened attention to governance and anti-corruption, and has begun to develop actionable governance indicators to better target Bank assistance and monitor progress. All country assistance strategies now incorporate governance and anticorruption measures in their design. Since the adoption of the GAC strategy, Treasury has advocated for mainstreaming implementation of this strategy throughout the Bank's work. In regular and frequent engagement with Board members, senior management and Bank staff, Treasury has emphasized the need to include GAC elements in country strategies, projects, loans and the Bank's operating procedures. For example, after pressure from the United States, the Bank committed to disclose to the Board any ongoing investigations on previous projects that might be relevant to discussion of present projects.
- Treasury has encouraged the MDBs to support the principles of the Extractive Industries Transparency Initiative (EITI) in their policy, operational and diagnostic work. All of the MDBs have now endorsed EITI and are increasingly integrating EITI principles into their operations. This has helped 27 candidate countries—17 of which are in sub-Saharan Africa—comply with the EITI principles. Treasury consistently stresses the importance of resource revenue transparency in Executive Board discussions and our loan review analysts scrutinize MDB investment projects, country and sector strategy papers, and technical assistance for compliance with legislation on the extraction of natural resources. Transparent and accountable management of extractive resources is a critical issue, particularly in Africa, and Treasury will continue to press for effective MDB engagement.
    - The AfDB has supported the efforts of borrowing member countries, such as Liberia, to adhere to the disclosure standards of EITI through technical assistance, policy advice, and regional training.

- ○ Following strong U.S. leadership during negotiation of IDA14 (covering the period 2005 through 2008), the World Bank agreed to require recipient governments to have in place, or to be in the process of establishing, functioning systems for accounting for revenues and their use.
- In 2007, the World Bank, in coordination with the United Nations Office on Drugs and Crime, established the Stolen Asset Recovery Program to work with developing countries and financial centers to fight money laundering, and help countries identify and recover stolen assets. The Bank is working with seven countries that have requested assistance, and other countries have expressed interest in receiving support.
- The EBRD and IFC advise companies and banks on ways to strengthen their corporate governance practices, including by improving Board arrangements, strengthening shareholder rights, and putting in place better internal controls and reporting practices.

3. System-wide

The MDBs have established an Investigators and Integrity Forum to work toward a harmonized approach to combat corruption in the activities and operations of the member institutions.

- At the 2006 World Bank Annual Meeting, the heads of the MDBs agreed to common definitions of fraudulent and corrupt practices. They also agreed to a set of principles and guidelines for investigations conducted by their respective integrity units.
- In April 2010, heads of the MDBs signed an historic agreement on cross-debarment that adds a strong MDB accountability tool to deter fraud and corruption. Firms or individuals that have been sanctioned for fraud and corruption by one MDB will now be debarred by all MDBs. World Bank President Bob Zoellick summed it up by saying "With today's cross-debarment agreement among development banks, a clear message on anticorruption is being delivered: Steal and cheat from one, get punished by all."
- The EBRD has followed up in May 2010 with an update of its policies to implement cross-debarment.
- The IFI Heads of Procurement Working Group has made important contributions to harmonizing procurement rules. The Group is promoting more accountable procurement processes through increasing harmonization of procurement rules, including the development of standard bidding documents that are widely recognized as an international best practice.
- The IFIs have also established an Evaluation Cooperation Group and an MDB Common Performance Assessment System (COMPAS) group.

APPENDIX 3: U.S. OWNERSHIP IN MDBS

Institution	Current capital base ($ billion)	Proposed increase ($ billion)	U.S. Share of increase ($ billions)	U.S. Share of new paid-in capital ($ millions)	U.S. Ownership Share (%)
IBRD (GCI)	190	58	9.8	587	16.8
IBRD (SCI)	190	28	4.7	279	16.8
AfDB	33	66	4.4	234	6.6
AsDB	55	110	15.7	107	15.6
EBRD	30	15	1.3	0	10.0
IDB	101	70	21.0	515	30.0

U.S. ownership share will remain unchanged by the capital increase process, provided payment requests are fully funded. Should U.S. payments lag those of other shareholders, our ownership share would decline. If U.S. ownership fell below 15% of IBRD votes, the United States would lose its ability to veto modifications to the Articles of Agreement. Failure to fully fund a U.S. contribution to the IDB will limit the ability of other shareholders to contribute, and limit the impact of the GCI, as the United States cannot fall below 30% of total voting power under the IDB's Articles of Agreement.

PREPARED STATEMENT OF WALTER JONES, UNITED STATES EXECUTIVE DIRECTOR OF THE AFRICAN DEVELOPMENT BANK

Chairman Kerry, Ranking Member Lugar, and members of the committee, thank you for this opportunity to submit a statement on the record regarding the United States engagement in and support of the African Development Bank Group ("AfDB" or "the Bank").

The African Development Bank is widely recognized as one of the world's leading institutions supporting economic growth and development in Africa. Through its operations, the AfDB provides loans, grants, budget support as well as a wealth of economic and market research data. Today, particularly as a result of the ongoing global financial crisis, the Bank has emerged as a key player in stabilizing and shielding African economies from global volatility. By providing record amounts of credit, budget support, trade finance and capacity-building assistance, particularly during the height of the global crisis, the Bank cemented its role as an indispensable tool to promote growth and expansion in Africa.

SUPPORTING ECONOMIC GROWTH AND THE POOREST

In response to the G20's call on the multilateral development banks to assist developing countries in countering the effects of the financial crisis, the AfDB increased lending in 2009 to almost $9 billion from the AfDB and nearly $4 billion from the concessional African Development Fund. This compares to precrisis annual lending of $1.5–$2.5 billion, placing considerable strain on the AfDB's balance sheet. If not for provision of temporary callable capital by Canada and Korea, the Bank would have breached its statutory debt limit in 2010. The increase in lending to the private sector, especially in low-income countries, as well as renewed demand for public sector lending from middle-income countries would have exhausted the Bank's available risk capital by 2013.

Thus, a significant general capital increase (GCI) of 200 percent, with 6 percent paid in, is necessary to support the Bank's continued role in promoting African growth and poverty reduction. The GCI was approved by the Bank's Board of Governors at the May 2010 Annual Meeting in Abjidjan, Cote d'Ivoire. Once implemented, the 200 percent GCI will provide for a sustainable lending level of over $5 billion a year, while without a GCI, sustainable lending would drop below precrisis levels to less than $2 billion. Similarly, the African Development Fund will have fully utilized the record level of resources from its 11th replenishment by end-2010. Strong support for the ambitious United States AfDF–12 replenishment pledge will also be required to meet the needs of Africa's poorest countries.

Recent improvements in the Bank's operations have led to a greater capacity to deliver meaningful support to its constituent countries and ensure effective use of shareholders' capital and donor contributions. Such improvements would not have been possible without steadfast U.S. support and without a senior management team led by President Donald Kaberuka, who himself sought to bring about positive changes and operational efficiencies. Under current leadership, the Bank has implemented far-reaching reforms and has begun to institute a culture of results and accountability. Continued Bank leadership and success is not only important for Africa, but it is likewise of critical importance for the United States and for our economy.

A few statistics are useful to underscore this conclusion. For example, in a May 2010 report, the U.S. Department of Agriculture noted that over the past 10 years, U.S. agricultural exports to sub-Saharan Africa had grown "at a faster pace than exports to the top five U.S. export markets combined." The Department of Agriculture report goes on to state that growth in commercial shipments alone—excluding food aid and focusing solely on agriculture exports generated exclusively through actual commercial sales—increased by an astounding 326 percent. The report also states that those commercial agriculture shipments to Africa exceeded U.S. shipments to all of South Asia, whose population is more than twice that of sub-Saharan Africa. These figures illustrate the tremendous growth in commercial ties between the United States and Africa, particularly in agriculture, which of course, lead to job creation right here at home. Furthermore, these figures highlight the importance of a strong, vibrant Africa for the U.S. economy.

The rise in exports and in overall economic ties between the United States and Africa is largely a result of Africa's impressive economic growth over the past few years. While many world economies contracted in 2009, growth in sub-Saharan Africa's low-income countries averaged more than 4 percent. This growth has led to an unprecedented expansion of an African consumer class that has fueled domestic consumption, which, in turn, has generated an increase in imports. As African economies expand, as their populations gain more access to credit and as the African middle class grows, so too will demand for U.S. exports, demand for U.S. direct investment, and the need for stronger overall economic ties between the two. Clearly, there is a link between Africa's growth, development of an African consumer class, and in the associated economic benefits for the United States. Given this unassailably symbiotic relationship, the African Development Bank's role in promoting African growth and expansion is, therefore, of paramount interest to our country.

By virtue of its presence on the continent, the makeup of its membership and the institutional expertise and knowledge base that it possesses, the African Development Bank is an institution whose success is vital to our own commercial, economic, and national security interests on the continent. Through its capacity-building programs, the Bank is helping to strengthen African governments and institutions so they become more accountable to their citizens and more effective in meeting the growing needs of their population. African Development Bank loans also support infrastructure projects throughout the continent that help bring power to areas where there was none, and water that has turned arid land into fertile landscapes. The Bank has become the leading financier in promoting regional integration in Africa.

Roads financed by the Bank create new markets for agricultural products, which leads to greater income distribution, wealth generation, and food security, particularly in rural areas. Loans to local African banks have helped to expand the availability of credit to burgeoning private sector firms. Private equity funds, including several managed by U.S. fund managers, have benefited from African Development Bank investment, which has enabled them to provide equity critical to indigenous private sector growth.

ADDRESSING NATIONAL SECURITY AND TRANSNATIONAL CHALLENGES

An area where the security of the United States is affected is in the Bank's programs and support for fragile states. In many cases, these countries have the potential to become security risks and unstable areas where forces contrary to United States interests can take hold and potentially operate with impunity. Support for fragile states, by strengthening governance and building government capacity and restoring infrastructure, is a major operational focus for the Bank and one where it has committed considerable human and financial resources. Through Bank assistance, it is hoped that rebuilding and strengthening those countries will allow them to become integral members of the world community rather than potential soft targets for civil unrest and instability.

In response to transnational challenges, the Bank has increased its projects' emphasis on enhancing food security and mitigating and adapting to climate change.

IMPLEMENTING OUR REFORM AGENDA

The recent increase of Bank operations has, indeed, tested the strength of the institution. Senior management has undertaken several internal assessments to determine how best to meet these new challenges while instituting meaningful, effective reform. Our own government has been a strong and vocal advocate of such reform. We leveraged the GCI discussions to obtain agreement from Bank management on a robust reform agenda, reflected in a reform matrix that Governors adopted at the annual meetings in May. These reforms were informed by consultations with Congress, and specifically from the members and staff of this committee. For example, the United States has pressed Bank management to reform its income model to assure, inter alia, that additional funds out of Bank net income be made available and transferred to the Bank's soft (concessional) loan and grant window that targets the poorest countries. A repricing exercise was also undertaken to assure that Bank lending rates at least cover operational expenses. The Bank is reviewing and strengthening its approach to risk management to meet the challenges of increased private sector lending, and the Integrity and Anti-Corruption unit has been given more prominence.

The United States has likewise been insistent on deepening a culture of transparency and accountability at the AfDB. A review of disclosure policy and practice is underway, with the intention of moving to a policy based on best practices and a presumption of automatic disclosure. By publicly posting the matrix, the Bank can be held accountable when it fails to reach a reform milestone. Similarly, the United States has also insisted that the Bank publicly post on its Web site the names of individuals and companies debarred by other MDBs. This so-called "cross debarment" was memorialized in the Luxembourg Agreement, which the Bank recently signed. Although there is more progress to be made in this area and the United States continues to press Bank management to be more expeditious in identifying and posting such names, we are confident that the Bank will take its responsibility seriously.

