Testimony of Marisa Lago
Assistant Secretary of the Treasury for International Markets and Development
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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 G-20, 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 $55.

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 G-20 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 pre-crisis 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 co-financing of AsDB projects. The U.S. 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 one 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 G-20 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 micro-finance institutions resume lending, and re-building the government's financial and administrative capacity.

The World Bank helped coordinate Haiti's post-disaster needs assessment and quickly established a multi-donor 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 G-20 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 towards achieving the Millennium Development Goals.

MDB Resources and Reforms

During the global financial crisis, the G-20 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, G-20 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 anti-corruption 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.

Thank you.