Senate Committee on Foreign Relations
Chairman Richard G. Lugar
Opening Statement for Hearing on
"Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption"
March 28, 2006

The Foreign Relations Committee meets to continue our review of U.S. policy toward the multilateral development banks (MDBs). This is the fifth in a series of hearings on the MDBs that began in 2004. Those earlier hearings contributed to the Committee's understanding of both the value of the MDB's work and problems with their operations that were in need of correction.

In 2005, building on these hearings, I introduced S. 1129, the Development Bank Reform and Authorization Act. Through the cooperation of many members of Congress, most of the provisions of this bill were enacted into law in November 2005. With passage of this legislation, Congress made a strong statement that it recognizes the critical role of the MDBs in achieving development goals around the world, but also that the operations of these banks must be transparent, efficient, and free of corruption.

The legislation authorizes funds for three of the MDBs and contains provisions designed to ensure greater transparency and accountability in the banks' operations. It requires the Secretary of the Treasury and the United States Executive Directors to the MDBs to support clear and public anti-corruption procedures that are coordinated across all the MDBs. Among many provisions, it promotes staff financial disclosure procedures, whistleblower protections, and the establishment of independent ethics and auditing offices. It also encourages transparent budget processes for countries that receive budget support from the MDBs and additional disclosure requirements for natural resource extraction projects.

The need for oversight did not end with the passage of the MDB reform legislation, which is why we are here today. The United States has strong national security and humanitarian interests in alleviating poverty and promoting progress around the world. The MDBs can help leverage the resources that we devote to advancing international development. Since 1960, the United States has provided more than $42 billion in direct contributions to the MDBs. In addition, the United States has provided more than $1.7 billion for debt relief.

The U.S. government must work hard to ensure that this money is spent efficiently – both because of our responsibility to American taxpayers and because inefficiency and corruption undermine the basic humanitarian and foreign policy objectives of our participation in MDB financing.

World Bank economists Craig Burnside and David Dollar asserted in the *American Economic Review* that "in the presence of poor policies….aid has no positive effect on growth." Similarly, the World Bank website identifies corruption as "the single greatest obstacle to economic and social development." Corruption associated with MDB loans not only squanders development funds and enriches dishonest officials and contractors, it leaves impoverished nations with the burden of the resulting debts.

At the World Bank, President Paul Wolfowitz has continued and expanded the anti-corruption policies initiated by his predecessor, James Wolfensohn. President Wolfowitz has reportedly suspended loans in Argentina, Bangladesh, Chad, India, Kenya, and perhaps others because of corruption concerns. Although some of these actions may stimulate controversy, nations receiving World Bank loans must do everything in their power to provide confidence that loans and the projects they fund are free of corruption.

In Chad, for example, the World Bank had 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 after the oil pipeline had been built, 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.

The importance of getting loans right from the start is demonstrated by the case of the Congo. Recently, the World Bank and International Monetary Fund agreed to grant debt relief to the Republic of Congo – a country that has flouted past anti-corruption conditions. According to Global Witness, there is evidence that hundreds of millions of dollars are unaccounted for in Congo's budget. Congo is receiving debt relief despite earning billions from oil sales in 2005.

I am optimistic about the G-8 agreement for 100 percent debt relief for highly-indebted poor countries that implement policies to foster growth and reduce poverty. The cycle of indebtedness of these poor countries must end. But we will not fully achieve this important goal unless we establish an anti-corruption culture throughout the international lending process.

Everyone involved must understand that the history of the MDBs includes well-documented and unacceptable cases of waste, fraud, and abuse. We know that billions of dollars that could have helped some of the poorest people in the world have been siphoned off or squandered. We all wish that this were not so, but such facts place extra burdens on both the banks and the nations receiving the loans. Those of us in Congress who care about international development and like-minded people around the world must shine a light on these programs – not to undercut their missions, but rather to ensure that these missions succeed.

We are living in an era when threats posed by terrorism, weapons proliferation, international communicable diseases, increasing competition for energy supplies, and other factors have enlightened many of the world's people to the need to ensure that poor nations are not left behind. But these same threats also place competing demands on national budgets. If development projects are transparent, productive, and efficiently run, I believe that they will enjoy broad support. If they are not, they are likely to fare poorly when placed in competition with domestic priorities or more tangible security related expenditures.

Today, we are pleased to be joined by two distinguished panels. First we will hear from Mr. Clay Lowery, Assistant Secretary of the Treasury for International Affairs, and Ambassador Cynthia Perry, U.S. Executive Director to the African Development Bank. They will testify regarding U.S. efforts to support the anti-corruption strategies of the development banks. On the second panel we will hear from Dr. William Easterly of New York University, Dr. Ruth Levin from the Center for Global Development, and Dr. Adam Lerrick from Carnegie Mellon University.

We welcome our expert witnesses and look forward to their insights.

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