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**THE INTERNATIONAL
FINANCIAL INSTITUTIONS:
A CALL FOR CHANGE**

A REPORT
TO THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS
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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC, March 10, 2010.

DEAR COLLEAGUE: The International Monetary Fund, World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank are foreign policy tools that allow the United States to leverage the contributions of other countries to promote our national security and humanitarian interests in alleviating poverty and promoting progress around the world. For this reason, the U.S. Congress regularly supports appropriations for subsidized loan and grant programs through the multilateral development banks and recently provided a loan to the IMF. As one of the largest shareholders in these institutions, the United States enjoys an opportunity to influence their policies and programs. We must be cautious about forfeiting our leadership positions at these institutions.

Seven years ago, I began an oversight project on the multilateral development banks, focused on ensuring that their financing reached the intended people and projects. I chaired six Senate Foreign Relations Committee hearings that included reviews of individual projects and policies of the respective development banks. I met with international financial institution leaders and my staff examined projects in many countries. The attached report provides fifty recommendations for eight different organizations to improve the accountability, transparency and effectiveness of the World Bank, the IMF and the other development banks. The American people must have confidence that our funds will be managed effectively, efficiently, and transparently. Given our domestic budget and employment situation, it is all the more critical that we ensure that our contributions successfully promote United States interests.

The United States and the G-20 are evaluating changes to the relative power countries wield at the international financial institutions while considering requesting billions in additional funds for the multilateral development banks this spring. This report suggests that contributions to the development banks should be a consequence of, not a precursor to, needed reforms given that financial flows to development countries are rebounding sharply from their 2009 lows.

This Senate Foreign Relations Committee report, written by Nilmini Gunaratne Rubin with significant contributions from Jay Branegan, Shellie Bressler, Keith Luse, Kezia McKeague, Carl Meacham, Michael Phelan, and Dorothy Shea, as well as assistance from Erin Baggott, Cory Gill, Katie Lee, Marik String, and Alexandra Utsey, synthesizes important recommendations to transform the international financial institutions. I hope it will inform a vital debate about these institutions before we make agreements on how to reallocate leadership power and decide whether to provide them with additional funding.

Sincerely,

RICHARD G. LUGAR,
Ranking Member.

THE INTERNATIONAL FINANCIAL INSTITUTIONS: A CALL FOR CHANGE

INTRODUCTION

Beginning in 2003, Senator Richard Lugar directed his staff on the Senate Foreign Relations Committee to undertake an examination of the international financial institutions¹ to determine how they could better serve American interests and more effectively achieve their missions of alleviating poverty, hunger and disease in poor countries, promoting sustainable development, economic growth, and good governance, and ensuring financial stability. This staff report brings together the results of much of the oversight since that time. As detailed in the pages that follow, key conclusions emerge:

- The international financial institutions too often focus on issuing loans rather than on achieving concrete development results within a finite period of time;
- They should concentrate more clearly on “putting themselves out of business” by creating stable, self-sustaining economic growth in their client countries;
- For the institutions that are currently seeking major capital increases, the Administration and the other donor countries of the G-20 should be firm in demanding that needed reforms are secured before committing additional funds; and
- The international financial institutions should redouble their efforts, including increasing resources for internal controls, to battle the invidious corruption that has thwarted so many development projects.

EXECUTIVE SUMMARY

The international financial institutions (IFIs) have traditionally been an important element of U.S. foreign policy. They support the broad U.S. foreign policy goals of promoting stability and development and ending poverty; they leverage U.S. taxpayer dollars and support a large corps of development experts and international economists to supplement the U.S. government’s own expertise; they provide fora where the U.S. can cooperate with friends and allies; they are emblems of U.S. economic and diplomatic leadership; and owing to the United States’ position as the largest, or one of

¹The International Monetary Fund, the World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.

the largest, donors in each institution, they are able to help influence specific regions and countries in ways that are favorable to U.S. interests.

But, they are also international bureaucracies, answerable to no one government or constituency, yet subject to influence and suasion by many, including donors, borrowers, and other political actors. They often operate with little public scrutiny, and many times in challenging environments, where bureaucratic obstacles, corruption, civil or military strife, and governmental incapacity can harm the success of their work. Most significantly, the two largest and most important IFIs, the World Bank and the International Monetary Fund (IMF), were created more than fifty years ago, in the aftermath of World War II, when one country, the United States, towered over the rest financially, global exchange rates were fixed, international financial flows were tiny, trade was burdened with steep tariffs and quotas, private sector investment and lending in developing countries were negligible, and the principle of free-market capitalism was not widely accepted. All that has changed, but have the IFIs kept pace?

As the world struggles to emerge from the worst economic crisis since World War II, it is an appropriate time to ask whether the IFIs are performing optimally and doing the jobs they should be doing. Does the world really need the IMF, World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank today? Can they be changed to better address our needs? How should we re-design them? What could the international financial institutions have done to keep the crisis from occurring in the first place? What can they do now to best mitigate the fallout from the crisis? Do they achieve their various missions of promoting stability, fighting poverty, encouraging growth, and promoting democracy?

Such questions are particularly timely because nearly all the IFIs have sought, or will soon seek, major new infusions of money from their donors, including the taxpayers of the United States. Congress will have to approve the amount and the form of these new contributions. Congress must be able to assure taxpayers that the money is needed, and that it will be used efficiently. It must ask whether the new money is being requested primarily to respond to the financial crisis, and if so, whether it should be advanced on a temporary basis. The crisis should not be used as an excuse to win increases that could not otherwise be justified. As the requests for capital are negotiated with the international donor community, there is a window of opportunity for significant reform. Given a 2009 signing statement from the administration, indicating that the President did not recognize an obligation to pursue Congressionally mandated reforms at the IMF contained in authorizing legislation, Congress may have an interest in securing the reforms before authorizing funds for the capital increases.²

Soon after he became Chairman of the Senate Foreign Relations Committee (SFRC) in 2003, Senator Richard Lugar launched a

² http://www.whitehouse.gov/the_press_office/Statement-from-the-President-upon-signing-HR-2346

multi-faceted project designed to answer many of the questions cited above. Under his chairmanship, the SFRC held six hearings into the operations of the World Bank and the other multilateral development banks (MDBs), his staff conducted numerous oversight trips to the various banks' headquarters and to bank-funded projects, and Sen. Lugar met personally with the head of each MDB. The committee produced a major piece of legislation, which was enacted into law in 2005. The oversight activity continued as Sen. Lugar assumed the role of ranking member of the committee and as staff continued to make site visits, hold briefings with IFI personnel and others, attend MDB annual meetings, and conduct inquiries regarding various IFI issues.

This project, initially focused on the IFIs' efforts to battle corruption, has expanded to include other issues of institutional management, personnel, and aid effectiveness. During the period of the project, improvement occurred in certain areas that have come under intense staff scrutiny or Congressional mandate, but most IFI operations and thinking continue to be characterized by inertia and a reluctance to reform. In particular, the regional MDBs look to the World Bank to set the standard of practice, failing to move if the World Bank does not, even though significant problems may be evident. And even once the World Bank does change, the regional MDBs are often slow, in some cases extremely slow, to adopt corresponding policies of their own. One of the key recommendations of the report is that the IFIs work much more closely together to share experience and information and to collaborate on policies.

In general, staff found that the IFIs still serve U.S. policy interests and leverage American taxpayer dollars. Therefore, the U.S. should retain a leadership role in the institutions. However, in the current fiscal environment, the institutions themselves and the Obama administration will have to make a strong and compelling case if further U.S. tax dollars from an already-overstretched federal budget are to be made available. Any new capital increase should be approved only after the relevant institution has formally agreed to a reform agenda and begun to implement it. The Obama administration should conduct an authoritative review of the IFIs' practices and policies leading up to the financial crisis to learn what, if anything, they could have done to prevent it. Steps should be taken to integrate lessons learned into future IMF and development bank activities. In normal times, the World Bank and the regional banks focus on long-term development and not, for instance, on disaster relief and other short-term events. The review should examine whether the MDBs need, or should have, new authorities to deal with financial crises. Further, to garner public support, the Treasury Secretary should consult closely with Congress as talks on new funding proceed, and he should strive to ensure that any funding required for the crisis should be temporary in nature, while the institutions themselves should conduct a rigorous review to find costs savings in their own operations. The institutions should commit to rigorous budgetary discipline to make sure that as many resources as possible are being used to fight poverty and maintain financial stability. The IFIs will only succeed if they are seen as part of the solution to the crisis, not part of the problem.

Regarding the politically fraught issues of governance, voting rights, and citizenship directives, U.S. voting shares and veto authority should be maintained, and that having an American as head of the World Bank helps maintain domestic public support for the institution. Any changes to these arrangements should be considered on a system-wide basis, including the IMF, the World Bank, and the regional MDBs. Staff does not underestimate the difficulty in achieving such changes. Throughout the course of this project, staff has repeatedly encountered evidence that U.S. citizens are discouraged from working at the regional MDBs because of U.S. tax law burdens which nationals of other countries do not face. Because the presence of U.S. citizens materially improves the performance and accountability of the institutions, staff recommends that Congress fix the tax disincentives that penalize Americans working abroad.

The IFIs suffer from a lack of transparency regarding loan decisions, environmental impact, inspection panels, project assessment, etc., which hurt both public perceptions and their effectiveness. The most recently issued public disclosure policies of the World Bank and the European Bank for Reconstruction and Development (EBRD), for instance, improved somewhat on the previous versions but fell far short of what was optimal. The report makes a number of recommendations for improved public disclosure of policies and decisions, at both the board and management level, and for more parliamentary consultation in borrowing countries.

Nearly all the IFIs suffer from a “pressure-to-lend” culture that places more emphasis on signing project agreements and getting loans out the door than on actually improving the development level of the borrowing country. There must be a systemic re-orientation to focus on outcomes instead of outputs. That will require putting in new incentive structures within the banks and new evaluation mechanisms. The banks should focus more clearly on the effort to “put themselves out of business” by graduating countries from their “soft loan” windows and, eventually, out of borrowing completely. When the World Bank reaches the milestone of being in a country for fifty years, it should not be a cause for celebration. Specifically, the executive boards of the development banks should require presentation of projects and programs at their completion to put an emphasis on results and to incentivize development bank professionals to focus on the results of projects rather than the amounts. Currently, board review of projects and programs is only done at the approval stage. In addition, the development banks need to install meaningful staff evaluation systems so that professionals are rewarded for good project design and implementation rather than for promoting large projects in important countries. To that end, the banks should develop a common evaluations framework so that results of the different development banks can be compared across the board and within countries. Projects should be designed with clear indicators so that results can be measured, and the indicators should be published so civil society can track the projects’ progress. Also, the development banks should sell advisory services to interested countries rather than requiring that countries borrow in order to receive advice from the development banks.

