

**Senate Foreign Relations Committee**  
**Chairman Richard Lugar**  
**Opening Statement**  
**Combating Corruption in the Multilateral Development Banks**  
**May 13, 2004**

Today the Foreign Relations Committee meets to examine the problem of corruption related to the activities of the multilateral development banks. The United States has a strong national security and humanitarian interest in alleviating poverty and promoting progress around the world. That is why the Congress funds multilateral development banks, such as the World Bank, which can leverage our resources and promote economic growth and poverty reduction around the world. Of the six billion people living in the world today, more than one billion barely survive on less than one dollar a day.

In the last fiscal year, the multilateral development banks financed projects totaling more than \$35 billion. These projects helped poor countries pursue critical improvements in public administration, transportation, health, education, and many other areas. The development banks have in recent years introduced innovative programs that have enhanced their primary mission of poverty reduction. But even the most innovative policies will not be effective if they are distorted by corruption. It is critical that every development bank dollar reaches its intended recipient. Unfortunately, that is not happening.

Over the past year, the SFRC staff has collected information from public and confidential sources related to alleged corruption involving multilateral development bank activities and projects. The Committee is engaging in a multi-track process to review specific allegations and to determine the effectiveness of the multilateral development banks' anti-corruption strategies. This is a process that hopefully will result in a stronger anti-corruption infrastructure within the development banks.

From the outset, I would recognize that the World Bank itself has identified corruption as the single greatest obstacle to economic and social development. James Wolfensohn, President of the World Bank, understands the importance of anti-corruption efforts and has brought greater resources to bear on the corruption problem. The World Bank has increased its anti-corruption efforts in developing countries over the past five years through education, training, procurement restrictions, and other methods.

But corruption remains a serious problem. Dr. Jeffrey Winters of Northwestern University, who will testify before us today, estimates that the World Bank "has participated mostly passively in the corruption of roughly \$100 billion of its loan funds intended for development." Other experts estimate that between 5 percent and 25 percent of the \$525 billion that the World Bank has lent since 1946 has been misused. This is equivalent to between \$26 billion and \$130 billion. Even if corruption is at the low end of estimates, millions of people living in poverty may have lost opportunities to improve their health, education, and economic condition.

Corruption thwarts development efforts in many ways. Bribes can influence important bank decisions on projects and on contractors. Misuse of funds can inflate project costs, deny needed assistance to the poor, and cause projects to fail. Stolen money may prop up dictatorships and finance human rights abuses. Moreover, when developing countries lose development bank funds through corruption, the taxpayers in those poor countries are still obligated to repay the development banks. So, not only are the impoverished cheated out of development benefits, they are left to repay the resulting debts to the banks.

The Foreign Relations Committee intends to illuminate more brightly the problem of corruption surrounding the development banks. Those of us who support the valuable work of these institutions know how important it is to ensure that the development banks are doing everything they can to prevent and expose corruption within their own institutions, the borrowing governments, and the community of contractors who receive money.

This hearing is intended to give the Committee an opportunity to examine ways that the U.S. Congress and our government can contribute to the anti-corruption efforts already underway. I look forward to insights on how to improve the development banks' ability to limit misuse of loans, how to strengthen internal controls, how to impede corruption in project design, and how to ensure that audits are conducted in a thorough manner. I also would like to hear the views of witnesses about the impact of immunity privileges that apply to development bank employees.

Throughout this examination, we will keep in mind that the poor suffer most from the harmful effects of corruption because they are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery and fraud.

We welcome two panels to discuss corruption and the multilateral development banks. On the first panel, we will hear from Ms. Carole Brookins, U.S. Executive Director at the World Bank, and Mr. Hector Morales, U.S. Alternate Executive Director at the Inter-American Development Bank. On our second panel, we will hear from Professor Jeffrey Winters of Northwestern University; Mr. Manish Bapna from the Bank Information Center; Ms. Nancy Zucker Boswell from Transparency International; and Professor Jerome Levinson from American University.

I also would note that we did invite the President of the World Bank, James Wolfensohn; the President of the Inter-American Development Bank, Enrique Iglesias; and the President of the African Development Bank, Omar Kabbaj; to testify before this Committee. They declined the invitation, citing the established practice of Bank officials not to testify before the legislatures of their numerous member countries. Their letters of regret will be included in the official record.

We thank our witnesses for joining us today and look forward to their insights.

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