The United States has also been persistent in calling for the Bank to embrace a new culture of self-assessment and results. To this end, the Bank has adopted an impressive results measurement framework that implements a comprehensive system to assess Bank performance at key intervals. The new approach requires a change in mindset. Instead of a formerly, somewhat robotic "programming culture" that analyzed results and outputs post-facto, the new guidelines call for focusing on desired outcomes and ways to produce or achieve those outcomes. Readiness reviews are now performed on all projects to assure quality-at-entry, and the Bank is moving to a continuous supervision process complemented by an automated results reporting system. This has led to fostering a "culture of results" that will allow more critical self-assessment and enhanced delivery of products and services.

The Bank has made noteworthy strides in other areas as well, such as in promoting gender equality in its projects.

Although there is certainly much to praise, the Bank admittedly must continue to improve in many areas of its operations. A major decentralization effort is now underway. Great care needs to be taken so that problems within the Bank are not repeated or propagated as it expands its footprint across the continent. Furthermore, in undertaking new initiatives, the Bank must be careful to make an objective assessment of its own internal capabilities and available budget resources before announcing unrealistic timetables or goals. The performance-based employee evaluation system needs to be fully implemented, and the Bank should strive to improve its ability to attract, retain, and reward outstanding staff. The Bank must likewise improve its internal operations to assure that its employees receive adequate IT, telecommunications, logistical support, and training.

A STRONG AFRICA BEGETS A STRONGER AMERICA

While there remain areas where we continue to advocate for further progress, the strides and accomplishments achieved by the African Development Bank to date are far more noteworthy. Continued, active United States participation in the African Development Bank is an investment in our own country's economic growth. A strong Africa begets a stronger America. African markets present U.S. companies with attractive growth opportunities. An active United States presence in the Bank helps to assure that our values of transparency, good governance and sound environmental stewardship continue to resonate throughout. Through our efforts, the United States has been able to play a leading role in bringing about many of the key reforms noted herein. Continued strong U.S. support and leadership within the Bank help to assure that those reforms remain grafted onto the very fabric of the institution, and provide the impetus for even greater effectiveness and more meaningful contributions to Africa's development.

PREPARED STATEMENT OF JAMES L. HUDSON, UNITED STATES EXECUTIVE DIRECTOR OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development (EBRD) invests in projects that foster entrepreneurship from Central Europe to Central Asia. By strengthening local economies, developing the private sector, and establishing foundations for long-term economic growth, the EBRD remains an important institution to help the United States stabilize the global economy and foster sustainable development. Additionally, our support of the EBRD furthers our own objectives in the region. The EBRD supports political stability and promotes democracy in volatile areas such as Ukraine, Kosovo, Georgia and the Caucasus, the Kyrgyz Republic and the Central Asian states that border Afghanistan. And EBRD support helps firewall the more fragile economies in the region from economic challenges, such as those recently experienced by the Eurozone economies.

CRITICAL FINANCIAL CRISIS SUPPORT

The global financial crisis severely impacted the economies of Eastern Europe and the former Soviet Union. Among emerging markets, Eastern Europe experienced the largest reversal in economic output, large declines in foreign capital flows, and is recovering more slowly. The EBRD was critical to reducing the impact on these economies from the crisis as it responded with speed and vital support, increasing its 2009 business volume by 55 percent over the previous year and assuming considerable risk in the process. In 2009, the EBRD outlined a bold operational response in Ukraine, where currency devaluation, output and commodity price collapses, and political turmoil threatened systemic collapse.

In early 2010, as I assumed my duties at the EBRD, the institution was undertaking a capital resources review. Following their analysis, EBRD shareholders agreed on a 50-percent capital enhancement in May 2010 based on the institution's use of resources during the crisis. The capital enhancement has a unique structure that was the result of aggressive negotiating by the United States to achieve our primary objectives of securing a temporary capital increase while preserving EBRD's core mission as a transition bank.

The structure consists of a transfer of €1 billion ($1.5 billion using a conservative exchange rate) from EBRD's reserves to its permanent capital base and a new contribution of €9 billion ($13.5 billion) in temporary callable capital by all shareholders on a pro rata basis. The U.S. is the largest single shareholder, with 10 percent of EBRD capital, making our contribution €900 million ($1.35 billion) of temporary callable capital. This contribution requires congressional authorization.

Temporary callable capital is an innovative instrument. It is structured so that excess callable capital will be cancelled in the future, as long as the EBRD meets its prudential ratios. The advantages of this instrument are that: (a) no new paid-in capital is needed; and (b) the EBRD will have sufficient callable capital to increase investments to help crisis-affected countries in its region recover, while the shareholders of the Bank can manage future growth by cancelling excess capital.

As a multilateral development bank whose lending is 75 percent oriented to the private sector and 25 percent to the state sector, EBRD is guided by three criteria: (1) sound banking; (2) additionality; and (3) transition impact. These criteria are intended to ensure that the EBRD makes commercially viable investments that do not compete with private capital markets and that develop markets by increasing private ownership, enhancing competition, reforming corporate governance, and improving regulation. By having a mechanism to cancel excess capital, the shareholders can keep EBRD focused on its core transition mandate and avoid mission creep.

Initially, this structure was strongly opposed by some shareholders who preferred a traditional paid-in permanent increase. Ultimately, our approach prevailed because we were able to build a consensus that this mechanism gave EBRD sufficient resources for crisis response in the medium term and that it was sufficiently flexible to allow the Bank to respond to future changes. Critically, the U.S. was able to retain consensus that graduation from EBRD lending is expected for the first group of EU accession countries. The capital increase was underpinned by critical policy reforms, summarized below:

EBRD REFORMS

Sound Finances

- In March 2009, EBRD reinterpreted its gearing ratio to use its existing capital base more efficiently.
- In December 2009, EBRD adopted a new Economic Capital Policy to provide it with additional lending flexibility while protecting its AAA status, despite its high risk, predominantly private sector portfolio.

Transparency and Accountability

- Between 2008 and 2010, the EBRD revised its Enforcement Policy and Procedures to be in line with Uniform Framework for Preventing and Combating Fraud and Corruption and allow for mutual enforcement of debarment decisions of other international financial institutions.
- In March 2010, EBRD launched a new accountability mechanism, the Project Complaint Mechanism, to independently assess and review complaints about EBRD financed projects. The Project Complaint Mechanism replaces an older accountability mechanism and is designed to be more accessible to the public.

FURTHERING THE TRANSITION MISSION AND SUPPORTING U.S. PRIORITIES

Food Security

- The Agribusiness Strategy approved in July 2010 scales up investment in primary agriculture in order to help the EBRD region exploit agricultural potential and contribute to global food security. Twenty percent of EBRD transactions in 2009 were in the agribusiness sector.

Local Capital Market Development

- EBRD, working closely with national institutions and other international financial institutions, is expanding its efforts to develop local capital markets and local currency finance in its region to prevent reliance on risky foreign currency finance. Underdeveloped capital markets and a lack of local currency lending left the EBRD region vulnerable to exchange rate shocks. Addressing this weakness is a key lesson of the recent crisis.

Climate Change Mitigation

- In 2009, EBRD launched the second phase of its Sustainable Energy Initiative, which makes investments in energy efficiency climate change mitigation and adaptation in the region—which is one of the most energy intensive in the world. The investments focus on the industrial, power, buildings, transport and municipal sectors; renewable and biomass energy; and working with local banks to promote energy efficiency in the small business sector. EBRD has set a target of investments resulting in 25–35 million tons of carbon dioxide reductions annually.

In conclusion, the EBRD supports key U.S. international economic and foreign policy objectives. The EBRD is the largest single financial investor in its region. Through our shareholding, the United States shapes the development of market economies in Eastern Europe and the former Soviet Union. EBRD's nimble crisis response in 2009 demonstrates its value to the United States in helping respond to challenges.

PREPARED STATEMENT GUSTAVO ARNAVAT, UNITED STATES EXECUTIVE DIRECTOR OF THE INTER-AMERICAN DEVELOPMENT BANK

Chairman Kerry, Ranking Member Lugar, and members of the committee, thank you for the opportunity to submit this statement regarding the Inter-American Development Bank (IDB or Bank), and the case for the proposed general capital increase (GCI).

The IDB is the largest source of development finance in the Western Hemisphere, providing 26 borrowing member countries close to 50 percent of their multilateral financing. Between 1994 and 2009, the Bank financed over 1,400 projects for a total of $125 billion, averaging approximately $7 billion per year. Since 2007, lending to the region increased sharply, reaching $15.5 billion in 2009, as the Bank mobilized its resources in the wake of the global financial crisis. This lending has helped, directly or indirectly, the roughly 580 million people of the Latin American and Caribbean members of the Bank to improve their lives through enhanced economic opportunity and stronger support to defeat poverty in their communities.

The proposed capital increase is designed to allow the Bank to lend an average of $12 billion per year; without it, the IDB would be forced to reduce lending to approximately $7 billion per year, well below our estimates of the borrowing needs of the member countries. This would mean curtailing critical programs aimed at reducing poverty, stabilizing economies, promoting private sector growth, and improving the health and education of vulnerable populations, among others.

As the largest shareholder at the IDB, the United States leadership was vital to the negotiations regarding the proposed GCI during the Annual Meeting of IDB Governors in March 2010. The U.S. reform agenda, which was developed based upon congressional input and specific comments from members and staff of this committee, was successfully incorporated and linked to the discussion of resources. Based on this engagement, and the subsequent discussions I had with executive directors and the Bank's senior management on how to implement the mandates and guidance provided by Governors, I believe we have achieved a GCI agreement that merits strong U.S. support.

Among the signature achievements is the agreement that at least $200 million per year from 2010–2020 will be transferred from the Bank's ordinary capital to the Grant Facility established for Haiti's reconstruction and development. In addition, we achieved an agreement to eliminate all of Haiti's remaining debt held by the Bank, which was equal to $661 million in nominal terms. These commitments will mean real opportunity for the poorest in Haiti, and are a testament to the necessity and importance of continued U.S. support for and engagement in the IDB. The agreement also ensures the financial viability of the IDB's concessional window, the Fund for Special Operations (FSO), over the next decade. The FSO supports the region's poorest countries through highly concessional lending.

The United States used the GCI negotiations not only to recapitalize the institution, but also to improve the strategic direction of the Bank, as well as consolidate key institutional reforms with the aim of promoting management for development effectiveness and enhanced safeguards, transparency, accountability, disclosure and financial and risk management policies and practices. Supporting this capital increase will reinforce the United States commitment to the region, and its leading and historic role in promoting the sustainable economic growth of its neighbors, a commitment rooted in the proposition that an economically strong and politically stable region ultimately benefits the economic and security interests of the United States.