Regarding lending to resource-rich developing countries, which has been of particular interest to the SFRC, banks should focus on Extractive Industry Transparency Initiative (EITI) principles of revenue transparency and fighting corruption, with an emphasis on acting before resource revenues start flowing in large amounts. Relatively small amounts of aid money could thus help channel large amounts of countries' own funds toward poverty reduction. Because corruption has been shown to be a decisive factor in hobbling development, all the banks should embed oversight funds into project and program financing so that an adequate percentage of the funds can be used by borrowing countries to support monitoring, investigations, prosecutions, and technical assistance for oversight.

Prior to the global economic crisis that struck in 2008, many had begun to question the need and rationale for the IMF. Lending was down sharply, very few countries were enrolled in IMF programs, its credibility and popularity were badly damaged by both the Russian financial collapse and the Asian financial crisis, and the organization was forced to institute a 20 percent cut in personnel. However, early in 2009 as the financial crisis swept the globe, it was evident that the IMF was best-suited for crisis management, and the G-20 voted to triple IMF resources. This abrupt reversal of fortune could be oversimplified into the question, "What do you do with the firemen when there is no fire?," as one IMF official put it. Congressional debate over the Obama administration's request for Congress to authorize the U.S. portion of the new funds would have been a good opportunity to explore the role and function of the IMF in crisis and non-crisis situations. Unfortunately, that debate did not happen. The process for authorization of the IMF funds did not follow the usual procedures and proved unnecessarily partisan. As U.S. legislative action was critical for many of the issues related to IMF reform and enhanced funding, the rushed legislative process, as described in more detail in the report, denied Congress the opportunity to thoughtfully promote needed changes at the IMF. In the meantime, there are a number of obvious reforms the IMF should undertake, many of them related to improved transparency and consultations with the parliaments of borrowing countries, providing the significant requirements for reform that come with IMF programs. The IMF should also develop guidelines to ensure that its financing will not exacerbate conflict or underlying hostilities when lending to a post-conflict or current conflict country, and it should explicitly judge a country's appropriate level of military spending as an indicator of financial health.

Staff have visited the headquarters of each IFI, and repeatedly interviewed Treasury and IFI officials about the policies and operations of each bank. A number of recommendations have emerged related to IFIs in general and to specific institutions. They are detailed in the following section.

RECOMMENDATIONS

Committee staff developed specific recommendations for the administration, Congress, and the international community to reform the international financial institutions and help them adjust to the changing needs and evolving standards of a post-economic crisis world.

The Obama administration should:

- 1) *Focus on the ultimate goal of the international financial institutions succeeding in their development and economic missions and thereby putting them out of business.* Push the institutions to pay closer attention to the steps needed for governments to generate their own revenue and access capital markets on a favorable basis. Encourage the institutions to set up clear graduation guidelines for a country to move from being a borrower to becoming a donor.
- 2) *Undertake a review to determine what, if anything, the international financial institutions could have done to prevent the recent global financial crisis.* Steps should be taken to integrate lessons learned into future IMF and development bank activities.
- 3) *Consider delaying a G-20 commitment for capital increases for the multilateral development banks until it is clear that capital infusions are necessary, needed reforms are underway, and upcoming elections of leadership positions at some development banks are completed.*
- 4) *To the extent possible, the administration should pursue temporary capital increases given that the impact of the global financial crisis will eventually wane.*
- 5) *Commission a review of potential cost savings at the international financial institutions.* Opportunities to reduce spending at these organizations must be examined and the institutions should commit to rigorous budgetary discipline to make sure that as many resources as possible are being used to fight poverty and maintain financial stability.
- 6) *Preserve United States leadership of the World Bank and senior level positions at the other IFIs.* Having an American at the helm of the World Bank helps ensure continued U.S. support for the institution and facilitates communication with the World Bank. Historically, the President of the World Bank has been a United States citizen, the Managing Director of the IMF has been European, the President of the European Bank for Reconstruction and Development has been European, the President of the African Development Bank has been African, the President of the Asian Development Bank has been Japanese and the President of the Inter-American Development Bank has been from Central or South America. Should the administration choose not to follow this recommendation, any deal to loosen the citizenship directives on leadership at the IMF or World Bank should include loosening the citizenship directives at the regional development banks.
- 7) *Maintain United States voting shares and veto rights at the international financial institutions.* As talks continue at the G-20 on reallocating shares at the IFIs, the administration should not agree to a deal where the United States' voting share declines or where the United States loses its veto over certain policies, given the size of the United States economy and the importance of the IFIs to United States policy interests.

- 8) *Clearly post summaries of U.S. votes on international financial institution projects* and programs on the International page of the Treasury Department website. The Bush administration began posting whether it abstained from voting, voted no or voted yes on development bank projects, but it is very difficult to find the web page.
- 9) *Reveal additional U.S. Executive Director positions that are delivered at the international financial institutions.* Current United States statute calls on the U.S. Directors to share their statements with Congress on inspection panel cases, operational policies, and projects with significant environmental impacts. The administration should voluntarily release the detailed U.S. positions on projects in countries of specific foreign policy interest such as Iraq and Afghanistan and on projects in areas of particular sensitivity such as energy and post-conflict reconstruction.
- 10) *Press the international financial institutions to work together.* Close collaboration is critical because the mandates of the development banks and the IMF, development, and financial stability are inherently connected and impact each other. For example, when development banks provide budget support loans to countries, they should work with the IMF and obtain an assessment letter. The IMF should utilize development bank tools such as conflict filters when lending to post-war countries.
- 11) *Encourage the international financial institutions to systematically factor in the role of conflict to ensure that their financing does not inadvertently exacerbate conflict.* The World Bank developed a conflict filter for Sri Lanka, a series of questions to be asked at each stage of project development, which should be expanded for use in other countries and by the other international financial institutions.
- 12) *Promote parliamentary approval of international financial institution projects and programs.* The executive branches of few developing countries are required to seek parliamentary approval of international financial institution loans or grants. Few developing countries have parliaments that set a ceiling within which the executive branch can conclude individual agreements with the international financial institutions.
- 13) *Review any connection between the misuse of funds and debt relief.* Debt relief has been provided to countries that cannot afford to pay back their loans, it has not been provided for loans made knowingly to countries with corrupt leaders who misused or stole the funds.
- 14) *Designate an Ambassador-at-Large for Global Transparency* to promote disclosure at the international financial institutions that is consistent with efforts within the United States government and at other international organizations including the United Nations.
- 15) *Actively recruit U.S. citizens for positions at the international financial institutions and help applicants navigate the hiring process.*

Congress should:

- 16) *Consider supporting capital increases for multilateral development banks that have successfully implemented needed reforms.*
- 17) *Consider providing funds to clear United States' current arrears (unmet commitments) to the development banks, the existence of which undermines United States influence at these entities.*
- 18) *Fix tax disincentives which penalize Americans working abroad.*

The International Monetary Fund should:

- 19) *When providing loans to resource rich countries, take steps to account for the billions in revenues that are streaming into the country. Specifically, the IMF should implement the recommendations from its own Guide to Resource Revenue Transparency; obtain a commitment to not censor individuals who raise concerns about oil revenue management; require disclosure of public official conflicts of interest in companies bidding for oil and gas rights; and call for an independent audit of the Ministry of Finance and Petroleum. Macroeconomic reform, economic development, and participatory governance all rely upon dissemination of information in order for the government to be more effective and to enable civil society to play a productive role in increasing accountability of government officials.*
- 20) *Require countries to take anti-corruption measures, reveal their budgets, and implement public financial management guidelines on budget transparency for loans to the government's budget, such as the flexible credit line³ that was created in 2009.*
- 21) *Provide grants rather than loans to countries that clearly cannot repay their loans, such as Haiti after the January 2010 earthquake.*
- 22) *Utilize proceeds in excess of projections from gold sales to fund grants and debt relief for the poorest countries.*
- 23) *Engage with Parliaments in the course of developing an IMF program. While IMF programs include significant reforms, sometimes requiring legislative action, parliaments are rarely consulted by the IMF.*
- 24) *Develop guidelines to ensure that IMF financing will not exacerbate the conflict or underlying hostilities when lending to a post-conflict or current conflict country.*
- 25) *Not shy away from making recommendations on the appropriate level of military expenditures as they can be a significant determinant of a country's financial health.*

³ <http://www.imf.org/external/np/sec/pr/2009/pr0985.htm>

The multilateral development banks (the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and the Inter-American Development Bank) should:

- 26) *Plan for the future, not just the present.* Projects should be designed with a long-term view. For example, agricultural projects should be designed to withstand climate change and roads projects should be developed to accommodate pedestrians in areas projected to become densely populated.
- 27) *Strengthen anti-corruption efforts.* Increase resources for internal controls and anti-corruption efforts. Embed oversight funds into project and program financing so that a small percentage of the funds can be used by borrowing countries to support monitoring, investigations, prosecutions, technical assistance to Parliamentarians, government audit agencies, and ombudspeople, promoting better oversight.
- 28) *Refocus attention on the impact, rather than the size and goals, of development bank projects and programs.* Executive boards of the development banks should require presentation of projects and programs at their completion to put an emphasis on results and to incentivize staff to focus on the results of projects rather than the amounts. Currently, board review of projects and programs is only done at the approval stage. In addition, the development banks need to install meaningful staff evaluation systems so that staff are rewarded for good project design and implementation rather than for promoting large projects in important countries.
- 29) *Design a common evaluations framework* that includes the collection of shared baseline data to save money and avoid repetition. Baseline data is important in determining whether or not the development bank project made an impact.
 - a) Produce comparable indicators and data dissemination standards so that results of the different development banks can be compared across the board and within countries.
 - b) Projects should be designed with clear indicators so that results can be measured.
 - c) Publish indicators so civil society can track the projects progress.
 - d) Evaluate all projects and publish evaluations of all projects.
 - e) Integrate lessons learned into project design.
- 30) *Better coordinate activities,* particularly food security assistance, starting with agreements on development principles and working with host governments to adhere to national development plans.
- 31) *Increase grants and subsidized loans for the poorest countries and create a predictable system to transfer profits to their grant-making and subsidized lending windows for poor countries* from the development banks' lending operations.

