

**Senate Foreign Relations Committee**  
**Chairman Richard G. Lugar**  
**Opening Statement for Hearing on**  
**Multilateral Development Banks:**  
**Effectiveness of Infrastructure Projects**  
**July 12, 2006**

The Foreign Relations Committee meets today to continue our review of U.S. policy toward the multilateral development banks (MDBs). This is the sixth in a series of MDB hearings that began in 2004. Those earlier hearings contributed to the Committee's understanding of both the value of the MDBs' work and problems with their operations. These hearings also formed the basis of my MDB reform bill, S. 1129, which was approved unanimously by the Committee. Significant portions of the bill became law in November 2005. The legislation contains many reforms aimed at achieving more transparency and accountability in the banks' operations.

The need for oversight did not end with the passage of the MDB reform legislation. The United States has strong national security and humanitarian interests in alleviating poverty and promoting economic progress around the world. The U.S. government must ensure that MDB funds are spent well – both because of our responsibility to American taxpayers and because inefficiency and corruption undermine our basic humanitarian and foreign policy objectives.

The efforts of the Foreign Relations Committee, the Congress as a whole, and the Bush Administration have helped change the terms of debate regarding corruption and its corrosive influence on development. Not long ago, corruption was a taboo topic for international aid agencies and donors. This changed under the World Bank's previous president, James Wolfensohn. His successor, Paul Wolfowitz, has further raised the profile of anti-corruption efforts by reorganizing the Bank's internal integrity unit and suspending several loans because of corruption concerns.

Congress and the Bush Administration have highlighted the importance of good governance to economic growth by creating the Millennium Challenge Corporation, which provides extra aid to countries with a strong legal framework to promote honest government and sound economic policies.

Recently, the Foreign Relations Committee held a hearing to review another critical initiative, the U.N. Anti-Corruption Convention. We heard strong testimony in favor of ratification from the Justice Department, the State Department, the National Foreign Trade Council, and Transparency International. When ratified by the Congress, this treaty will bolster our efforts to fight corruption around the world and help level the playing field for U.S. businesses.

The MDBs themselves are also responding positively. Earlier this year, they formed a joint anti-corruption working group to coordinate policies and to share information. In March, the Inter-American Development Bank published a strengthened Code of Ethics. Later this summer, the European Bank for Reconstruction and Development is expected to issue its first-ever anti-corruption report.

Fighting corruption is only one aspect of the broader challenge of ensuring that large development infrastructure projects are effective. Critics charge that these projects make few contributions to economic development and poverty alleviation. This is a timely issue because the World Bank and other MDBs have announced plans to increase their infrastructure lending.

Today, the Committee will focus its oversight effort on two important case studies. The Camisea pipeline project in Peru brings natural gas and gas liquids to the Pacific Coast from fields owned by indigenous people in the interior. Financed with the help of the Inter-American Development Bank, the project began operating in 2004. Five spills have occurred in the natural gas liquids pipeline, and some NGOs have complained that local people have not seen the benefits from the gas royalties, a portion of which are earmarked for Peru's military.

In Chad, the World Bank set up a model revenue management program to ensure that money generated by the Chad-Cameroon oil pipeline would be spent for the good of the people. But early this year, soon after the pipeline began operating, the government of Chad unilaterally reneged on its commitment to work under these anti-corruption procedures. The government also withdrew its pledge to direct the bulk of the revenue to health, education, and rural development. The World Bank had little choice but to suspend lending to Chad.

To help us examine these issues, we are joined by two distinguished panels. First we will hear from Mr. Clay Lowery, Assistant Secretary of the Treasury for International Affairs. He will review the U.S. Government's efforts to ensure that MDB projects contribute to the goals of poverty reduction and development. On the second panel we will hear from four experts on MDB infrastructure projects. Mr. Jaime Quijandria is an Executive Director at the World Bank; Mr. Carlos Herrera Descalzi is Vice-Dean of the National Engineers Association of Peru; Dr. Korinna Horta is a Senior Economist for the non-profit organization, Environmental Defense; and Mr. Manish Bapna is Executive Director of the Bank Information Center.

We welcome our witnesses and look forward to our discussion.

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