IDB REFORMS

Not only does the GCI agreement include a Results Framework to monitor the institution's performance, but for the first time as part of a capital increase at the Bank there will be an independent mid-term review of progress achieved in implementing the Governors' directives. Specifically, the Bank's implementation of the agreed reforms will be subject to a full review by the IDB's Independent Evaluation Office by March 2013, culminating in a report to Governors assessing the extent to which the Bank has fulfilled these mandates. The following are among the key reforms agreed by Governors:

Strategic Focus on Core Missions. Based on discussions with the United States and other shareholders during the GCI negotiations, the IDB agreed to focus more intensely on the following core priorities: reducing poverty and inequality, ensuring sustainable development, addressing energy and climate change challenges, focusing on the special needs of the poorest countries, promoting regional integration, and fostering development through the private sector. In addition, Bank management will adopt sector strategies and notional lending targets for the following urgent regional needs by the first quarter of 2011: regional integration infrastructure and technical assistance; better education performance; broader private sector access to finance, particularly for SMEs; renewable energy; and, climate change adaptation and mitigation.

Management for Development Effectiveness. The IDB will implement a new development effectiveness matrix to improve the quality of the Bank's loan portfolio. The Operations Policy Committee, headed by the Executive Vice President of the Bank, will ensure that only projects that meet a quantitative minimum development effectiveness threshold will be forwarded to the Board of Executive Directors for consideration.

Safeguards. The IDB will adopt updated environmental and social safeguards that are fully consistent with the recommendations of the independent advisory group on sustainability in its final report (due before the end of 2010) and in line with international best practices. Moreover, the Bank will implement new and rigorous safeguards against lending into unsustainable macroeconomic situations.

Transparency, Accountability and Disclosure. One of the most significant outcomes of the reform discussion during the GCI negotiations is that the IDB has agreed to publicly disclose ex-ante project-level evaluability analysis, compliance with institutional priorities, and economic rate-of-return or cost effectiveness calculations for projects, as well as ex-post impact evaluations for all projects, including private sector projects. The Bank has also put in place a new Independent Consultation and Inspection Mechanism with high standards of independence and transparency. In addition, the Bank has adopted a new access to information policy consistent with the highest standards applied by other international financial institutions that includes the replacement of a "positive list" of disclosed policies with a limited "negative list," a presumption of disclosure, release of board and committee minutes, an independent appeals mechanism, and voluntary disclosure of statements by Executive Directors.

Sound Financial Management. The IDB has agreed to important new approaches to the stewardship of its resources. The Bank will implement a newly approved capital adequacy policy this calendar year and management will develop and adopt a corporate strategy for results-based budgeting for its 2011 budget. In addition, the Bank has adopted a comprehensive income management model that allocates income and adjusts loan pricing to cover the Bank's complete lending and grant programs, minimum annual transfers of $200 million to the above-mentioned Grant Facility for Haiti, a capital accumulation rule that preserves the financial soundness of the Bank, administrative expenses, and requirements of the Bank's capital adequacy policy. Any changes in expenses must generate an automatic offsetting adjustment in loan charges or other expenses.

In conclusion, for more than 50 years, the role of the United States at the Bank has been to ensure that the investments made by the American people through the IDB are sound financially and lead to the economic and social development of our neighbors in Latin America and the Caribbean. While the primary beneficiaries of the Bank's projects (loans as well as technical assistance and, in some cases, grants) are the 26 borrowing countries, the Bank's overall objective of fomenting economic growth and reducing poverty in the region benefits the United States and its citizens and businesses from the resulting increase in demand for American goods and services. The United States also benefits because economic growth in the region, coupled with sound social policies, should lead to increased prosperity among its citizens and greater social stability, which also tends to promote greater democracy and security. In short, we believe strongly that the GCI for the IDB will benefit both the region and the United States.

RESPONSES OF ASSISTANT SECRETARY MARISA LAGO TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. In your written testimony and during the question and answer session, you explained that as the administration weighed the capital requests of the various development banks, it considered the capacity of each MDB, demand for MDB resources, and focus on the core mandates of each MDB. Would you please explain in detail how the administration arrived at the general capital increase request levels for each MDB? Please explain the variances in the requests.

Answer. Each bank confronted a different set of challenges. Accordingly, the factors we considered differed widely, and the outcomes were similarly variable. For example, the Asian Development Bank (AsDB) management sought shareholder support for a 200-percent increase to avoid a steep decline in lending (from $8 billion annually to $4 billion annually). This forecast, coupled with management's willingness to adopt a robust reform agenda, was key to securing the administration's support for the Bank's request.

Similarly, the African Development Bank (AfDB), which started with a relatively low sustainable lending level of $1.8 billion per year, faced increasing demand for sovereign and private sector lending well before the crisis. By 2008, lending had increased to over $2.5 billion, and management had indicated that the Bank would need to seek new capital in 2012 to avoid a sharp decline in lending below the annual $1.8 billion level. The Bank's acceleration in crisis lending after 2008 further accelerated the timeline for considering a capital increase. Management also made a compelling argument that regional demand—especially for infrastructure projects and private sector lending—had the potential to increase significantly. Here, too, management proved receptive to making significant reform commitments. As a result, we chose to support management's request for a 200-percent increase.

The Inter-American Development Bank (IDB) initially sought a 200-percent General Capital Increase (GCI) as well, premised on a sustained downturn in the region. However, Latin America proved more resilient than projected, which led shareholders to consider a more modest request. Ultimately, we agreed to support a smaller capital increase of 70 percent because it enabled the Bank to provide significant new funds to the poorest countries, especially Haiti, and helped leverage reforms that we had been seeking, including a new capital adequacy policy, an improved inspection panel and a more robust disclosure policy.

We also found the European Bank for Reconstruction and Development (EBRD) GCI request compelling, chiefly because its borrowing countries were among the hardest hit by the crisis. However, because we continue to expect EU accession countries to begin graduating, we advocated for a temporary increase in callable capital, which did not require any paid-in amount. We felt that this option, which other shareholders ultimately agreed to, would enable the EBRD to sustain its support for the region's recovery, but still be able to scale back when appropriate. The EBRD also addressed our concerns about excessive focus on the advanced transition economies by approving new business targets designed to increase the geographic diversification of projects and recommitting to work with EU accession countries on a graduation path.

Finally, we supported management's request at the World Bank because of its projections that its crisis-lending would cause the Bank's equity to loan ratio, the traditional measure of the Bank's capital adequacy, to fall below its prudential ratio of 23 percent starting in July 2013, or result in a drop in lending authority from an average of $15 billion a year (before the crisis) to below $8 billion a year starting in 2011. In addition, we believed that additional resources were necessary to strengthen the Bank's capacity to complement U.S. bilateral programs and support major U.S. policy priorities, such as food security and climate change.

To help ensure the long-term financial sustainability and responsible oversight of the Bank's finances, management also agreed to a new financial framework that unifies decisions on budget, pricing, and net income transfers. And, to further improve a focus on results, the Bank agreed to implement a corporate "scorecard" to assess the Bank's performance and to more closely link performance evaluation to results.

Question. Were larger general capital increases offered to MDBs that agreed to more significant reform packages? If so, why? Are we rewarding reformers or rewarding the MDBs that were in the worst condition to begin with? Would it be fair to assume that the MDBs should want to improve on their own?

Answer. Although we took the opportunity to seek new reforms in the GCI negotiations, we made no explicit links between the size of the GCIs and the reform commitments. Rather, we arrived at GCI levels that we believed best reflected the needs of the institutions, factoring in demand in their regions of operation and capacity to deliver. On a parallel track, we developed a reform and policy agenda for each institution and made clear that our support for a GCI would require satisfactory commitments on the reforms from management and by the other shareholders.

Question. Will the capital increases benefit middle-income countries more than poor countries? How will the capital increases raise grant support for the poorest countries?

Answer. The capital increases were supported by all borrowing country shareholders at the MDBs, and will benefit both poor and middle income countries. A key reason for this is that a major outcome of the GCI negotiations at each MDB was to prioritize the transfer of income earned from lending to middle-income countries to the MDBs' concessional lending windows.[1] In fact, as part of its GCI, the IDB has committed to transferring over $2 billion of its income over the next 10 years to support Haiti's reconstruction and development. Also, in the AfDB, AsDB and IDB, the GCIs will support increased lending to the private sector in low-income countries directly through the hard loan windows. Finally, the regional development banks have agreed to focus more on increasing regional linkages, strengthening connections between neighboring middle- and low-income countries, boosting growth for each.

Question. By MDB, please note the formula for transferring funds from the regular lending windows to the subsidized lending and grant windows. Are some MDBs providing significantly more assistance to poor countries than others? Please list the amount of grants and subsidized loans offered to poor countries by each MDB.

Answer. During GCI negotiations, the United States placed high priority on securing commitments to increase the transfer of MDB net income to support concessional assistance through MDB soft loan windows.

- AsDB management committed to triple net income transfers for AsDF to $120 million per year from $40 million per year.
- AfDB management committed to increase net income transfers for AfDF to SDR $35 million ($53 million) per year from SDR $20 million ($30 million) per year. The AfDB also committed to provide at least 75 percent of its total net income to low-income country support (primarily contributions to AfDF, but it could also include contributions to arrears clearance, debt relief, and technical assistance grants to low-income countries). The latter measure will ensure that the AfDF will also benefit in years where AfDB net income is exceptionally high.
- IDB management agreed to transfer $200 million per year in net income to the IDB grant facility, which currently benefits only Haiti. (Four additional low-income countries have access to concessional loans from the Fund for Special Operations; the FSO does not receive net income transfers from the hard loan window of the IDB.)
- World Bank management agreed to maintain IBRD transfers to IDA flat in real terms (presently about $635 million per year) until the IBRD's equity/loan ratio recovers to 23 percent, at which time there will be modest increase in transfers to IDA. In addition, the equity/loan ratio reaches 27 percent, it will trigger Board consideration of much stronger measures to redirect GCI resources, including through higher transfers to IDA.
- IFC net income transfers to IDA: IFC net income transfers to IDA (about $400 million per year in recent years) and other initiatives, including technical assistance activities, are determined by a sliding scale formula that takes into account the IFC's annual financial performance and agreed principles that the Board uses in determining specific allocations. The sliding scale formula includes a minimum income threshold of $150 million that has to be met before a portion of the income can be transferred to IDA or other initiatives. For an income amount above the $150 million threshold, the incremental rate of designations increases in steps, from 20 percent up to a maximum rate of 35 percent. The sliding scale determines the maximum amount of net income transfers and the Board then decides on the actual amount of allocations including to IDA, technical assistance grants, or other initiatives that support the IFC's work in low-income countries. The principles that guide Board decisions on the levels and purposes of designations of IFC's retained earnings include: preservation of IFC's AAA rating and maintaining capacity to support IFC's endorsed growth path.
- The EBRD does not have a separate soft loan window, though it does provide investment grants for projects in poorer countries and regions with limited

[1] Except the EBRD, which has no concessional window.

finances, notably heavily indebted countries subject to borrowing constraints under an IMF Debt Sustainability Analysis (DSA). (The IMF prepares DSAs which indicate minimum concessionality requirements needed to avoid debt distress.)

- IDA provides by far the largest volume of concessional loans to low-income countries, while the AsDF and AfDF also provide substantial amounts. IDA is also the leader in grant assistance to low-income countries, followed by AfDF and AsDF. The IDB provides relatively smaller amounts of concessional loans and grants. These results are not surprising given the global scale of IDA and the fact that only five members of the IDB qualify for concessional loans and grants.

[$ in billions]

	2009 Approvals for Low-Income Countries	
	Grants	Concessional Loans
AsDF	$0.9	$2.2
AfDF	1.4	2.0
IDA	2.6	11.4
IDB Grant Facility/FSO	0.16	0.23

Question. What are the administration's plans to ensure that a recapitalization does not mean a tradeoff in a limited budgetary environment away from grant support and debt relief for low-income countries?