- 32) *Integrate the principles of the Extractive Industries Transparency Initiative into extractive industry project design.* All the MDBs now endorse the EITI, but when providing financing to resource rich countries, the development banks should focus their efforts on improving revenue management and fighting corruption, conditioning loans on revenue disclosure and contract transparency, and promoting transparency before the revenues actually start flowing from extractive industries. Relatively small amounts of aid money could thus help channel large amounts of countries' own funds toward poverty reduction.
- 33) *Revamp inspection panels and other inspection mechanisms so that people and communities negatively affected by development bank projects have clear access to redress.* Current mechanisms allow complaints to be made about failures to follow development bank policy but the only beneficiary is the bank itself, which learns of its mistakes. The affected people simply remain affected and are rarely compensated or made whole.
- 34) *Lending to the private sector should be focused on regions and sectors that truly need additional funding* to allow for the best use of scarce resources and to not crowd out the commercial lenders.
- 35) *When lending money directly to a country's budget, require publication of the budget and implementation of adequate public financial management standards.* Consult with the IMF on major budget support loans.
- 36) Since some emerging market countries are more interested in receiving advice than money from the development banks, *consider charging for advisory services.* Currently, most development banks only provide advisory services as part of a financing package.
- 37) *Minimize the environmental impact of projects, including increasing awareness of greenhouse gas emissions.* Develop and implement a strategy to lower greenhouse gas emissions trajectories while enhancing access to affordable energy services. Develop a best practice protocol for greenhouse gas accounting.

The World Bank should:

- 38) *Allow the Government Accountability Office to commence the two reviews requested by Senator Lugar, Senator Bayh, Senator Leahy, and then-Senator Biden.* One review would examine the goals, criteria for success, and ability to fight corruption and implement procurement procedures of the World Bank's subsidized loan and grant window, the International Development Association. The other review would scrutinize the World Bank's process for conducting environmental assessments, the impact of environmental assessments on project design, and the process for assessing environmental impact after a project is completed.

- 39) *Revise its public information policy to allow Executive Directors to release their Executive Board statements to their constituencies and to the public.* The World Bank's new public information policy makes significant strides towards transparency and presumes disclosure. However, the Executive Directors who are representatives of country members are not allowed to release their statements to the Board on policies and projects.

The African Development Bank should:

- 40) *Revamp its website to disclose what the African Development Bank is doing in each recipient country, noting how much is going to what project, linking relevant documents and providing information on inspection panel cases.* The current website provides limited information about the Bank's activities.
- 41) *Increase pursuit of misconduct by staff, contractors, and procuring companies and publish the list of debarred individuals and companies.* Compared to the other development banks, the African Development Bank has far fewer cases under investigation.

The Asian Development Bank should:

- 42) *Publish the names of the companies that it debars due to fraud or other misconduct.*
- 43) *Reform its human resources system, including the selection of staff on the basis of transparent recruiting process and external recruiting at all levels.*
- 44) *Ensure that lending to middle-income countries is focused on poverty alleviation.*

The European Bank for Reconstruction and Development should:

- 45) *Spread its lending across the region and not continue concentrating its portfolio in one country.* Currently, 41 percent of its lending goes to one borrower, Russia. The bank's limited resources clearly should be directed at countries with fewer of their own resources. A corollary, the Nunn-Lugar program initially invested heavily in Russia, but over time has shifted to other countries and Russia's contributions have increased. As Sen. Lugar noted in an August 2009, letter to the Wall Street Journal, "the Russian share of total Nunn-Lugar spending has dropped from 88 percent in 2001 to 37 percent as construction projects conclude and Moscow assumes more of the cost." No such weaning process is evident for the EBRD and Russia-instead, the trend has been going in the opposite direction.
- 46) *Focus lending to sectors and projects that lack access to market financing.* Currently, some loans are reportedly going to Russian oligarchs and projects that could obtain private capital, including the oil sector.
- 47) *Make additionality criteria more transparent and more explicit, both as a statement of policy and on individual investments.*
- 48) *Develop local currency lending and local capital markets.*

The Inter-American Development Bank should:

- 49) *Fully implement financial management reforms.* The Inter-American Development Bank is taking initial steps to reform its investment strategy, credit risk management, capital adequacy policy, and operational risk framework following an unrealized loss of \$1.9 billion from its liquid portfolio of cash management instruments.
- 50) *Provide more grants and subsidized loans for the poorest countries* in the Western Hemisphere, including Haiti.

DISCUSSION

The world has changed drastically since the international financial institutions were created. Private capital flows to developing countries dwarf official donor assistance to those countries. Most exchange rates float under market pressures while they were previously fixed under the gold standard. Markets for goods, services, and finance are connected. We have seen the growth of sovereign wealth funds, fluctuations in energy prices, and multiple financial crises.

The recent financial crisis, which began in industrialized countries, quickly spread to emerging market and developing economies.⁴ Most industrialized countries (except for Iceland) have been able to finance their own rescue packages, but many poor countries have insufficient sources of capital and have turned to help from the international financial institutions.

As we emerge from the worst economic crisis since the Great Depression, we must ask ourselves if we are content with the structure of the international financial institutions. Does the world really need the IMF, World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank today? How should we design them? Can they be changed to address our needs? What could the international financial institutions have done better to keep the crisis from occurring in the first place? What can they do now to best mitigate the fallout from the crisis? Do they achieve their various missions of promoting stability, fighting poverty, encouraging growth, and promoting democracy?

Some of these questions are being addressed by the international community. In November 2009, G-20 Finance Ministers said that “the International Financial Institutions will play an important role in supporting our work to secure sustainable growth, stability, job creation, development, and poverty reduction. It is therefore critical that we continue to increase their relevance, responsiveness, effectiveness, and legitimacy.”⁵

The G-20 is examining changes to the allocation of voting power at the World Bank Executive Board, which “primarily reflects coun-

⁴“The Global Financial Crisis: Analysis and Policy Implications,” Dick K. Nanto, Coordinator, Specialist in Industry and Trade, Congressional Research Service, September 18, 2009 (RL34742)

⁵Communiqué Meeting of Finance Ministers and Central Bank Governors, United Kingdom, November 7, 2009 http://www.g20.org/Documents/2009_communique_standrews.pdf

tries' evolving economic weight and the World Bank's development mission."⁶

In addition, the G-20 called for a review of World Bank and regional development bank capital to "ensure they have sufficient resources"⁷ to be completed by the first half of 2010. The G-20⁸ asked "the World Bank to play a leading role in responding to problems whose nature requires globally coordinated action, such as climate change and food security, and agreed that the World Bank and the regional development banks should have sufficient resources to address these challenges and fulfill their mandates."⁹

SENATOR LUGAR'S ONGOING OVERSIGHT EFFORT

At the direction of then-Chairman Richard G. Lugar, the Republican staff of the Senate Foreign Relations Committee in 2003 began a study of the international financial institutions, following whistleblower reports of corruption related to the development banks. Staff tested the viability of policy recommendations through meetings, document reviews, and site visits to projects in Africa, Asia, Europe and Central Asia, Latin America, and the Middle East. Staff asked if the international financial institutions were the tools needed to solve the problems of today's world, were the IFIs capable of needed changes, and what those changes would be.

As Chairman of the Senate Foreign Relations Committee, Senator Lugar held six hearings in the 108th and 109th Congress to probe how the banks could become more effective, accountable, and efficient. As Senator Lugar noted, "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."¹⁰

Numerous reforms were implemented following Senator Lugar's advocacy, particularly improvements to MDB anti-corruption efforts. These reforms include: creation of a joint MDB framework for combating fraud and corruption in their activities and operations; movement towards cross-debarment by barring companies that violate one development bank's policies from contracts with the other development banks; a new anti-corruption and governance strategy at the World Bank; two new codes of conduct at the European Bank for Reconstruction and Development, replacing codes adopted

⁶G-20 Leaders' Statement, The Pittsburgh Summit, September 24-25, 2009 http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

⁷Communiqué Meeting of Finance Ministers and Central Bank Governors, United Kingdom, November 7, 2009 http://www.g20.org/Documents/2009_communique_standrews.pdf

⁸The G-20 includes: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, the United Kingdom and the United States.

⁹G-20 Leaders' Statement, The Pittsburgh Summit, September 24-25, 2009 http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

¹⁰"Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption," Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, Tuesday, March 28, 2006, <http://lugar.senate.gov/press/record.cfm?id=253172>

in 1991; an amended Public Communications Policy at the Asian Development Bank to allow the Integrity Division discretion to publicly disclose project procurement-related audit reports; a strong and comprehensive Whistle-blowing and Complaints Handling Policy approved by the African Development Bank in 2007; and a new Code of Ethics and ethics training for all staff implemented by the Inter-American Development Bank (IADB). However, much more needs to be done.

Hearings

With the intent of strengthening reforms at the multilateral development banks (MDBs), particularly reforms related to corruption, Senator Lugar chaired six Senate Foreign Relations Committee hearings in the 108th and 109th Congress on September 28, 2004, July 21, 2004, May 13, 2004, April 21, 2005, March 28, 2006, and July 12, 2006. The hearings heard testimony by representatives from the Treasury Department, the United States Executive Directors to the MDBs, academics, non-governmental organizations, and members of civil society. These hearings contributed to the committee's understanding of both the value of the MDBs' work and problems with their operations.

The hearings before the Foreign Relations Committee demonstrated that:

- Significant multilateral development bank funding has been lost to corruption and it is difficult to ascertain such amount precisely, in part because the multilateral development banks have not implemented procedures to calculate such amounts, either in the aggregate or on a country basis;
- The multilateral development banks are taking action to address fraud and corruption but additional measures remain to be carried out;
- The capability of anticorruption mechanisms, including investigations, reporting, and disposition, are not consistent among the multilateral development banks and divergences in anticorruption policies exist that may hinder coordination on fighting corruption;
- Weaknesses in whistleblower and reporting policy and practice exist at the multilateral development banks, to varying degree, that impede antifraud and anticorruption efforts;
- Greater transparency and investigative independence is necessary to provide effective development aid;
- The Secretary of the Treasury encourages anticorruption efforts at the multilateral development banks and reviews loans made by such banks, however, the United States has limited ability to investigate the misuse of funds from such banks; and
- In some cases, the countries bearing the cost of prosecuting corruption related to the multilateral development banks are the countries that can least afford such costs, for example, the Government of Lesotho incurred considerable expense, despite competing priorities, such as those arising from an HIV/AIDS rate of more than 25 percent in that country, to investigate and prosecute fraud and corruption related to a project that re-

ceived funding from the World Bank and the World Bank did not contribute money towards the prosecution or investigation.¹¹

A number of recommendations arose from the testimony of over 20 witnesses. These include:

- Establish an international auditing body responsible for rooting out corruption and waste at all MDBs
- Reform the “pressure to lend” incentive system in the MDBs that emphasizes lending volume, not effectiveness
- Re-examine legal immunity for employees of international organizations
- Develop best practice procurement procedures for use by all the MDBs
- Strengthen whistle-blower protections
- Automatically disclose bank-imposed sanctions of contractors and individuals
- Establish mutual recognition of blacklists across all MDBs

Legislation

S. 1129. The hearings also formed the basis for the Development Bank Reform and Authorization Act of 2005, which was approved unanimously by the Senate Foreign Relations Committee. The full text of the bill is in Appendix VII. The bill was introduced by Senator Lugar and had eleven co-sponsors (Senators Alexander, Biden, Clinton, Cochran, Coleman, Hagel, Isakson, Martinez, Obama, Stevens, and Thune). Significant portions of the bill became law in November 2005 in H.R.3057. 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 contained many reforms aimed at achieving more 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. 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.

Since the introduction of S. 1129, many of the measures it promoted have made progress. For example, the MDBs have now developed common definitions of fraud and corruption and are working to create consistent debarment policies so that a person that is debarred by one multilateral development bank is ineligible to conduct business with the other multilateral development banks during the specified ineligibility period. Many of the MDBs have strengthened their auditing, accounting and evaluations processes.

¹¹These points were enumerated in the Findings section of S. 1129 the Multilateral Development Bank Reform Act of 2005. The full text of S. 1129 may be found at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_bills&docid=fs1129rs.txt.pdf

They have also made some embraced the need for extractive industry project transparency. While much more still needs to be done, it is important to recognize that positive changes have been made since the 2005 introduction of the Development Bank Reform and Authorization Act was introduced.

S. 954. The World Bank International Development Association Replenishment Act of 2009, which was introduced with Senator Kerry and co-sponsored by Senator Kaufman, passed out of Committee on July 16, 2009, and directs the Secretary of the Treasury to seek to ensure that multilateral development banks: (1) implement greenhouse gas accounting in analyzing the benefits and costs of individual projects; and (2) expand their climate change mitigation activities.

S. 955. The African Development Fund Replenishment Act of 2009, which was introduced with Senator Kerry and co-sponsored by Senator Kaufman, passed out of Committee on July 16, 2009, and directs the Secretary of the Treasury to: (1) seek to ensure that each multilateral development bank discloses to member countries the banks' operating budget, including expenses for staff, consultants, travel, and facilities; (2) require that the U.S. Executive Director of each multilateral development bank use U.S. influence to ensure that the bank endorses and integrates the principles of the Extractive Industry Transparency Initiative; (3) submit related reports to Congress.

Amendments to H.R. 2346 and H.R. 1105. Provisions suggested by Senator Lugar that were included in H.R. 2346 require the Secretary of the Treasury to ensure that the multilateral development banks make timely, public disclosure of their operating budgets including expenses for staff, consultants, travel, and facilities.

Senator Lugar offered an amendment to H.R. 2346, which was included in H.R. 1105 and co-sponsored by Senators Leahy and Kerry, that would require standard public disclosure of documents of the IMF presented to the Executive Board of the Fund and summaries of the minutes from Board meetings, as recommended by the Independent Evaluation Office, not later than two years after the document was presented or meeting occurred. It also directs the U.S. Executive Director at the IMF to promote: 1) transparency and accountability in the policymaking and budgetary procedures of governments of members of the Fund; 2) the participation of citizens and nongovernmental organizations in the economic policy choices of those governments; and 3) the adoption by those governments of loans, agreements, or other programs of the Fund through a parliamentary process or another participatory and transparent process, as appropriate.

S. 2961. The Haiti Recovery Act of 2010, which was introduced with Senator Dodd and co-sponsored by Senators Durbin and Kerry, urges the Secretary of the Treasury to direct the U.S. Executive Director to each international financial institution to advocate the cancellation of all remaining debt obligations of Haiti and the treatment of any debt service payments as well as the use of some of the realized windfall profits that exceed the required contribution to the Poverty Reduction and Growth Trust (as referenced

in the IMF Reforms Financial Facilities for Low-Income Countries Public Information Notice (PIN) No. 09/94) from the ongoing sale of 12,965,649 ounces of gold acquired since the second Amendment of the Fund's Article of Agreement, to provide debt stock relief, debt service relief, loan subsidies, and grants for Haiti.

Investigations and Reports

Site Visits. Between 2005 and 2009, Senate Foreign Relations Committee staff observed development bank financed projects or met with development bank officials in a range of countries including Bangladesh; Cambodia; Chile; China; Ghana; India; Indonesia; Lebanon; Lesotho; Paraguay; Peru; the Philippines; Rwanda, Senegal; South Africa; Sri Lanka; Tanzania; Tunisia; and Yemen.

SFRC Food Security Report. In the February 2009 staff report entitled "Global Food Insecurity: Perspectives from the Field," Senate Foreign Relations Committee staff asserted that "the international donor community must come together at the country level to better coordinate aid activities, starting with agreements on development principles and working with host governments to adhere to national development plans."

SFRC Extractive Industries Report. In the October 2008 Senate Foreign Relations Committee report entitled "The Petroleum and Poverty Paradox: Assessing U.S. and International Community Efforts to Fight the Resource Curse," staff recommended that "international donors who give aid to resource-rich countries should focus their efforts on improving revenue management and fighting corruption. Relatively small amounts of aid money could thus help channel large amounts of countries' own funds toward poverty reduction." Specific recommendations included:

- The World Bank and the IMF, which make regular assessments of countries' performance, should be consistent in the assessment of countries' progress on transparency compared to their own professed benchmarks. They also should ensure that their staffing at key posts reflects commitments made to those governments in technical assistance on improved financial governance.
- The regional development banks should integrate EITI into their operations, now that all of the regional development banks have endorsed EITI principles in their projects. (The IDB was the last to do so.) The regional development banks should condition loans on revenue disclosure and contract transparency.
- Multilateral development banks should condition loans on progress in implementing transparency measures and they should promote transparency before the resource revenues actually start flowing from extractive industries.

Commissioned GAO Report on the World Bank. On May 14, 2008, Senators Lugar, Bayh, and Leahy, citing the importance of good stewardship of U.S. taxpayer dollars, called on the Government Accountability Office to study whether the World Bank has taken adequate steps to combat corruption and effectively govern programs designed to fight global poverty. In their letter, the Senators

stated that “the use of public funds to help improve the lives of the world’s poor carries with it a responsibility to ensure that the Bank is effectively run and its efforts produce tangible results.”¹²

The Lugar-Bayh study would examine whether the World Bank is:

- Establishing clear goals for projects financed by the International Development Association;
- Establishing clear criteria for measuring the success of IDA projects;
- Working effectively to reduce corruption within governments that receive IDA funding; and
- Effectively implementing procedures for procurement of IDA goods and services.

In March 2009, GAO staff stated that “we cannot begin this work because of challenges we recently faced in gaining access to World Bank officials to discuss these types of questions. We are continuing to negotiate access with World Bank officials but this process is likely to take at least several months.” Senator Lugar’s staff continues to press the World Bank and GAO to begin this report during the first half of 2010.

UNITED STATES BENEFITS FROM INVOLVEMENT

The international financial institutions present the United States with an opportunity to maintain its influence, address national security issues, and provide global leadership in an era when the American economy may not be the overwhelming source of power it once was. The Treasury Department’s recent justification for appropriations asserts that “our funding through the MDBs leverages substantial amounts of additional money both directly, through co-financing, guarantees, and insurance of investment projects, and indirectly, through pro-investment infrastructure improvements and policy reforms.”¹³

Each dollar that the United States contributes to the World Bank’s concessional window (International Development Association) yields \$11 of grants or low-interest loans to developing countries and each dollar contributed to the World Bank’s regular lending window (International Bank for Reconstruction and Development) yields over \$26 of lending to developing countries.¹⁴ Our bilateral assistance, through the United States Agency for International Development, the State Department, and other agencies, allows the United States to maintain direct control over its funding. While U.S. funding through the international financial institutions forces us to relinquish some control, it does allow us to influence how collective donors address large scale issues.

¹²The letter is available at http://lugar.senate.gov/sfrc/pdf/GAO_world_bank.pdf

¹³<http://www.treas.gov/offices/international-affairs/intl/fy2010/budget-FY2010.pdf> “The U.S. and the G-20: Remaking the International Economic Architecture,” Senate Foreign Relations Committee hearing, Response from Secretary Geithner to Senator Casey’s Question for the Record, November 17, 2009.

¹⁴“The U.S. and the G-20: Remaking the International Economic Architecture” Senate Foreign Relations Committee hearing, Response from Secretary Geithner to Senator Casey’s Question for the Record, November 17, 2009.

As the largest contributor to most of the multilateral development banks, the United States has the largest voting shares at the World Bank, Inter-American Development Bank, and European Bank for Reconstruction and Development. The United States ties with Japan as the largest shareholder at the Asian Development Bank, while Nigeria and Egypt have subscribed larger shares in the African Development Bank.¹⁵

Table 1 in Appendix V shows the U.S. contribution share and voting share for all MDB programs.¹⁶ In most banks, countries get a few votes because they are members, regardless of the size of their capital subscription. Thus, for banks with a large number of small members, the voting share of large subscribers such as the United States may be a little smaller than their share in providing the banks' resources. Voting shares are the same for both market-based and concessional loans in the AsDB and IDB.

The American people must have confidence that our contributions to the international financial institutions will be managed effectively, efficiently, and transparently. Given our domestic budget and employment situation, it is all the more critical that we ensure that our contributions promote U.S. interests.

MORE MONEY FOR THE DEVELOPMENT BANKS?¹⁷

The international financial institutions, namely the IMF,¹⁸ the World Bank,¹⁹ the African Development Bank,²⁰ the European Bank for Reconstruction and Development,²¹ and the Inter-American Development Bank²² are asking the United States and other donor countries for billions of dollars to be used for additional capital. The Obama administration has already agreed to the Asian Development Bank's proposal to request more than \$500 million from Congress for a 200 percent capital increase. Negotiations continue on the requests from the other development banks. From the United States alone, the Inter-American Development Bank is seeking \$2.4 billion, the World Bank is seeking \$1.1 billion, the African Development Bank is seeking \$270 million, and the European Bank for Reconstruction and Development Bank is seeking \$150 million.²³

Secretary Geithner indicated that the Treasury Department is "currently reviewing requests for capital increases at a number of

¹⁵"Multilateral Development Banks: U.S. Contributions FY1998-2009," Jonathan E. Sanford, Specialist in International Trade and Finance, Congressional Research Service, January 27, 2009 (RS20792).