Answer. We are currently in discussions with OMB on our budget request for FY12. In negotiating the GCI commitments, we were very mindful of the budgetary costs associated with them. We will continue to work to ensure that we meet our debt relief obligations.

Question. Building on our discussion during the hearing, what internal fiscal measures have the development banks taken to save money, thereby mitigating the need for additional donor contributions? Will the administration or the international community conduct a review of potential cost savings at each development bank?

Answer. Several MDBs agreed to pricing reforms that will directly link loan pricing to their internal expenditures. For example, the World Bank agreed to overhaul its budget process to ensure that decisions on pricing, compensation, and administrative costs are closely integrated and aligned with the Bank's strategic priorities. The AfDB agreed to a comprehensive financial model that has parameters on loan pricing, locks in a minimum level of transfers to low-income countries, covers administrative expenses, and supports capital adequacy. In the FY 2011 budget (not yet finalized), AfDB identified $8 million in annual savings from expenditure control efforts (e.g., telecom and Blackberry contracts, travel costs) and streamlined business processes (e.g., use of video conferences, e-recruitment). This amounts to 2 percent of AfDB's 2010 budget.

The IDB agreed to adopt a new income allocation model that sets loan prices consistent with the IDB's financial constraints and priorities, and it is already apparent from the FY11 budget discussions that this is motivating shareholders to seek cost cuts.

It has been a longstanding policy at the Asian Development Bank for loan income to cover the cost of administrative expenses. In addition, the AsDB's results management framework, which was adopted just prior to the GCI, emphasizes cost effectiveness at all levels of the organization.

We expect these new policies to enhance MDB operating efficiency and, together with new capital accumulation objectives, mitigate the need for future shareholder contributions. The Treasury Department will closely supervise implementation of these new policies. In addition, the MDBs' annual budget processes will provide key opportunities for oversight.

Question. To promote the principle of transparency, democratic governance, and country-ownership of development strategies and to avoid the irresponsible borrowing practices of the past in some countries, the United States should use its influence to ensure that new loans are at least reviewed by the Parliaments of borrowing countries. Is this part of the reform agenda being discussed in reference to the capital increase request?

Answer. As a general principle, we advocate for an open and thorough consultation process in all borrowing countries to help promote buy-in of country development strategies. Similarly, we believe it is important that all relevant parties have a consultative role in the project development process, which could include legislative bodies, NGOs, and indigenous groups. We advance these principles in all relevant discussions of MDB policy, ranging from Country Assistance Strategies to safeguards and disclosure.

Question. How are the MDBs preparing their respective institutions in terms of responding to the climate, fuel, and food crises facing most vulnerable countries in the coming decade?

Answer. At the direction of the G20, the World Bank is taking the lead on issues related to climate change and energy efficiency, as well as food security. As discussed further below, each MDB has established a tailored approach, according to its mandate and clients, to engaging developing member countries on energy efficient, low carbon and climate resilient development options.

With regard to food security, the share of agriculture in official development assistance (ODA) declined sharply from a high of 18 percent in 1979 to 5 percent in 2006–08, which equates to an almost 50 percent decline in the real value of support. To reverse this decline, the MDBs, along with other development partners, are gradually scaling up their assistance and aligning their support with country-owned agricultural development strategies. In addition, new mechanisms like the Global Agriculture and Food Security Program (GAFSP) are playing an important role in leveraging resources, scaling up assistance, and maintaining the international community's focus on agriculture.

Called for by G20 leaders at their summit in Pittsburgh in 2009, GAFSP is a multidonor trust fund designed to provide financing for country-owned agricultural development strategies in low-income countries. The trust fund, supported by contributions from the United States, Australia, Canada, Spain, Korea, and the Gates Foundation, has already committed and started disbursing $321 million to eight countries (Bangladesh, Haiti, Rwanda, Sierra Leone, Togo, Mongolia, Ethiopia, and Niger), and has received requests for financing from an additional 20 countries.

Question. What are the tools, skills required that they need to acquire to ensure they remain relevant?

Answer. We believe that the MDBs have the tools to remain relevant, as illustrated by the fact that they were able to substantially increase borrowing levels during the financial crisis. In addition, we have found that MDBs are nimble enough to develop new tools quickly to help support borrowing countries as needed. For example, in response to the drying up of trade credits, the IFC, AsDB, and AfDB all created new trade financing facilities. Another example is the IDB's creation of a $6 billion liquidity fund, designed to support the banking sectors in borrowing countries. Also, the EBRD led the Vienna Initiative, a $30+ billion effort to stabilize the financial sector in Central and Eastern Europe. As the crisis has abated, the MDBs are phasing out these crisis-response tools, starting with the IDB's facility.

Within IDA, we are now working with other donors and management on a crisis response window, which will be designed to provide a rapid response to the poorest countries in the event of an external shock. We expect this new instrument to become operational in IDA 16.

Adding to the MDBs' skill levels will be important as well. The World Bank has recently hired internationally renowned experts in climate change and renewable energy to boost its efforts to help countries mitigate and adapt to climate change. The AsDB has agreed to strengthen the personnel resources of the Bank's internal audit and integrity functions; similarly, the AfDB has agreed to strengthen its risk management function.

Question. Developing member countries are beginning to have greater voice and representation at the governing bodies of the MDBs. How will this affect progress made on improving anticorruption, social and environmental standards? How will the United States be engaging these developing member countries on these standards and additional reforms?

Answer. The Treasury Department is committed to assuring that MDBs apply strong fiduciary, social, and environmental standards. We work closely with an array of stakeholders, including developing country shareholders, to deliver continuous improvement in MDB policies and practices in these areas.

The GCI discussions enabled us to garner international support for key reforms. For example, the AsDB agreed to enhance that Bank's financial control practices, and upgrade its social and environmental policy. At the IDB, shareholders have agreed to implement the findings of a comprehensive review of the Bank's environmental practices. The AfDB pledged to increase its internal anticorruption resources. Finally, in the World Bank, a landmark access to information policy is promoting greater public accountability.

Question. Ten years ago, world leaders made history when they agreed to provide debt relief for impoverished countries struggling with unsustainable debt burdens. The United States has fallen behind in our commitments for the Multilateral Debt Relief Initiative and the President's request includes a contribution toward those arrears. Will that contribution clear our arrears for our commitment to debt relief? If not, how much more is needed to eliminate these arrears?

Answer. The United States has made several commitments with respect to multilateral debt relief. In 2005, the United States agreed to help cover the costs to IDA of providing MDRI debt relief. With full funding of our $1.285 billion request for IDA, the United States will be on track to meet its MDRI commitment for IDA15. Separately, full funding of our $50.0 million request for HIPC debt relief would leave us with an obligation of roughly $65 million to the HIPC Trust Fund. Unlike our MDRI commitment, however, our pledge to the HIPC Trust Fund for HIPC debt relief is not time bound, so we are not at risk of accumulating arrears.

Question. Is the administration supportive of negotiating an expansion of HIPC and/or MDRI to all IDA-only countries? Would the administration promote a framework to provide debt relief to countries facing extreme exogenous shocks?

Answer. The Congressional Budget Office estimated that the cost of expanding HIPC and MDRI to all IDA-only countries would be about $11 billion. In today's fiscal environment, securing this level of funding would represent a significant challenge, particularly when we have other unfulfilled financial commitments, notably $1 billion in arrears to the multilateral development banks.

The administration was a strong advocate for debt relief for Haiti following the devastating January earthquake. We are prepared to consider providing debt relief to other countries that suffer from extreme exogenous shocks on a case-by-case basis. Further, the Paris Club creditors have procedures in place to treat sovereign debt when non-Paris Club countries face financial constraints that make it extremely difficult to service their debt.

Question. Critics of the World Bank and IMF's Debt Sustainability Framework (DSF) for low-income countries argue that reforms to make the DSF more "flexible" introduced in the height of the crisis seem more geared to hide rising debt levels than to address longstanding concerns about the actual performance of the DSF as a tool to maintain debt at sustainable levels. Is this correct? If so, is the administration considering calling for reforms in the mechanism for determining debt sustainability, its links to debt relief needs, and its appropriateness to support developing country efforts to achieve their development goals?

Answer. We attach a high priority to continued debt sustainability in low-income countries and believe that the Debt Sustainability Framework has generally served the international community well. The modifications introduced last year were modest. The most significant change was allowing the exclusion of certain state owned enterprises (SOEs) from the calculations of debt sustainability if these SOEs met certain conditions related to independence and financial sustainability. We indicated that when an exception is granted for a particular SOE, full discussion and justification should also be included in the debt sustainability assessment. The most significant challenge to the Debt Sustainability Framework continues to be the lack of its adoption by all countries and institutions in the world.

Question. How is each development bank engaging recipient and developing member countries to consider energy efficient, low carbon and climate resilient development options?

Answer. In recent years, all of the MDBs have taken steps to incorporate low carbon development, climate resiliency, and energy efficiency across their respective portfolios. Generally, the MDBs approach these issues through their individual country assistance strategies, relevant sector strategies, and operational policies. The instruments they use to address climate issues include project loans, technical assistance, development policy loans, and financial intermediary operations. MDBs frequently combine these instruments with external sources of dedicated concessional support, such as through the GEF and CIFs.

At the same time, each MDB has established its own approach, according to its mandate and clients, on engaging developing member countries on energy efficient, low carbon and climate resilient development options. For example:

- The World Bank Group has a Board-approved Strategic Framework on Development and Climate Change that is operationalized through relevant sectoral strategies and operational policies, including support for a set of country-led pilot low carbon development strategies.

- The IDB is implementing the second phase of the Sustainable Energy and Climate Change Initiative, which focuses on a set of lending and assistance priorities for renewable energy and energy efficiency.
- The EBRD is implementing the second phase of the Sustainable Energy Initiative that focuses on energy efficiency and renewable energy.
- The AfDB recently presented its Board with a Climate Change Action Plan that lays out its priorities for support for mitigation and adaptation activities.
- The AsDB has established a set of sector-specific initiatives, including sustainable transport and solar energy.

Question. With the increase in budget support and sectorwide financing, is the proportion of development bank financing subject to social and environmental safeguards decreasing? Does this vary by development bank? If so, how?

Answer. During the crisis, there was an increase in the proportion of World Bank-financed budget support loans and sectorwide financing, which are subject to different requirements on poverty and social impacts than project loans. For budget support, the Bank determines whether specific country policies supported by the loans are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups, or are likely to cause significant effects on the country's environment, forests and other natural resources. For country policies with likely significant effects in either area, the Bank provides an assessment of the impact and the borrower's capacity to reduce adverse effects. If there are significant gaps in the analysis or shortcomings in the borrower's systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

With respect to the regional development banks, we did not observe a similar shift in loan portfolios. There was a temporary increase in budget support lending by the AfDF in response to crisis needs during the 2008–10 period, but it stayed under 25 percent of total lending cap for budget support, and budget support lending is now expected to return to lower levels. Similarly, the AsDB undertook some fairly limited budget support and liquidity-based lending in 2008 and 2009 in order to help countries dealing with a drop off in capital flows. The EBRD does not do public finance except for infrastructure. At the IDB, the share of project investment loans compared with policy-based sector lending has been increasing recent years.

Question. Is the administration incorporating the reforms promoted at the development banks into its bilateral aid programs including through USAID and the Millennium Challenge Corporation? Is there a process to convey best practices between the multilateral and bilateral aid agencies?