¹⁶"Multilateral Development Banks: U.S. Contributions FY1998-2009" Jonathan E. Sanford, Specialist in International Trade and Finance, Congressional Research Service, January 27, 2009 (RS20792).

¹⁷"The U.S. and the G-20: Remaking the International Economic Architecture," Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, November 17, 2009.

¹⁸"Straus-Kahn calls for further IMF resource increase," *Reuters*, October 2, 2009, <http://uk.reuters.com/article/idUSTRE5912DK20091002>

¹⁹<http://online.wsj.com/article/BT-CO-20091005-706072.html>

²⁰"AfDB Will Need a Capital Increase by 2011 to Address the Financial Crisis and its Development Mandate, says AfDB President," African Development Bank Group, December 3, 2009, <http://www.afdb.org/en/news-events/article/afdb-will-need-a-capital-increase-by-2011-to-address-the-financial-crisis-and-its-development-mandate-says-afdb-president-4386/>

²¹Joe Parkinson, "EBRD to Seek Funding Increase," *The Wall Street Journal*, September 30, 2009, <http://online.wsj.com/article/SB125425896193950481.html>

²²"Ninth Capital Increase," Inter-American Development Bank, <http://www.iadb.org/CapitalIncrease/index.cfm>

²³Table 8.—Development Bank Management General Capital Increase (GCI) Requests as of January 13, 2010.

the MDBs and will move forward only on commitments where we are confident that they represent the best use of U.S. taxpayer funds within the context of our overall global development goals.²⁴ For example, we need to be satisfied that each MDB is fully employing its available resources efficiently and effectively and that each is committed to implementing needed reforms that will focus their missions and improve their effectiveness in accordance with the core principles . . . including an increased commitment to transparency, accountability, and good corporate governance; an increased capacity to innovate and achieve demonstrable results; and greater attention to the needs of the poorest populations.” Since the fall of 2009, Treasury staff has regularly updated staff of the Senate Foreign Relations Committee on their review of capital increase requests.

As the requests for capital are negotiated with the international donor community, there is a window of opportunity for significant reform. Given the administration’s signing statement that accompanied last year’s supplemental appropriations bill, indicating that the administration may not pursue legislatively-mandated reforms at the IMF, Congress may have an interest in securing the reforms before authorizing funds for the capital increases.²⁵ Of serious concern is the speed at which the international community is moving forward with the capital increases—the G-20 expects to finalize decisions on the capital commitments this spring.

Before committing to providing additional funds to the multilateral development banks, the United States and the G-20 must rethink the role of the international financial institutions that provide crisis support and assistance to developing countries and emerging markets.

It also is imperative that our government examine the capital increases for each bank as a unique request. Each financial institution has distinct management challenges. For example, capital increases for the European Bank for Reconstruction and Development must be accompanied by much more information concerning whether wealthy Russian business interests are benefiting from the 41 percent of bank funds that flow to that country. Similarly, capital increases for the Inter-American Development Bank must address how that Bank is reforming its practices after its unrealized loss of \$1.9 billion in 2008 from its liquid portfolio of cash management instruments. The World Bank, for its part, has been a leader in addressing concerns about corruption and governance. Among

²⁴“The U.S. and the G-20: Remaking the International Economic Architecture,” Senate Foreign Relations Committee hearing, Response from Secretary Geithner to Senator Lugar’s Question for the Record, November 17, 2009.

²⁵Excerpt from President Obama’s signing statement (<http://www.whitehouse.gov/the-press-office/Statement-from-the-President-upon-signing-HR-2346>):—“It [the Act] also expands the resources available to the International Monetary Fund (IMF) by allowing it to boost its lending ability. Many developing countries are experiencing severe economic decline and a massive withdrawal of capital, and the IMF needs to make sure it has the resources necessary to effectively respond to the current financial crisis. However, provisions of this bill within sections 1110 to 1112 of title XI, and sections 1403 and 1404 of title XIV, would interfere with my constitutional authority to conduct foreign relations by directing the Executive to take certain positions in negotiations or discussions with international organizations and foreign governments, or by requiring consultation with the Congress prior to such negotiations or discussions. I will not treat these provisions as limiting my ability to engage in foreign diplomacy or negotiations.”

other steps, it regularly publishes the names of contracting companies and individuals that have violated World Bank policies.

The United States and other major donor countries have unwisely and unnecessarily linked the timing for general capital increase decisions to each individual Bank's annual or spring meeting, beginning with the Inter-American Development Bank in March 2010, the World Bank in April 2010, and the African Development Bank and European Bank for Reconstruction and Development in May 2010. This is an artificial deadline. The G-20 communiqué links the general capital increases to: (1) a review of capital needs, given the four lending priorities articulated in the communiqué; and (2) key institutional reforms. Rather than applying an arbitrary deadline, fulfillment of the G-20 criteria should be the guide to timing. The development banks must not just commit to a reform agenda—ideally, those reforms should be underway before donors pledge millions, if not billions, in funds.

Many of the general capital increase requests were initiated on an emergency basis at the height of the global financial crisis under the direction of the G-20 in early 2009. Now private capital flows are returning to many developing markets and varying levels of economic recovery are emerging in the regions serviced by the MDBs. It is therefore appropriate to take a measured and thoughtful approach to General Capital Increase (GCI) decisions that can take into account the real lending demands and longer-term strategies of the relevant MDBs before permanently increasing their operations (Table 9).

Delay is particularly appropriate in cases where the current leadership of a bank is about to end its term and a new leader is to be chosen. The U.S. will want to make sure that the newly elected leadership is committed to a reform agenda. The granting of a new GCI should be a consequence, not a precondition, of new bank management accepting and beginning to implement the important changes sought by the U.S. and other donors. Gaining buy-in at the most senior level of the MDBs is essential to ensure that implementation of reforms takes place. With no clarity about who will be leading several of these MDBs moving forward, a commitment of substantial sums in capital immediately prior to elections would be an unnecessary leap of faith.

UNITED STATES IN ARREARS TO THE DEVELOPMENT BANKS

Over the years, Congress has not funded the administration's requests to fulfill commitments made to the multilateral development banks during the course of international negotiations through which the United States has extracted numerous reforms. The arrears status of the United States has already reduced slightly the U.S. shares at the African Development Bank, for example, undermining the ability of the United States to leverage the development banks for our foreign policy interests.

As noted by Secretary Geithner, the United States has over \$1 billion in unmet commitments to the multilateral development banks. The bulk of the unmet commitments are to the concessional windows, which provide grants and subsidized loans to the poorest

countries.²⁶ The large arrears weaken U.S. leadership at these institutions, due to significant skepticism of the willingness of the United States to deliver on any initiatives that require significant funding.

In particular, the United States' pledges for debt relief through the development banks have not been fully funded by Congress. Because the United States has fallen far behind in fully funding for World Bank IDA replenishments, the United States will not be able to earn sufficient credits to meet current international debt relief commitments under the Multilateral Debt Relief Initiative (MDRI). Without full funding for arrears to the Inter-American Investment Corporation (IIC) at the Inter-American Development Bank as scheduled, the United States will fail to clear longstanding arrears and will permanently lose capital shares in the institution.

LINKAGE BETWEEN CORRUPTION AND DEBT

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.²⁷

Corruption impedes development efforts in many ways. Bribes can influence important bank decisions on projects and 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. "When projects intended to boost economic development are derailed by corruption, the poorest suffer and are cheated of projected benefits in quality health care, clean water, and education," Senator Lugar said.²⁸

In 1999, the United States and other industrialized nations established the Highly Indebted Poor Countries Initiative in response to crippling levels of debt combined with anemic economic growth in dozens of developing countries. This was followed several years later by the more comprehensive Multilateral Debt Relief Initiative. These initiatives allowed poor countries with unsustainable debt levels to receive debt relief in exchange for adopting economic

²⁶"The U.S. and the G-20: Remaking the International Economic Architecture," Senate Foreign Relations Committee hearing, Response from Secretary Geithner to Senator Lugar's Question for the Record, November 17, 2009.

²⁷"Building on International Debt Relief Initiatives" Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, Thursday, April 24, 2008, <http://lugar.senate.gov/press/record.cfm?id=296717>; "Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption," Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, Tuesday, March 28, 2006, <http://foreign.senate.gov/testimony/2006/LugarStatement060328.pdf>

²⁸"Review of the Anti-Corruption Strategies of the Regional Development Banks," Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, Thursday, April 21, 2005, <http://foreign.senate.gov/testimony/2005/LugarStatement050421.pdf>; "Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption," Senate Foreign Relations Committee hearing, Opening Statement by Senator Lugar, Tuesday, March 28, 2006, <http://foreign.senate.gov/testimony/2006/LugarStatement060328.pdf>

policy reforms and channeling their debt savings to poverty reduction activities. However, countries that were managing their debts but had their development bank funds siphoned off by corrupt officials did not benefit from these rounds of debt relief. These debts remain.

The most important way to combat the need for future debt relief is to ensure that development loans are implemented effectively and ethically.

MONITORING AND EVALUATIONS VARY

Currently, the development banks vary in their evaluations processes and findings, and it is important that each project and program be evaluated. For example, the World Bank is developing outcome and output indicators, the Asian Development Bank has created operational effectiveness and efficiency indicators and the Inter-American Development Bank is creating indicators covering the effectiveness of its priorities. They should share project and program effectiveness data throughout their banks and the other banks.

Moreover, the findings from those evaluations must be incorporated in future programming. To paraphrase Professor David Levine of the University of California at Berkeley—project evaluations have a cost but it is much costlier to fund ineffective projects over and over again.

The development banks rarely develop baseline data so that they can demonstrate the impact of their projects and programs. In contrast, the United States' Millennium Challenge Account has procured baseline data for some of its projects. Where appropriate, the development banks should establish baseline data and share that data with other donors to avoid unnecessary overlap.

The IMF's Independent Evaluation Office (IEO) has been heralded not only for its autonomous findings but because its recommendations are often included in the development of new IMF programs. The IEO was formed after most of the evaluation offices of the other international financial institutions, and some argue that its later development has been an advantage.