Answer. Many reforms that the United States promotes at the development banks are specific to those institutions. But, the basic themes that motivate USG bilateral and multilateral assistance are the same, such as measuring results and improving transparency. The President's Policy Directive on Global Development (PPD) exemplifies this, establishing a governmentwide commitment to sustainable development. Currently, mechanisms for conveying best practice between the multilateral and bilateral aid agencies include: (1) in-country dialogue among donors; (2) dialogue between USG agencies and the development banks' headquarters offices; and (3) participation by bilateral and multilateral donors—along with partner countries—in the Working Party on Aid Effectiveness and in its efforts to develop and distribute best practice in areas of common interests.

The establishment of a new U.S. Interagency Policy Committee on Global Development, as envisaged by the PPD, will facilitate the coordination of development policy across the executive branch, and will facilitate discussion within the USG of best practices that are relevant to the MDBs and the USG's bilateral aid agencies.

Question. How are the core missions of the development banks different?

Answer. Each of the MDBs shares the same core mission to reduce poverty and accelerate sustained economic growth. How that mission is expressed in each Bank's programming and internal culture varies, which is appropriate given the differing regional needs. But, this shared basic objective remains the cornerstone of the MDBs' successful collaboration. During the GCI negotiations, we urged the MDBs to highlight their areas of comparative advantage and focus. In response:

- The World Bank affirmed that it will act increasingly on global objectives, such as food security, climate change, and other transboundary issues, while working to alleviate poverty through the Bank's five strategic priorities to target the poor and vulnerable by creating opportunities for growth, providing cooperative models, strengthening governance, managing risk, and preparing for crisis.

- The AfDB identified as specific core priorities infrastructure, economic governance, regional integration and private sector development.
- The AsDB pointed to its "Strategy 2020," which identifies the AsDB's strategic objective as "An Asia and Pacific Region Free of Poverty" and lays out three complementary agendas to advance that goal: inclusive economic growth, environmentally sustainable growth, and regional integration.
- The IDB's Governors affirmed as institutional priorities: reducing poverty and inequality, ensuring sustainable development, addressing sustainable energy and climate change, addressing the special needs of the poorest countries, promoting regional integration, and fostering development through the private sector.
- Shareholders reaffirmed that the purpose of the EBRD is to foster the transition towards open market-oriented economies, and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.

Question. How can information and communication technology (ICT) improve the efficiency and effectiveness of multilateral assistance programs?

Answer. Each of the MDBs has identified ICT as a key lever to improve the effectiveness of multilateral development assistance. The banks have focused on ICT a means of:

- Developing human capital and encouraging lifelong learning;
- Improving the transparency of local and regional governments;
- Improving the efficiency of businesses and markets by improving communications infrastructure;
- Encouraging citizen participation in democratic processes and increasing the effectiveness of economic and political reforms;
- Fostering entrepreneurship and creating new employment opportunities.

Question. To what extent do the multilateral development banks incorporate ICT in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe.

Answer. Each of the MDBs has worked to incorporate ICT in a cross-cutting manner in its investment and development programs, although there are natural variations in each bank's approach to the ICT sector. For example, the AfDB has paid particular attention to the physical development of modern telecommunications infrastructure, and has sought to leverage advances in communication in order to help improve the delivery of public services. By contrast, the EBRD has focused its ICT investments on private IT enterprises, in an effort to take advantage of the high literacy rates, and large pool of scientific talent within its target region.

Question. What could the multilateral development banks do better with regard to ICT? Is there a need for better donor coordination on best practices? What challenges or impediments prevent greater integration of ICT in development projects?

Answer. The returns on ICT investments could be further improved through greater efforts to encourage reforms that improve local educational systems, protect intellectual property rights, promote greater clarity in regulatory regimes, and encourage the development of local capital markets that can finance the growth of small and medium enterprises in local ICT sectors.

Question. The administration has been promoting improvements to the way the development banks evaluate projects. Will it be possible to compare, across development banks, the level of success of similar projects? Will observers be able to identify what caused the differences in the levels of success?

Answer. Each of the MDBs' independent evaluators prepares an annual review that reports on their findings, including project evaluations. This allows the Boards in each of the institutions to compare performance across and within sectors and regions, and to see trends over time. For example, infrastructure projects typically have higher ratings than health sector projects. While some differences can be attributed to sector-specific issues, common themes emerge. Strong analytical work and careful targeting are often factors in project success, whereas projects that are overly complex or pay inadequate attention to cost recovery generally perform poorly and have lower sustainability. That said, comparing projects of different types within an institution, or similar project types across different MDBs, is complicated by the fact that the MDBs lack common metrics. To remedy this, we have been urging the use of cost-benefit analyses, which allow for the calculation of an economic rate of return, facilitating comparisons across project types and institutions.

RESPONSES OF EXECUTIVE DIRECTOR IAN SOLOMON TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. As we discussed briefly during the hearing, a few years ago, the Government Accountability Office was tasked by myself, Senators Biden, Leahy, and Bayh to conduct review of the World Bank regarding its ability to fight corruption and conduct environmental assessments. The GAO has not commenced its work on either study. What is the status of each review? What is delaying the reviews and what can be done to ensure that the GAO has the ability to carry out its work?

Answer. I believe GAO would be best placed to explain the status of its reviews. However, to my knowledge, they have only undertaken the environmental assessment, as my office is not aware of any request for engagement regarding the World Bank's ability to fight corruption. I would also note that for GAO engagements requiring Board approval, which the environmental study does, the development of a clear roadmap of all of the steps in the process from GAO's first engagement to Board approval would help to ensure that that GAO can carry out its work.

Question. The IFC Lighting Africa initiative helps organize the off-grid lighting sector in Africa. Has this initiative been successful? If yes, how is the World Bank building upon these efforts and support the market linkages and infrastructure needed to produce, distribute, and service decentralized power in rural areas around the world?

Answer. The joint IFC/World Bank Lighting Africa initiative has been broadly successful. Recent accomplishments include:

- *Development of new products*: From fewer than eight products developed for the base of the pyramid lighting market in 2008, today over 70 products manufactured by 50 companies are available for purchase in Africa—a growing number of them now priced under $25. Nearly 40 percent of the companies in this market state that they have explicitly used Lighting Africa services for their product and business model design.
- *Providing improved energy services to 500,000 people*: In 2009, Lighting Africa directly supported six client companies, which reached more than 500,000 Africans with quality assured products. This market is not at an inflection point and in 2010 it is expected that clients will reach more than 1,000,000 with improved lighting.
- *Established a B2B platform for the industry*: The Lighting Africa conference has been established as the premier business conference on off-grid lighting worldwide, with more than 600 paying visitors in 2010. The dedicated Web site is receiving more 40,000 hits per month.

As the World Bank Group continues to expand its experience in Africa, lessons learned can be used to build upon these efforts in other parts of the world.

Question. U.S. businesses and consultants routinely pursue World Bank projects. For the last 5 years, what are the top five recipient countries of procurement contracts and how much did they receive? If the United States is not in the top five, what was the size of contracts won by U.S. firms in the past 5 years? For every one dollar that the United States has contributed to the World Bank since the institution was founded, how much have U.S. companies have won in procurement contracts?

Answer. Specific answers are provided below, but I think it is important to emphasize up front that the United States has played a major role in ensuring the use of transparent and equitable procurement processes that result in a level playing field for American companies. In this context, we are also working very hard to ensure that the use of country systems is implemented in a manner that would not disadvantage U.S. firms.

In addition, it is important to note that at the World Bank, procurement figures very likely underrepresent U.S. procurement by a significant amount because the World Bank lists contract winners by the country of registration. This means that an American firm bidding from its China office will appear to be a Chinese firm in the contract awards list. For example, if IBM (China) wins a contract, it will count as a Chinese win. In addition, some U.S. companies act as subcontractors or equipment suppliers to local firms, so their national identity is not visible in the contract awards list.

Finally, I want to bring your attention to the fact that the U.S. Commercial Service's Advocacy Center is charged with ensuring that U.S. companies enjoy the best possible access to World Bank procurement opportunities. Specifically, its mission is to train U.S. companies on the World Bank procurement process, assist with dispute resolution, and educate the private sector about business opportunities created by World Bank activities.

The Commercial Service officer has been instrumental in persuading the World Bank to agree that all procurement opportunities should be published on its Web site at no cost. Once approved by the Board, these opportunities will become freely available to thousands of small- and medium-size U.S. companies for the first time. For the 12 month period ended October 31, 2010, our liaison officer organized or participated in 17 outreach events reaching about 450 U.S. companies and counseled or worked directly with about 230 individual U.S. firms.

Further information on MDB opportunities for U.S businesses can be obtained from the Commercial Service's Liaison Office to the World Bank. The contact information for the Liaison office is: world.bank@mail.doc.gov, and the Director is David Fulton.

Question. For the last 5 years, what are the top five recipient countries of procurement contracts and how much did they receive?

Answer.

*Top 5 Suppliers Aggregate Totals (FY 2005–09)**

[$ in billions]

Supplier Country	*Amount*
China	$10.2
India	5.4
Argentina	2
Brazil	1.9
Russia	1.6

Question. If the United States is not in the top five, what was the size of contracts won by U.S. firms in the past 5 years?

Answer.

*U.S. Awards (FY 2005–10)**

[$ in millions]

Fiscal year	*Amount*
2005	$122
2006	159
2007	131
2008	157
2009	88
2010	*93
Total	$751

*Refers to "Prior review" contract awards which are World Bank-funded contract awards that were conducted under World Bank procurement guidelines and were reviewed by World Bank staff to ensure that the procurement process was carried out in accordance with the guidelines as required in the Loan Agreement and further elaborated in the Procurement Plan. Prior review is applied only to the larger contracts in a project. A project's thresholds for prior review vary from loan to loan and from country to country; they are specified in the procurement schedule of the project's Loan Agreement. Contracts below the prior review threshold, and other fast-disbursing contracts subject to the Bank's ex-post review, are not entered in the Bank's procurement systems. Most of the contract awards captured in the World Bank's database were awarded under International Competitive Bids (ICB). Contracts awarded under National Competitive Bidding (NCB) are not captured or reported by the World Bank.

Question. For every one dollar that the United States has contributed to the World Bank since the institution was founded, how much have U.S. companies have won in procurement contracts?

Answer. Contract award data for the World Bank does not go back to its founding in 1947 making it difficult to compute an accurate picture of the benefits to U.S. companies. Tracking of contracts began in 1995 and the data for these awards is found below.

Prior Review Contracts Under Bank-Financed Projects.* Contract Awards to U.S. Suppliers (FY 1995–2010). Data as of: 9/22/2010. Data prior to FY 1995 is not available.

Question. To what extent does the World Bank incorporate information and communication technology (ICT) in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe. What could the World Bank do better with regard to ICT?

Answer. ICT has demonstrated tremendous promise as a change agent within the World Bank and in client nations, requiring fruitful collaborative work across sectors and countries. The Bank has a team dedicated to ICT that works globally across the six regions and in collaboration with the World Bank Institute and the Information Solutions Group to advance this agenda. The application of ICT across all sectors has been growing steadily in Bank projects, and there are a number of portfolio projects dedicated to ICT, supporting development of telecommunication policies and infrastructure networks and the use of ICT to help transform service delivery across sectors.

The Bank's strategy has three pillars: connectivity, innovation, and transformation. The World Bank Group's current ICT sector strategy has a strong focus on the connectivity agenda through support of sector reform and liberalization to attract private sector investment. In addition, it supports the roll-out of innovative ICT applications that improve service delivery across sectors.