The African Development Bank is taking steps to evaluate all projects—currently less than one-quarter of projects were evaluated according to interviews held in May 2009. AfDB staff has determined that the success of development programs is most highly correlated with (1) the commitment of the borrowing country to fully implement the program; and (2) the quality of the project design. AfDB staff noted that if a project is designed poorly, it cannot be fixed during implementation and that it was imperative to get it right at the beginning. The AfDB is committing to posting its project ratings. Officials talked about the need for “virtuous circles” to be developed so that evaluations lead to accountability which leads to better projects which are then evaluated.

NEED MORE FOCUS ON TRANSPARENCY

Most pressing international issues are spearheaded by specific offices in specific agencies. However, the responsibility for promoting transparency is not delegated to a particular part of the U.S. government. Some argue that all parts of our government are respon-

sible for transparency but without a clear office responsible for promoting transparency with international organizations and development financing, these issues do not receive the consistent attention that they deserve. The creation of an Ambassador at Large for Global Transparency would allow for the full vetting of transparency issues and press for consistent transparency measures at the international financial institutions and other international organizations with which the United States works.

Across the board, the international financial institutions have a tradition of secrecy and opacity that may be typical of certain private sector financial institutions and politically sensitive international organizations. It is not, however, appropriate for public sector institutions that are funded by the taxpayers of democratic countries and that make decisions affecting the lives of millions in the developing world. Steps toward greater transparency that have been undertaken by the development banks in recent years make for better accountability, greater effectiveness, and ultimately stronger public support. But much more needs to be done.

The World Bank instituted a new information disclosure policy which significantly improves the ability of the institution to disclose information to the public. Nevertheless, it does not allow World Bank Board Executive Directors to release their statements on projects and policies. Disclosure of U.S. Executive Director votes and statements at the development banks would help enable Americans to understand what policies the United States is promoting at the development banks. Should a development bank preclude an Executive Director from releasing his or her statements, a summary of the U.S. position on the policy or project should be revealed.

During the Bush administration, the Treasury Department did begin posting on its website how the U.S. executive directors voted on a project or policy. However, on the current version of the website it is difficult to locate the voting records.

In 2004, Senator Lugar sent then-President Kabbaj a letter about the AfDB's website. Staff discussed the need for an improved AfDB website with multiple AfDB officials. It is important for the public to know what projects the AfDB is funding in each country. All officials agreed but stated that the AfDB did not have the staff or the capacity to produce such a website soon. They noted that the World Bank's communications staff was substantially larger than the AfDB's communications staff.

COORDINATION COULD BE IMPROVED

As the Report of the External View Committee on Bank-Fund Collaboration asserts, "close collaboration is vital because, while the Bank and the Fund have separate mandates, they are inherently linked. For instance, macroeconomic stability (a major Fund concern) will not be sustained unless linked to supply side measures and improved quality of public spending (a major Bank concern). Similarly, global monetary stability (a Fund concern) will

have a direct bearing on overall development prospects (a Bank concern).”²⁹

While the development banks have recently agreed on a shared definition of fraud and corruption and are considering cross-debarment, they do not share a policy on investigation. When development banks provide budget support loans to countries, they should work with the IMF and obtain an assessment letter to ensure that the economic policy conditions are appropriate for such a loan. In Argentina and Botswana, the Inter-American Development Bank and African Development Bank respectively did not obtain IMF letters prior to lending significant loans to those governments’ budgets.

Similarly, the IMF should utilize development bank tools such as conflict filters when lending to post-conflict countries. In Sri Lanka, the IMF provided a large loan without utilizing the conflict filter that had been developed by the World Bank for that country.

QUESTIONS AROUND BUDGET SUPPORT

Following the global financial crisis, international financial institutions have been increasing their provision of budget support or loans that go directly to the government’s budget and are not targeted to a specific project. In May 2009, the IMF announced a new flexible credit line, to lend directly to a government’s budget rather than solely to a country’s central bank, the normal recipient of IMF loans.³⁰

Some are concerned that the international financial institutions are lending large amounts as budget support without a corresponding budget management and fiscal transparency framework to ensure that the funds are not misused. For example, the AfDB has issued sizeable loans that do not appear to be fully coordinated with the other international financial institutions such as the IMF. Usually, it is the IMF that provides short and medium-term support while the development banks, such as the AfDB, provide long-term support.

In June 2009 the AfDB approved a large \$1.5 billion loan for Botswana, an amount more than 13 percent of the country’s GDP. The AfDB website noted that Botswana is “one of the best managed economies in Africa.” The AfDB’s press release noted the following:

The loan falls within the framework of the recently approved strategy by the Bank to provide support to member countries affected by the financial crisis and is the largest such facility ever granted by the Bank. The Budget Support Loan is designed to fill part of the gap in the government’s 2009/2010 budget deficit currently estimated at 13.5 percent of GDP caused by falling commodity prices, particularly diamonds.

“The case of Botswana illustrates the impact that the financial crisis is having on even the best managed economies in Africa. I am delighted that the Bank has been able to respond quickly and flexibly in this ‘unique case’ within the Bank’s framework of response to the financial crisis,” said Donald Kaberuka, the President of the Bank.

The crisis which is affecting African countries through different channels is increasing demands for support from the international financial institutions including the Bank.

²⁹ Pedro Malan, et al. “Report of the External View Committee on Bank-Fund Collaboration,” February 2007 <https://www.imf.org/external/np/pp/eng/2007/022307.pdf>

³⁰ “IMF implements major lending policy improvements,” International Monetary Fund, March 24, 2009, <http://www.imf.org/external/np/pdr/fac/2009/032409.htm>

This is the first such borrowing from the Bank by Botswana in 17 years. Previously Botswana had in fact several times contributed to the replenishment of the African Development Fund (AfDF), the soft window of the Bank Group.³¹

FOCUS ON LOW-INCOME COUNTRIES

The international financial institutions vary in their focus on serving the poorest countries and the poorest communities in middle income countries. The World Bank has a formal system to transfer profits from loans to middle-income countries made by the International Bank for Reconstruction and Development into a grant and subsidized lending window for low-income countries through the International Development Association. Going forward, it will be important for the African Development Bank and the Inter-American Development Bank to increase transfers to their respective grant and subsidized lending windows.

The IMF has made significant efforts to address the needs of low income countries through debt relief and to increase its subsidization of low-income country borrowing. In July 2009, the IMF Executive Board agreed to lower concessional interest rates to zero for at least the next two years. One tool that the IMF does not employ is to provide direct grants. While some would argue that IMF is not well suited to provide grant financing, it is something that should be considered when lending to countries with a history of debt relief and dire economic conditions. For example, when the IMF provided Haiti with a \$114 million emergency loan in January 2010, Managing Director Dominique Strauss-Kahn stated that “if we succeed—and I’m sure we will succeed—even this loan will turn out to be finally a grant, because all the debt will have been deleted. And that’s the very important thing for Haiti now.” It would appear that, in these cases, offering grants would be more efficient and provide more policy clarity.

The IMF has been selling gold to fund its new income model to pay for staff salaries and ongoing operations as well as to subsidize borrowing for low-income countries. It appears that the earnings on the sale of gold are significantly higher than initially expected. The IMF has not determined how to use these excess proceeds. Given the demand by low-income countries, it would be helpful if the excess proceeds were directed to a fund for those low-income countries to be used for grants, subsidization of loans, and technical assistance.

ABILITY TO DO INDEPENDENT INVESTIGATIONS UNEVEN

Each development bank has an independent investigation mechanism to “address the concerns of the people who may be affected by Bank projects and to ensure that the Bank adheres to its operational policies and procedures during design, preparation and implementation phases of projects.”³² The level of independence enjoyed by each mechanism varies, as does the quality of their inves-

³¹ “AfDB Approves US\$ 1.5 Billion Budget Support for Botswana to Help Country Cope with the Financial Crisis,” African Development Bank Group, February 6, 2009, <http://www.afdb.org/en/news-events/article/afdb-approves-us-1-5-billion-budget-support-for-botswana-to-help-country-cope-with-the-financial-crisis-4724/>

³² <http://web.worldbank.org/WBSITE/EXTERNAL/EXTINSPECTIONPANEL/0,,menuPK:64129249-pagePK:64132081-piPK:64132052-theSitePK:380794,00.html>

tigations. The IDB recently approved a new independent investigation policy, following assertions that its mechanism was cumbersome and ineffective. Going forward, it will be in line with the World Bank, AsDB and AfDB in its level of independence.

CASE STUDIES

CHILE AND THE INTER-AMERICAN DEVELOPMENT BANK: LESSONS FROM THE TRANSANTIAGO

In February 2006, Santiago, Chile, replaced its previous transportation network of competing, privately-owned buses with what was proclaimed as a new state-of-the-art public transportation system, Transantiago. The purpose of the costly project was to shorten passenger waiting and travel time and reduce levels of vehicle emissions. Instead, the public heavily criticized Transantiago for increasing congestion and commuting delays for Santiago's population of six million people, although these problems have been diminishing consistently as operational performance has improved.

Regulated by the Ministry of Transportation, the new public transit system has also been plagued by financing problems. As of August 2009, its total deficit reached \$1.42 billion, with a monthly average of \$49 million. The Chilean Congress refused to include the Bachelet administration's request for a subsidy to Transantiago in the 2008 Budget Law due to the system's implementation problems. This denial of funding led the administration to seek two loans in 2008: \$400 million from the Inter-American Development Bank (IDB) and \$10 million from the state-owned Banco Estado.

The IDB loan became the subject of contentious debate in Chile because the funding was requested by the Chilean government to support the system, which is privately operated and financially managed by the Transantiago Financial Administrator (AFT). For the IDB, it was unusual to provide a private sector loan with a negative cash flow; Transantiago had already been operating on a deficit for over a year. The purpose of the loan was to ensure the system's operations while a new sustainable financial framework was implemented, including a permanent subsidy established by law.

A group of legislators challenged the decrees authorizing the IDB loan before Chile's Constitutional Court, claiming that the administration did not have the authority to request and guarantee a loan between the IDB and the AFT without appropriate legislation. In September 2008, the Court declared the decrees authorizing the IDB loan unconstitutional. As Chile entered a period of technical default on the IDB loan, the administration attempted to negotiate a solution to Transantiago's funding, as well as the outstanding IDB debt, with the Chilean Congress. In August 2009, the Congress approved repayment of the IDB loan as well as a subsidy for public transport throughout Chile, which would also cover Transantiago's operating deficit.