A new transformational sector strategy is under preparation with an emphasis on increasing support to use ICTs strategically to transform the delivery of public and private services across sectors—leveraging the existing 3 billion mobile phones in developing countries and technology innovations (such as social media, mobile applications, etc.) to improve accountability of governance and to increase the efficiency and outreach of service delivery. The Bank has recently launched a technology-enabled Mapping for Results platform to geo-code and visually to locate Bank projects on a map, and overlay this with development indicators, as well as feedback from beneficiaries using ICT.

The Bank's internal assessments have identified four areas for improvement: greater partnering with innovative IT industry players and governments; increasing staff awareness to scale up projects and integrate into the Bank's core business and processes; focusing more on cross-cutting foundations to break down sector-specific walls within projects; and improving IT procurement procedures and capacity in order to better accommodate the rapid changes taking place in technology. These approaches, however, will also require sufficient resource allocation and a firm commitment from Bank leadership to break down silos and inertia within the Bank. Further efficiencies and innovations could be generated if the Bank's own internal ICT equipment, policies, and practice were integrated more closely with client activities.

RESPONSES OF EXECUTIVE DIRECTOR CURTIS CHIN TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. In your testimony, you indicated that the United States and Japan are the largest shareholders at the Asian Development Bank and China is ranked third. However, since China has already provided its general capital increase contribution to the Asian Development Bank, isn't China actually ranked higher? If so, how does that affect their influence in the institution in the short run while the other shareholders are putting together their contribution packages?

The United States and Japan were the largest shareholders at the Asian Development Bank before other member countries began making their capital subscriptions to the General Capital Increase V, and will regain that shareholding once capital subscriptions have been completed. In the interim, because China voluntarily made its entire capital subscription early, it is technically true that China a larger shareholder than the United States until we complete our capital subscription.

The current breakdown of ownership is shown in the chart below:

AsDB SHAREHOLDING AND VOTER POWER—SEPTEMBER 2010

Member	Shareholding (percent)	Voting power (percent)	Status of Subscription
Japan	22.4	18.2	Fully subscribed.
China	9.3	7.7	Fully subscribed.
India	9.1	7.6	Fully subscribed.
Indonesia	7.8	6.5	Fully subscribed.
United States	7.5	6.3	Pending subscription.

Source: AsDB Treasury.

As in any institution, an increased shareholding is commensurate with increased influence. In this case, having a borrowing member country as the largest shareholder could complicate efforts to increase loan pricing, flow of funds to other borrowing member countries, and reform of the institution, particularly in the area of development results. In addition, it effectively eliminates the co-veto on membership and capital structure issues that we share with Japan.

China's temporary status as a larger shareholder than the United States has not yet been a significant obstacle to our goals. Nevertheless, we expect that future efforts in the area of loan pricing or transfers to the concessional window would be especially difficult because China in combination with other large developing member countries, such as India and Indonesia, could effectively block such actions at the Board. When fully subscribed, the United States and Japan will again be the largest coshareholders.

Question. What type of lending is the Asian Development Bank providing China? How has that changed during the past few years? What type of loans has the United States supported for China at the ADB? Do you think that loans through the Asian Development Bank to China could be improving China's competitive position vis-a-vis the United States and thereby contributing to economic concerns in our country? Why should the U.S. taxpayer contribute to the Asian Development Bank when it is providing funds to a country that is a net creditor of the United States?

Answer. In recent years, the Asian Development Bank has worked with China to change the composition of its borrowings from the Bank to focus far more on environmentally sustainable growth and rural development. AsDB's investments are in areas that do not erode the U.S. competitiveness vis-a-vis China, but instead focus on areas that guide sustainable development.

The Asian Development Bank has shifted its support to provinces inland where China's poorest are concentrated. The AsDB's strategy for China focuses on providing support to the 500 million people in China who still live on less than $2/day and who live in rural areas, where environmentally sustainable growth and improved access to basic services are integral to lifting people out of poverty. Furthermore, the AsDB's support of China's rural development and environmental sustainability has increased, representing a shift away from the Bank's previous focus on transportation and industry. Finally, AsDB assistance has helped rehabilitate zones devastated by the historic Sichuan earthquake by reconstructing roads, bridges, and schools.

China values AsDB lending because of its high-quality implementation through tough anticorruption controls and environmental safeguards. Although AsDB typically finances only a fraction of total projects costs, its safeguards apply to the total loan amount. The United States has an interest in continued AsDB financing in China because Bank financing explicitly includes social safeguards, anticorruption provisions, and policy reforms.

Question. Is China's exchange rate discussed or addressed at the Asian Development Bank? If so, how?

Answer. The choice of monetary policy falls outside the mandate of the AsDB and other MDBs. We have consistently encouraged the MDBs to focus on their core capabilities. As such, China's exchange rate is not discussed or addressed at the Asian Development Bank.

Instead, the AsDB focuses on a regional integration strategy to support policy dialogue and capacity-building through regional initiatives and bilateral technical assistance. Much of this work focuses economic surveillance, capital markets developments, financial sector reforms and restructuring. The overarching goal is to increase financial openness and integration, and improve the strength of the banking sector.

By way of example, AsDB has a Regional Policy and Advisory Technical Assistance Program for deposit insurance establishments in China and Mongolia. The technical assistance provides support to the central banks of Mongolia and the PRC to develop and help establish national deposit insurance institutions that (i) conform to the specific conditions of each country's financial market; (ii) suit the current unique global financial market circumstances; (iii) minimize moral hazard; and (iv) provide extensive public information campaigns as to the purpose and functions of deposit insurance, particularly for households that are poor, income-insecure, or have low financial sophistication.

Finally, the AsDB's overall work in China ultimately supports U.S. objectives by helping to create domestic sources of demand there, reorienting growth away from the export sector.

Question. To what extent does the Asian Development Bank incorporate information and communication technology (ICT) in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe. What could the Asian Development Bank do better with regard to ICT?

Answer. As early as the 1970s, the AsDB recognized the need to support information and communication technology (ICT) in development. The AsDB recommitted in 2001 to support ICT with a new, cohesive strategy for its developing member countries because it recognized the widening inequalities in information, skills, technology, infrastructure and institutions between developing member countries and the industrialized world. AsDB assistance is focused on promoting ICT policies, applications, human development and strategic alliances; it encourages regional cooperation and networking to enhance local efforts and promote private sector participation.

Despite all this good work, ICT does not figure prominently in the AsDB's development assistance, and has only averaged $123 million per year, in contrast to the World Bank where ICT applications have been estimated at approximately $1 billion per year. Improvements could be made to tailor ICT products to developing member country needs and to further integrate ICT as a component part of the AsDB's core capabilities in large-scale infrastructure.

RESPONSES OF INTER-AMERICAN DEVELOPMENT BANK U.S. EXECUTIVE DIRECTOR, GUSTAVO ARNAVAT, TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. In 2008, the Inter-American Development Bank suffered $1.9 billion in losses. Since then, the IDB's portfolio has experienced some recovery. What is the current size of the IDB's losses? Is there any link between the losses and the need for a general capital increase? Please explain.

Answer. According to the Bank's Finance Department, over the 18-month period ending December 31, 2008, the IDB booked losses in its trading investment portfolio of approximately $1.9 billion, mostly unrealized accounting losses on asset and mortgage backed securities—all of which were rated triple-A at the time of purchase—that were marked-to-market in accordance with U.S. GAAP.

Beginning in the second quarter of 2009, the IDB began booking gains on these same securities as market conditions improved and as it received principal repayments at par. As of September 30, 2010, more than $2.8 billion had repaid at par (out of almost $7 billion originally held asset and mortgage backed securities) and cumulative valuation losses had been reduced to about $1.0 billion, reflecting these par repayments as well as higher market prices. Of the $1.0 billion, about $132 million represents net realized losses, incurred when the positions were restructured or sold below par. The Bank believes that the valuation losses as of September 30, 2010, will be further reduced over time for those securities held and continuing to repay at par, although it anticipates additional net realized losses as it monitors market conditions and decides to further reduce its exposure to asset and mortgage backed securities.

In light of the 2007–09 global financial crisis, the IDB implemented various reforms aimed at strengthening its investment management framework. These include: (a) a change in the IDB's overall investment policy to allow for more diverse investment strategies, hence reducing overall risk; (b) revisions to the IDB's investment guidelines, including concentration constraints to improve diversification across asset classes, and shorter maturities to lessen the overall investment portfolio's vulnerability to market price volatility; and, (c) further enhancements to the Bank's investment and risk management systems, including a capital project to provide capabilities for advanced portfolio analytics and risk measures.

The unrealized mark-to-market losses in the trading investment portfolio were not a significant contributing factor to the request for a general capital increase. Rather, the request stemmed from the Bank's decision, with the support of its shareholders, to significantly increase lending volumes to help developing countries withstand the effects of the global financial crisis. As was the case at other MDBs, the front-loaded use of the IDB's capital to support increased lending in 2008 and 2009 depleted its ability to sustain increased volumes of lending after 2010, prompting a need for a capital increase. In addition, the commitment by the Governors of the Bank to significantly increase grants to fund—from the Bank's Ordinary Capital—Haiti's reconstruction program further increased the need and urgency felt by the Governors to approve the capital increase for the Bank.

Question. Regarding allegations of irregularities with the Camisea project, what type of investigation was conducted by the Office of Institutional Integrity (OII)? Did the team sent from OII in Washington to Lima in 2007 review all relevant documents, interview key witnesses and visit leak sites? Specifically, how many people were on the OII team reporting directly to the IDB? Did the OII team visit the pipeline site? Did the expert certifying the welds in the locations where leaks were reported visually inspect those welds him or herself? Did the OII investigators have sufficient time in Lima and Washington to complete their investigation? Did team members agree about the conclusions to be drawn from the investigation? Have there been any followup investigations regarding the Camisea project?

Answer. I have consulted extensively with the OII and the General Counsel's office, and they have informed me that confidentiality requirements preclude them from disclosing the conclusions of or information pertaining to the investigation. However, based on these consultations I can confirm that OII processed an investigation into allegations of fraudulent practices regarding the Camisea project and communicated its conclusions to the original complainants, in writing, in May 2007.

Question. U.S. businesses and consultants routinely pursue Inter-American Development Bank projects. For the last five years, what are the top five recipient countries of procurement contracts and how much did they receive? If the United States is not in the top five, what was the size of contracts won by U.S. firms in the past five years? For every one dollar that the United States has contributed to the Inter-American Development Bank since the institution was founded, how much have U.S. companies have won in procurement contracts?

Answer. For the period 2005–09, the top five recipient countries of procurement contracts stemming from investment loans were:

Top 5 Suppliers Aggregate Totals (FY 2005–09)

[$ in billions]

Supplier Country	*Amount*
Brazil	$7.0
Argentina	4.9
Mexico	3.4
Colombia	1.6
United States	1.0

Since the Bank's inception, U.S. companies have won $8.4 billion in procurement contracts stemming from investment loans or $1.36 for every dollar the United States has contributed to the Bank's Ordinary Capital and the Fund for Special Operations. These figures do not reflect the full benefits derived by U.S.-based firms in connection with awarding of procurement contracts because they exclude contracts awarded to non-U.S. affiliates of U.S. firms.

Additionally, because the IDB's headquarters are located in Washington, DC, U.S. companies are uniquely positioned to pursue corporate procurement opportunities. For the period 2005–09, the IDB issued approximately $231 million in purchase orders and contracts to U.S. firms or 95 percent of total corporate procurement for the period.

Finally, it is important to note that I count on the services of several U.S Commercial Service representatives (CSOs). They are charged with ensuring that U.S. companies enjoy the best possible access to IDB procurement opportunities by training U.S. companies on the IDB procurement process, assisting with dispute resolution, and educating the private sector about business opportunities created by IDB activities.

For the 10-month period ended October 31, 2010, IDB-dedicated CSOs conducted over 100 counseling sessions with U.S. firms, most of them new to the IDB. Also during this timeframe, those CSOs conducted 12 formal, large audience presentations reaching over 700 attendees, most of whom were new to the procurement process.

Question. To what extent does the Inter-American Development Bank incorporate information and communication technology (ICT) in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe. What could the Inter-American Development Bank do better with regard to ICT?

In 1999, the IDB Board of Executive Directors approved a multisectoral policy for Information Age Technologies and Development (OP–711). Per OP–711, the Bank's focus in ICT is to increase the efficiency and effectiveness of social and economic development programs.

The IDB offers its borrowing countries financing, as well as capacity-building and technical assistance, conducive to their integration into the global knowledge economy. It also offers a network of expertise and a platform for knowledge generation, exchange, and dissemination of best practices in the areas of science, technology, innovation and ICT. ICT programming is covered in the Science and Technology Division, which was created in 2007.

While the Science and Technology Division has a cross-sector mandate for introducing ICT in the Bank's development agenda, there are other sectoral divisions whose operations are intensive in the use of ICT and that have specialized staff who work on such operations. These divisions are the Institutional Capacity of the State (e-Government) division, the Education (ICT for Education) division, and the Multilateral Investment Fund.

Examples of the Bank's ICT programs include: supporting an e-procurement platform in Chile, which helps SMEs provide goods and services to the Government; monitoring teacher attendance in Haitian schools; and providing remote child and maternal health care in Peru.

One area where the Bank could do better is to mainstream ICT more in its programming. The Science and Technology Division is housed within the Social Sector Department. Therefore, organizationally it is not integrated as efficiently with other divisions that focus on programming that can benefit from investments in ICT, such as Fiscal and Municipal Management, Transport, Rural Development and Natural Disasters, and Opportunities for the Majority.

RESPONSES OF AFRICAN DEVELOPMENT BANK U.S. EXECUTIVE DIRECTOR, WALTER JONES, TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. U.S. businesses and consultants routinely pursue African Development Bank projects. For the last 5 years, what are the top five recipient countries of procurement contracts and how much did they receive? If the United States is not in the top five, what was the size of contracts won by U.S. firms in the past 5 years? For every one dollar that the United States has contributed to the African Development Bank since the institution was founded, how much have U.S. companies won in procurement contracts?

Answer. The top five recipient countries of procurement contracts for the years 2005–009 are:

Top 5 Suppliers Aggregate Totals (FY 2005–09)

[$ in millions]

Supplier Country	*Amount (USD*)*
China	$1,454
Japan	511
France	433
Tunisia	477
Morocco	467

*At current USD/SDR exchange rate.

Over that period, the U.S. received $164.4 million in procurement contracts, placing 11th, with a 2.3 percent share. While this ranking is lower than desired, it potentially understates actual U.S. procurement wins, as U.S. companies may be subcontractors in some instances, which would not be counted. Also, procurement information is recorded by country of registration, so an American firm based outside the United States will not be counted as an American win. Moreover, until very recently, Africa has not been seen as a desirable investment destination for many American firms and there is limited knowledge of, and interest in, the AfDB among many American firms. Finally, many of the contracts that the AfDB finances simply are not large enough to attract attention from American providers. For example, only recently has the AfDB begun dedicating significant resources to large infrastructure projects, which could create attractive procurement opportunities for companies. Prior to this strategic reorientation, many AfDB projects relied heavily on small-scale, local procurement which was not necessarily attractive for U.S. exporters.

For every one dollar the United States has contributed to the African Bank Group, U.S. companies have won about 19 cents in procurement contracts. U.S. firms have received about $600 million in contracts for African Bank Group operations since 1983, relative to U.S. cumulative contributions of about $3 billion to the African Development Fund and $175 million to the African Development Bank. The more aggressive reorientation towards infrastructure, particularly renewable energy and technology-intensive projects, should be conducive to a rise in the level of U.S. procurement. Last, with concerted efforts underway to make more companies familiar with the AfDB, and as Africa itself becomes a more attractive investment opportunity, prospects for U.S. procurement at the AfDB should likewise increase.

Support for U.S. companies seeking procurement opportunities at the Bank or funding from the private sector arm of the AfDB is provided by a Senior Commercial

Service Officer (CSO) from the Department of Commerce. The CSO is responsible for with ensuring that U.S. companies enjoy the best possible access to AfDB procurement opportunities by training U.S. companies on the procurement process, assisting with dispute resolution, and educating the private sector about business opportunities created by AsDB activities. The office has been instrumental in providing transparency and contract resolution for the AfDB procurement process through factsheets, dialogue with the procurement staff and webinars on "doing Business with AfDB."

Question. To what extent does the African Development Bank incorporate information and communication technology (ICT) in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe. What could the African Development Bank do better with regard to ICT?

Answer. The African Development Bank recognizes the critical role that information and communication technology can play in stimulating growth, alleviating poverty, attracting private sector investment, and promoting good governance and accountability through efficient public service delivery in Africa. In recent years, the Bank has moved from an unfocused approach to the ICT sector to one of greater prominence, including the creation of a dedicated ICT for Development Division within the Infrastructure Department as part of an organizational restructuring approved in April 2010. The AfDB Board approved the Operational Strategy for Information and Communication Technology in October 2008, and the strategy is currently under review for a possible update. The strategy has two pillars: (1) provision of regional and national ICT infrastructure backbones and (2) supporting creation of enabling policy and regulatory environments.

Under the first pillar, the Bank is currently funding preinvestment studies on regional broadband backbones for the Southern, Eastern, Western, Central, and North African regions and will move forward with the projects once the studies are complete and funding is available. The AfDB's Private Sector Department is funding the Main One cable project along Africa's western coast, the EASSy cable for Eastern and Southern Africa, two satellite projects, and a shared telecom tower infrastructure project, among others. Where possible, the Bank also seeks to incorporate fiber optic cable components in its road, electricity transmission line, and railroad projects. Work on the policy and regulatory framework is largely done through technical assistance and analytical components of the preinvestment studies on the infrastructure backbone. Efforts are underway to fund the establishment of regional ICT centers of excellence in Rwanda, Tunisia, and Mali.

There are three areas where we see scope for improvement in the AfDB's engagement in the ICT sector:

1. More effort could be made to incorporate ICT components in other infrastructure projects. In particular, we would like to see the Bank work more closely with governments to identify opportunities for public-private partnerships to provide this supporting ICT infrastructure.

2. We would like to see stronger implementation of the second strategy pillar through more attention to ICT policy and regulation in the design of AfDB governance programs focusing on business climate reform. Many of these governance programs seek to enhance the efficiency of public service delivery and boost transparency in public finances, but existing programs have not taken full advantage of the role ICT can play in promoting these goals. While the AfDB has become a leader in financing the construction of regional infrastructure, incorporating ICT policy reforms into regional integration projects remains a challenge requiring more attention.

3. The Bank needs to upgrade and modernize its internal ICT systems. This is a necessary component of the AfDB's efforts to decentralize and put itself closer to its clients. Strengthening internal ICT will improve business process efficiency, contributing to better project performance, easier supervision, and enhanced results tracking, while further reducing opportunities for fraud and corruption.

RESPONSES OF EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT U.S. EXECUTIVE DIRECTOR, JAMES HUDSON, TO QUESTIONS SUBMITTED BY SENATOR RICHARD LUGAR

Question. U.S. businesses and consultants routinely pursue European Bank for Reconstruction and Development projects. For the last 5 years, what are the top five recipient countries of procurement contracts and how much did they receive?

Answer. Over the last 5 years (2005–09), EBRD projects resulted in $7.5 billion (€5.8 billion)[2] in public sector procurement contracts. According to EBRD figures, the top five recipient countries are as follows:

Top 5 Suppliers Aggregate Totals (FY 2005–09)

[$ in millions]

Supplier Country	*Amount (USD*)*
Russia	$2,323
Croatia	747
Austria	627
Italy	509
Turkey	486

* Assumes an exchange rate of €1 = $1.30.

During 2005–09, the EBRD's cumulative business volume was €28 billion or $36 billion. The relatively low proportion of public sector procurement contracts reflects the fact that EBRD's operations are heavily oriented to toward private firms.

Support for U.S. businesses interested in EBRD procurement opportunities is provided by the Commercial Service's Liaison Office to the EBRD (CS/EBRD). The CSO is responsible for with ensuring that U.S. companies enjoy the best possible access to EBRD procurement opportunities by training U.S. companies on the procurement process, assisting with dispute resolution, and educating the private sector about business opportunities created by EBRD activities.

Question. If the United States is not in the top five, what was the size of contracts won by U.S. firms in the past 5 years?

Answer. U.S. firms have won $15,448,280 (€11,883,292) in contracts over the last 5 years (2005 09). U.S. firms bid on 24 contracts over the 5 years and won 6 of them for a 25-percent success rate. It is important to note, however, that this figure may be understated as it does not include activities of the overseas subsidiaries of U.S. firms. The value of those tenders would be reflected in the figures for countries where the firm is registered.

Question. For every one dollar that the United States has contributed to the European Bank for Reconstruction and Development since the institution was founded, how much have U.S. companies have won in procurement contracts?

Answer. According to EBRD procurement data, U.S. registered firms have won approximately €166 million, ($216 million) in public sector procurement contracts since the EBRD's founding in 1991, which represents approximately 32 percent of the paid-in capital that the U.S. has contributed to the EBRD and 8.3 percent of the total paid-in and callable capital.[3] As noted above, however, that this figure may be understated as it does not include activities of the overseas subsidiaries of U.S. firms. The value of those tenders would be reflected in the figures for countries where the firm is registered. It should be noted that the proportion of EBRD public sector finance is low relative to other MDBs. Approximately 80 percent of EBRD's investments are made in private firms where it is not possible to ascertain the level of U.S. procurement because the EBRD has no formal oversight of procurement by private clients.

Question. To what extent does the European Bank for Reconstruction and Development incorporate information and communication technology (ICT) in their programs? Is there a cohesive strategy on ICT as a development tool? If so, please describe.

Answer. The EBRD continues to support both public and private sector initiatives in the telecommunication industry's transformation by tackling one of its key challenges: physical infrastructure. Whether the underlying infrastructure is cable, fiber, or some wireless form such as WiMAX (Worldwide Interoperability for Microwave Access), the goal remains the same: quality, high-speed broadband access by the mass market.

While increased communication access is critical, it is not sufficient to support the development of knowledge-based economies—economies where knowledge resources, know-how, skills, and innovative capacity diversify the economy and promote productivity, sustainable growth, higher valued jobs and social cohesion. Therefore, the EBRD has been directing more of its investments into innovative private enterprises in the ICT area to support IT infrastructure such as data centers, software develop-

[2] EBRD assumes an exchange rate of €1 = $1.30 for planning/budgeting purposes
[3] EBRD assumes an exchange rate of €1 = $1.30 for planning/budgeting purposes.

ment and services, media and content creation and distribution, and business services where employment opportunities for the highly skilled human capital residing in the region can be the greatest.