In many countries, IFI loans require legislative approval or ratification. Though each country will develop the appropriate procedure to include broad input, this case study exemplifies what can happen without meaningful consultation between the IFIs and the legislative branches of government. In a March 2009 report on the

IDB loan, an Investigative Commission established by the Chilean House of Representatives not only criticized the Chilean executive branch for bypassing the legislature, but also judged the performance of the IDB to be “careless and irresponsible” in granting a loan that violated Chile’s constitution.³³ While IDB officials defended the decision by detailing the feasibility and environmental impact studies that preceded the granting of the loan, it is clear that opposition to the project should have been recognized.

INDIA AND THE WORLD BANK: THE DETAILED
IMPLEMENTATION REVIEW (DIR) FALLOUT

After a 2005 World Bank investigation revealed systematic fraud and corruption in the Indian health sector, the World Bank and the Government of India agreed to conduct a Detailed Implementation Review (DIR). A DIR is not a traditional audit of specific allegations; the DIR raises “red flags” on how fraud and corruption could affect the outcome and the effectiveness of the project. Disconcertingly, the DIR strained relationships between the World Bank and the Government of India (GOI)—not only due to the findings of the report, but also because of the nature in which the report was conducted and released.

The GOI was disappointed with several aspects of the report. The DIR was released publicly at the same time the Minister of Finance was given a copy to review. Prior to public release, the GOI was given no opportunity to respond. The GOI felt that the DIR did not seek participation of program divisions within the Ministry of Health & Family Welfare while finalizing the report, which “resulted in an avoidable lop-sidedness and occasional erroneous interpretation of data.”³⁴ The GOI also contended that fraud and corruption were terms too broadly used, for example, to inaccurately describe certain instances of inadequate supervision or maintenance.

The report, though, included many legitimate concerns regarding fraud, corruption and the effectiveness of programs that the GOI and the World Bank have subsequently sought to address through a joint action plan. The World Bank acknowledged feedback from the GOI regarding concerns about the DIR process and has made revisions to internal policies. The World Bank plans to address detailed comments from the GOI during the implementation of the joint action plan to ensure that future reports are reviewed by host countries prior to being released publicly and that names of people or companies are not published until indicators of fraud and corruption are confirmed.

This case study reveals the challenges that IFIs face in terms of how they interact with national governments. When conducting reviews and audits of development projects within a certain country, many times these institutions must simultaneously cooperate and preserve a good relationship with the government while maintaining an independent and responsible evaluation. To protect this balance, IFIs must develop a framework in which to conduct reviews

³³ Comisión Investigadora respecto al Crédito BID-Transantiago, p. 86. [http://www.camara.cl/pdf.aspx?prmID=95 & prm TIPO= INVESTIGAFIN](http://www.camara.cl/pdf.aspx?prmID=95&prmTIPO=INVESTIGAFIN)

³⁴ http://siteresources.worldbank.org/NEWS/Resources/goi_resp.pdf

like the DIR. As evidenced by this case study, the lack of a framework can lead to a deteriorating relationship with the national government and the potential for a less successful review and subsequent implementation of necessary reforms.

THE INTERNATIONAL MONETARY FUND IN INDONESIA

International Monetary Fund-Indonesia relations had a difficult beginning in the 1950s and 1960s. While the IMF offered assistance to Indonesia under President Sukarno, he rejected the offer as contrary to communism.³⁵ In 1963, the government devalued the Rupiah in an effort to gain IMF support for its overdue foreign debt payments.³⁶ IMF, World Bank and American loans soon followed.³⁷ However, Britain established the Malaysian Federation the same year, which Sukarno strongly opposed and countered by nationalizing British firms in Indonesia. Consequently IMF loans in Indonesia were cancelled, ending cooperation.³⁸ In 1965, Sukarno formally severed relations with the IMF and the World Bank, choosing to instead ally with communist Asian countries.³⁹

In 1966 after the 1965 military coup, new Indonesian President Suharto requested the IMF to return to Indonesia. In 1967, Indonesia formally joined the IMF.⁴⁰ Suharto implemented IMF recommended policies including budget deficit reduction and movement towards an export economy.⁴¹ The 1960s were characterized by “a very close relationship between the staff of the Bank and the Fund and their interlocutors in the Indonesia government—a group of young U.S.-trained economists . . . who were brought into government by General Suharto.”⁴²

While scholars concluded that “The relationship between Indonesia’s ‘New Order’ government and the IMF over the last 30 years was excellent,” serious strains appeared during the IMF’s management of the 1997-1999 Asian Financial Crisis.⁴³ (Prior to the crisis, both the IMF and the World Bank had issued reports that were positive about the Indonesian economy.)⁴⁴

Although controversial and considered by some to be incessantly meddling, the IMF package, in the short-term, had successful results. The rupiah strengthened and market confidence returned.⁴⁵ From late 1997 into January 1998, the economy took a turn for the worse and political events began to move quickly. Facing economic chaos, President Suharto relented to IMF pressure and moved to cut government spending by postponing several subsidized projects.

³⁵ Indonesia: A Global Studies Handbook, Florence Lamoreux, (Santa Barbara: ABC-CLIO) 2003, p. 62

³⁶ *Ibid.*

³⁷ “Indonesia: History of a Bankruptcy Orchestrated by IMF and the World Bank,” Eric Tousseint and Damien Millet, Committee for the Abolition of Third World Debt, July 10, 2005.

³⁸ *Ibid.*

³⁹ Indonesia: A Global Studies Handbook, Lamoreux, pp. 63-64.

⁴⁰ The International Monetary Fund Under Constraint: Legitimacy of its Crisis Management, Eva Riesenhuber, The Hague: Kluwer Law International, 2001, p. 140.

⁴¹ The Globalizers: The IMF, the World Bank and Their Borrowers, Ngaire Woods, (New York: Cornell University Press, 2006), p. 75.

⁴² *Ibid.*

⁴³ The International Monetary Fund Under Constraint: Legitimacy of its Crisis Management, Riesenhuber, p. 141.

⁴⁴ *Ibid.*

⁴⁵ IMF-Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment, Timothy Lane, Atish Ghosh, Javier Hamann, Steven Phillips, Marianne Schulze-Ghattas and Tsidi Tsikata, (Washington, D.C., IMF, 1999).

A new IMF-Indonesia program was announced to restore confidence in the rupiah through tight monetary policy and structural reforms such as eliminating monopolies and state subsidies. The photograph from the signing ceremony of this agreement, with IMF Managing Director Michel Camdessus standing over President Suharto, became an infamous and inflammatory symbol of Indonesia's subjugation to the West. Ongoing turmoil led to President Suharto's resignation.

Indonesia has largely graduated from the IMF program. The beginning of the post-crisis era was marked by lingering and considerable resentment of the IMF in Indonesia and a desire to move the country away from IMF advice by quickly repaying debts. In 2003, the Indonesian government, "under pressure from its legislators, declared that it wanted to break free of its commitments to the IMF," and Chief Economics Minister Dorodjatun Kuntjoro-Jakti said that "the government did not wish to extend the existing \$4.8 billion loan package with the Fund."⁴⁶ By October 2006, Indonesia had announced its intention to pay all of its outstanding \$3.2 billion IMF debts early.

There has been significant criticism of IMF policy in Indonesia from a range of economists including Jeffrey Sachs, Martin Feldstein and Robert Rubin. In the ultimate analysis, Indonesia was the country hardest hit by the 1997-1999 Asian Financial Crisis. Its GDP fell by 13 percent in 1998, compared to 11 percent in Thailand, 7 percent in the Republic of Korea and Malaysia and 1 percent in the Philippines. These losses were worse on a per capita basis: Indonesia's per capita GDP fell by 34 percent over 1997-1999, Thailand's by 13 percent and the rest of the region in single digits.⁴⁷

The IMF-Indonesia recently reported to the Senate Foreign Relations Committee that "since there has not been a formal IMF-supported program for several years, IMF policy advice and recommendations for Indonesia are formulated in the context of bilateral surveillance. In this context, IMF economists visit member countries regularly to discuss with the authorities the risks to domestic and external stability that may argue for adjustments in economic or financial policies. During their mission, the IMF staff often meet with stakeholders (parliamentarians and representatives of business, labor unions and civil society) to help evaluate the country's economic policies and direction. Upon its return to headquarters, the mission submits a report to the IMF's Executive Board for discussion. The comments and recommendations of the Board are communicated to the authorities and form the basis for follow up discussions."

Based on this statement from the IMF, it appears officials of the institution discuss economic policy with Indonesian officials and provide nonbinding recommendations, a very different role from its active and interventionist participation of the past with Indonesia. The IMF and its activities in Indonesia have evolved with the

⁴⁶Indonesia's Battle of Will with the IMF." Smitha Francis, International Development Economics Associates, February 25, 2003.

⁴⁷"Economic Recovery and Reform" John Bresnan, in John Bresnan, ed., "Indonesia: The Great Transition," Lanham, MD, Rowman & Littlefield Publishers, Inc., 2005, p. 191.

emergence of democracy and the ongoing battle for strengthened institutions intended to support a growing economy.

DEVELOPMENT BANKS IN KENYA:
MONITORING AND PROCUREMENT CHALLENGES

The first loan by the World Bank to Kenya was in 1960 for an agriculture project. Since then there have been close to one hundred credits and grants by the International Development Association (IDA) with a total net commitment of about US\$ 4.5 billion. The assistance provided over the years has been interrupted at regular intervals due to financial scandal, gross corruption, and political and social instability. Invariably, progress is halting and gains are easily reversed. The Bank has determined that the 2008-2009 political instability and additional concurrent economic and environmental crises have increased the poverty headcount by 22 percent and severe poverty has increased by 38 percent, thus reversing the gains made over the past five years.

The Bank's own reviews over the years have offered blistering assessments of the effectiveness of its loans and monitoring as well as that of Kenya's own partnership in achieving program goals. According to the World Bank Country Assistance Evaluation for Kenya of November 20, 2000, "Kenya qualified for nearly \$3 billion in assistance from 1980 to 1996 but was unable to meet conditionality in implementation and reforms, . . . and that OED overall satisfactory outcome ratio of 57 percent for Kenya was lower than that for the Africa region (63 percent) and Bank-wide (75 percent). Sustainability was likely in 21 percent, and institutional development was substantial in only 6 percent of commitments."

In an effort to explain some of the deficiencies in the Kenya program, auditors said that "some of the factors adversely affecting outcomes at the sectoral level were deficient Bank monitoring and evaluation systems, inadequate ministerial financial systems, reluctance of the Government to consult widely with the potential target communities, and difficulties in observing IDA guidelines on procurement." Further, "high Bank managerial turnover, particularly for human resource development projects, and barely acceptable quality at entry of two infrastructure projects approved in FY96 were also noteworthy." The review identified the necessity for greater emphasis on governance, income distribution, and gender opportunities while elevating the Bank's own comparative advantage to other donors. The role of the resident representative was also deemed as too limited, a concern some Kenyan officials reject and claim far too political an involvement. This self-critical evaluation by the Bank placed part of the blame for the failure upon its own institutional shortcomings.