To foster the emergence and growth of such businesses, the EBRD is also increasing its support to entrepreneurs by investing in the creation of innovation or technology-led venture capital and private equity funds. Through these funds, the EBRD is hoping to develop a new class of entrepreneurial investor as well as support that section of the economy where the most innovation is driven—the small and medium enterprise sector.

Question. What could the European Bank for Reconstruction and Development do better with regard to ICT?

Answer. We are working with the EBRD to better leverage its investments in the ICT sector to push for greater reforms, in areas such as the protection of intellectual property rights and promotion of more transparent regulatory regimes, in order to lay the groundwork for greater private sector investment.

RESPONSE OF U.S. EXECUTIVE DIRECTOR CURTIS CHIN TO QUESTION SUBMITTED BY SENATOR ROBERT MENENDEZ

Question. The World Bank and Asian Development Bank are already supposed to internalize the full costs and benefits of all projects for which they lend. In the energy sector this includes unpriced costs and benefits such as those associated with the risks of disruption of energy supplies; fuel price instability, the costs and risks of oil spills, toxic contamination, acid rain, and climate change. How has the World Bank incorporated the range of costs associated with fossil fuels?

Answer. The Asian Development Bank's work in fossil fuels is limited, and instead its work in the energy sector focuses on clean energy investments through energy efficiency improvements and renewable energy projects. The AsDB's energy policy recognizes that fossil fuels such as coal and oil are internationally traded commodities with established commercial interests, and as such the AsDB does not finance coal mine development, except for captive use by thermal powerplants, or oil field development, except for marginal and already proven oil fields.

RESPONSES OF U.S. EXECUTIVE DIRECTOR IAN SOLOMON TO QUESTIONS SUBMITTED BY SENATOR ROBERT MENENDEZ

Question. The World Bank and Asian Development Bank are already supposed to internalize the full costs and benefits of all projects for which they lend. In the energy sector this includes unpriced costs and benefits such as those associated with the risks of disruption of energy supplies; fuel price instability, the costs and risks of oil spills, toxic contamination, acid rain, and climate change. How has the World Bank incorporated the range of costs associated with fossil fuels?

Answer. At the World Bank, the project appraisal process includes an analysis of risk factors that could affect the financial viability of the proposed project. Where relevant, these factors include fuel price volatility, energy supply disruption, and domestic environmental regulation. In addition, the environmental assessment and management process incorporates measures to avoid and mitigate environmental impacts and risks such as oil spills and toxic contamination. The costs of these measures are incorporated into project capital and operating costs. For projects with major carbon emissions, the World Bank conducts a "switching analysis" in which it determines the shadow price of carbon that is associated with the incremental cost of lower carbon alternatives to the proposed project.

Question. From fiscal year 2006–10, World Bank lending for fossil fuels increased from $1.5 billion to $6.2 billion. Fiscal year 2010 represented a record year for fossil fuel lending at the Bank with $4.4 billion for coal projects alone. This compares to only $3.3 billion in financing for all new renewable energy and energy efficiency projects. How does the Bank justify this dramatic increase in coal and fossil fuel lending? Given a general capital increase would these figures rise further? How will the Bank ensure that lending for fossil fuels is rapidly phased out when it continues to increase lending for fossil fuels?

Answer. From 2006 to 2010, World Bank lending for the energy sector increased overall. Of the total, the share for fossil fuel lending fluctuates from year to year in part from the "lumpy" nature of fossil fuel projects, which tend to be capital intensive. In addition, this period of time was associated with a contraction in global capital markets, which resulted in some countries facing challenges in financing all infrastructure projects.

There is no direct relationship between the size of the World Bank's capital base and the amount of money it lends for fossil fuel projects, since the latter is largely driven by developing country demand and World Bank sectoral strategies. In this regard, the World Bank's lending for coal projects is driven by its Strategic Framework for Development and Climate Change (SFDCC), which imposes substantive constraints on financing such projects.

Question. Companies are attempting to position supercritical coal technology as a low carbon alternative to more CO_2 intensive subcritical plants. Regardless of the technology, however, coal is still the most CO_2 intensive form of energy. How does the Bank define low carbon technology? Would the Bank identify supercritical or ultrasupercritical coal technologies as low carbon technologies?

Answer. The World Bank defines "low carbon" as renewable energy projects, energy efficiency, powerplant rehabilitation, district heating, biomass waste-fueled energy, and gas-flaring reduction.

Question. The Bank states that both powerplant rehabilitation and fuel switching are considered low carbon projects. However, both can still involve carbon intensive fossil fuels.

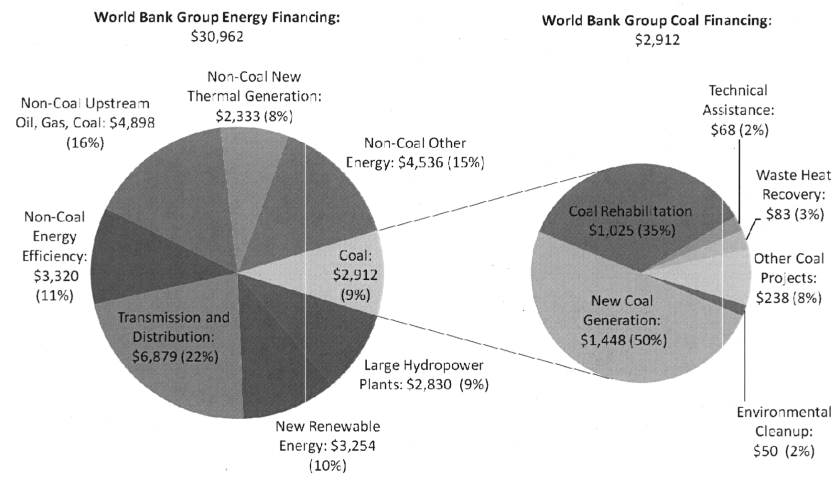
- How much of the Bank's low carbon lending is for new renewable energy projects rather than merely reducing the carbon intensity of fossil fuel use?

Answer.

THE WORLD BANK GROUP: TRENDS IN ENERGY FINANCING (MARCH 2010)

- In 2009, the World Bank Group set a "green" record: 40 percent of our energy financing was dedicated to renewable energy or energy efficiency projects in developing countries, a total of $3.3 billion. This is a 24-percent increase from 2008, which itself was an 87-percent increase over the previous year. We are committed to growing our low carbon energy project financing to at least 50 percent of all Bank Group energy financing by 2011.
- Our total commitments in 2009 on renewable energy, energy efficiency, transmission and distribution, sector reform etc., accounted for more than 75 percent of our total energy lending—a record high proportion.
- In 2004, we committed at the Bonn International Renewable Energies Conference to increase support for new renewable energy and energy efficiency by nearly $1.9 billion over the period 2005–09. In fact, our financing surpassed $7.0 billion, more than 3½ times the target.
- During the past 5 years, we approved 364 renewable energy and energy efficiency projects in 85 countries, including 99 projects in 46 countries last year alone.
- Our fossil fuel financing in 2009 was less than 24 percent of our total energy portfolio, the lowest ever. Two-thirds of our fossil fuel projects were in clean natural gas. Of the remaining projects, half were in coal; of that, half were to rehabilitate existing coal plants to make them more efficient and emit fewer GHGs. We finance very few new coal generating plants: about one every 2 years. In terms of megawatts generated by new coal plants over the next 3 years, our financing is approximately 2.4 percent of what has been committed for such plants in OECD countries.
- Bank Group financing for thermal generation has steadily declined as our clean energy portfolio grows. Today, renewables and energy efficiency make up 40 percent of our financing; a decade ago, it was about 10 percent. The Climate Investment Funds have $6.3 billion pledged, with $3.2 billion in investment plans already endorsed to support more than $30.6 billion in clean technology projects.

World Bank Group Energy Financing – 2003-2009



- *In some countries (e.g., Botswana, South Africa), under some circumstances, there is no viable alternative to fossil fuel development.* In the near term, some countries have few or no prospects for "clean" fuel energy sources. Hydro and wind power potential is nonexistent; solar power remains too expensive to produce and store, and insufficient for heavy base-load use. Where electricity from a fossil fuel is a commercially viable option in the near term and other sources are not, extending access to electricity may well mean relying on fossil fuel power generation.
- *If thermal power generation is unavoidable in the near term, our policy is to support countries on a case-by-case basis to develop the least-cost, lowest carbon-based energy sources—under strict criteria as the lender of the last resort.* Given the impact of the financial crisis and the urgent need to generate energy to promote growth and reduce poverty, we believe we must continue to support a limited number of coal projects in a handful of countries. These are unusual times and we are responding to specific needs.
    - We will support such projects provided that a panel of external experts reviews any such project to determine that it meets strict preconditions outlined in the Strategic Framework on Development and Climate Change (see below).
    - Our fossil fuel projects will respond to near-term, critical energy necessities while helping countries move to a medium-term low-carbon growth path. These projects will include components that strengthen a country's efforts in renewable energy, energy efficiency, energy sector capacity building, and/or research and development.
    - Over the medium to long term, developing countries should be in a position to take advantage of low carbon technologies, particularly as technical progress and financing opportunities make them more deployable and affordable.
- *Our Strategic Framework on Development and Climate Change, endorsed by our shareholder governments in 2008, outlines six conditions under which we could support client countries to develop coal power projects:*

(1) There is a demonstrated developmental impact (e.g., improving overall energy security, reducing power shortage, or access for the poor);

(2) There is assistance to identify and prepare low carbon projects;

(3) There has been optimization of energy sources by considering the possibility of meeting the country's needs through energy efficiency and conservation;

(4) There has been full consideration of viable alternatives to the least-cost options (including environmental externalities), and when additional financing from donors for their incremental cost is not available;

(5) The project uses the best appropriate available technology, to allow for high efficiency and, therefore, lower GHG emissions intensity; and

(6) there is an approach to incorporate environmental externalities in project analysis.

Question. How is the Bank engaging recipient and developing member countries to consider low or zero carbon energy planning? Does the Bank plan on phasing out fossil fuel lending? If so, by when and what steps is the Bank taking now to achieve that result?

Answer. The World Bank's Country Assistance Strategies are the primary vehicles for addressing energy planning in individual countries. Two-thirds of all new Country Assistance Strategies address climate issues, particularly adaptation; this number will only increase. According to the April, 2010, Interim Progress Report on the Strategic Framework on Development and Climate Change (SFDCC), the demand for World Bank Group engagement in coal power generation will be limited while the demand for financing low carbon options will grow. There will be continued demand for rehabilitation of coal-fired powerplants, which will reduce GHG emissions, and projects that lead to improvements in local environmental quality. A review of the lending pipeline shows no greenfield coal generation projects in middle income countries for the next few years and very few in IDA countries.

Question. The World Bank recently appointed Nobel Prize recipient Daniel Kammen as Chief Technical Specialist for Renewable Energy and Energy Efficiency. What steps does the World Bank anticipate Mr. Kammen will take to strengthen the financing capacity for renewable energy and energy efficiency projects? Will Mr. Kammen's strategies for renewable energy and energy efficiency financing lead to a decrease in financing for fossil fuel projects?

Answer. This is a new position created to provide strategic leadership on the policy, technical, and operational fronts. The aim is to enhance the operational impact of the Bank's renewable energy and energy efficiency activities, while expanding the institution's role as an enabler of global dialogue on moving energy development to a cleaner and more sustainable pathway. Mr. Kammen's appointment takes effect in October. Treasury intends to meet with him shortly thereafter to discuss his approach to strengthening the World Bank's capacity to finance renewable energy and energy efficiency projects.

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