Kenya opened its portfolio with the African Development Bank Group in 1964. An AfDB official indicated that poverty reduction was the chief priority for the organization. According to this official, the bulk of current AfDB loans, approximately 75 percent, are dedicated to infrastructure projects, especially highways, international transport routes, and energy infrastructure. The AfDB also provides resources for agriculture and social sector investments. A limited amount of some five percent is dedicated to institutional support such as public finance management. Approxi-

mately 95 percent of loans are concessional, 40 year loans. The total portfolio currently allocated for Kenya is \$600 million.

The African Development Bank is considered the lender of last resort by some observers in Kenya. Its reputation is that of a lender with more lenient rules for its financing arrangements. According to the Bank Information Center, the AfDB group operates with a degree of opacity that has raised the concern of observers in civil society. Staff also heard from donors that the AfDB, although an important donor in Kenya and the region, is the least constrained in its programming with the Kenyan government. Officials at the Kenyan Ministry of Finance lauded the AfDB as having an advantage in dealing with the government given its regional knowledge and ease of cooperation. AfDB officials indicate that their Bank is closer to the ground and its funding is “more flexible and consistent, so its predictability provides incentives as each three-year commitment is made clear at least a year ahead of time.”

Although it brings considerable resources to Kenya, its staffing size naturally limits the degree to which it is able to conduct regular monitoring and oversight. The World Bank is much bigger and brings considerable technical assistance and knowledge to its headquarters in Nairobi, while the AfDB has a much smaller footprint. Nonetheless, the AfDB indicated that the organization’s Country Policy and Institutional Assessment (CPIA), is done annually and informs a final measure of eligibility for funding.

An area in which the AfDB seeks to mitigate risk is also an area of significant fraud and misappropriation in Kenya—the procurement agencies. AfDB’s insistence on the use of its procurement process may well relieve considerable risk from the Kenyan equation. Nonetheless, the Mars Group indicated that significant inconsistencies existed in the procurement of materials and services surrounding the transport sector in which the AfDB was engaged. There is also the AfDB requirement that Kenya must perform audits on its programs even as the Bank does them itself based on internally selected risk factors. Finally, AfDB officials indicated that their resources were provided and listed in the government budget but were ring-fenced until the project task manager clears their disbursement.

As it is, the AfDB official in Nairobi claimed that there were few if any problems with any of their projects—“there have been no major corruption events.” This seemed remarkable given the extent of confirmed corruption throughout the government and especially across donor project finance.

LEBANON: MANIPULATION OF CRISES⁴⁸

Lebanon is still recovering from the 2006 war between Israel and Hezbollah, which left much of southern Lebanon and other parts of the country in ruins. The 2007 fighting between Lebanese Armed Forces and Fatah al-Islam at the Nahr al-Barid Palestinian refugee camp led to further casualties and damage. According to the State Department, over \$3.7 billion in civilian infrastructure was destroyed in both conflicts and thousands were displaced.

⁴⁸ Excerpted from “Following the Money in Yemen and Lebanon: Maximizing the Effectiveness of U.S. Security Assistance and International Financial Institution Lending,” January 2010, Senate Foreign Relations Committee <http://foreign.senate.gov/imo/media/doc/54245.pdf>

In 2009, a lengthy period of negotiations to form a national unity government followed the June 7th elections and resulted in five months of inertia, as the caretaker government was not empowered to make any significant decisions, including on security assistance and international financial institution lending. Further complicating matters, the Parliament has not passed a budget for the past five years. Official guidance allows Ministries to spend 1/12 of the previous year's expenditures each month, but a widening deficit suggests that more is being spent. Moreover, the substantial off-budget aid that the Government of Lebanon (GOL) is believed to receive is not accounted for, contributing to a general lack of fiscal accountability.

The problem of official corruption was a recurring theme during a recent staff visit, with several interlocutors pointing to an overall lack of transparency, fueled by a lack of accountability in the official budget process, as well as off-budget revenues and expenditures. Many observers also perceive an unhealthy influence of the country's confessional political system on the apportionment of state resources. Speaking to the specific problems of corruption in the management of international donor assistance, one official charged that, "The entire system is corrupt and inefficient." He attributed some of the problems to a "shopping list approach" to foreign aid, and the absence of national priorities or a commitment to exploiting synergies.

Another interlocutor with whom staff met opined that, in the face of a succession of crises, the GOL has become a master at manipulating international donors, relying on hand-outs rather than taking on much-needed structural reforms. "The whole international community has been blackmailed for ages. We don't need more money. We need to change the rules of the game. We need to change the structure. We need to break our dependence on foreign aid."

Without minimizing the seriousness of the crises that Lebanon has confronted in recent years, IFIs should guard against missing opportunities for change that crises present. While crises can be used as an excuse for inaction, they can also be catalysts for addressing difficult issues. Against the backdrop of Lebanon's recent political and economic difficulties, the IFIs should press for reforms that address Lebanon's current economic development challenges and help prevent future crises. In addition, as in any post-conflict or current conflict country, the IFIs should utilize a conflict screen to ensure that their financing will not exacerbate the conflict or underlying hostilities.

LESOTHO: DEMONSTRATING THE NEED TO SUPPORT INVESTIGATIONS AND PROSECUTIONS

Many in Lesotho felt that the World Bank gave an inadequate response to corruption related to the Lesotho Highlands Water project (LHWP), to which the World Bank provided more than \$150 million. In 2004, the World Bank debarred one company, Acres International, for three years as well as one individual. Two years later the World Bank debarred Lahmeyer International, for up to seven years, after the Senate Foreign Relations Committee invited

Guido Penzhorn to testify about his conviction of companies and individuals for bribing the head of LHWP.

Several members of civil society and government officials were dissatisfied with the length of the Acres International debarment. They were concerned that the World Bank mitigated the debarment because “Acres had already been ordered to pay a criminal fine by the Lesotho courts and that the relevant persons involved in Acres’ work on the LHWP are no longer in positions of responsibility in the company.” They noted that Acres was the only convicted company that had not yet paid its complete fine.

While the World Bank allowed the companies convicted of bribery to attend their Sanctions Committee hearing, they did not allow the government of Lesotho to send a representative or prosecutor to attend the hearing and summarize the volumes of evidence that were presented at trial according to the Chief Justice of Lesotho, the Attorney General of Lesotho, and the chief prosecutor in the LHWP bribery cases.

Lesotho spent a significant amount of money to prosecute a number of companies for bribery related to the LHWP. However, despite an earlier assertion by World Bank staff that the World Bank could contribute to the cost of prosecution because the “bank has deep pockets,” the World Bank did not provide any funding to assist the government in addressing the bribery allegations. The World Bank did not provide funding because it did not have a mechanism to loan or grant money to pay for a prosecution, according to World Bank staff.

The U.S. Embassy was praised by the Chief Justice of Lesotho for its assistance during the period of the trials for providing funding for internet access and Lexis-Nexis (a web-based legal research tool) so that the judiciary could access the most recent and relevant legal research. This information tool was not biased towards or against a conviction, it simply allowed the government of Lesotho access to important international legal information.

When visiting the Katse Dam in Lesotho in August 2004, Committee staff met with a number of villagers that were not satisfied with the compensation they received for the impact of the dam on their livelihood. Compensation packages are determined by the implementing agency in a country and are designed to meet World Bank safeguard policies. In addition to involuntary resettlement safeguard policies, the World Bank applies safeguards policies regarding indigenous peoples, cultural property, dam safety, pest management, environment, forests, natural habitat, waterways and disputed areas to project lending. However, policy-based lending (also called budget support or adjustment lending), does not incur safeguards.

If an affected person is not satisfied with the compensation package they are assigned, they must appeal to the implementing agency. If the implementing agency does not act, the affected people do not have recourse through the project. An instrument for recourse is not a requirement of the World Bank safeguards. The implementing agency suggested that affected people can appeal to the Ombudsman. The Office of the Ombudsman did not receive funds or additional staffing through the LHWP project. The Ombudsman

said that a project tribunal to hear the complaints of affected people would have been helpful.

Near the Katse Dam, Committee staff visited a number of villages that were impacted by the Lesotho Highlands Water project. The agreement between Lesotho and South Africa stipulates that no person be made worse off by the Lesotho Highlands Water Project. Nevertheless, there are a number of impacts on the villagers that are difficult to address. Reportedly, the HIV/AIDS rate in the project area is higher than the 29 percent HIV/AIDS rate in the rest of Lesotho because the disease was transmitted by dam construction workers to the villagers.

The dam created a barrier that hampers access of villages like Mapeleng to Katse town where there are medical, social and economic resources. Affected villagers said that they must now either pay to cross the dam, pay for a taxi or walk for many hours to reach Katse. Villagers expressed concern about a Lesotho Highlands Development Authority-imposed licensing fee for people who want to fish on the Katse dam. As many villagers are subsistence farmers, raising cash to fish or for transportation is a significant challenge. Finally, some villagers complained that the springs that they used to depend on dried up after the construction and filling of the Katse dam. They noted with irony that they had a view of clean mountain water destined for South African taps but that they lost their access to safe water.

THE ASIAN DEVELOPMENT BANK'S LACK OF SUCCESS IN THE PHILIPPINES

The AsDB did a review of its portfolio in the Philippines, a country with, by many accounts, a major corruption problem, and found that of projects begun since 1986, following the fall of dictator Ferdinand Marcos, fewer than one-third had been judged successful, one of the worst success rates of the AsDB. The report enumerated a number of causes for this poor performance, but corruption was not explicitly or even implicitly cited. When asked if this was because the bank didn't want to offend the Philippines or if it was indeed the fact that no corruption was involved in any of the 36 cases, officials said they were convinced it was the latter. They said that while there is corruption in AsDB projects in other countries, there was none in the Philippines. Said one, "Has the effectiveness been affected by corruption? Yes. Has the money leaked out? No."

He contended that corruption, inefficiency, lack of capacity, etc., in various Philippine government institutions, at the national and local level, might delay or impede projects, and there might be losses of Philippine government counterpart funds, which are not as well protected. "It's not our funds, it's the other players'," he said. (The problems in the portfolio, which has subsequently been cleaned up, were caused by a rush of money to support the post-Marcos democracy, resulting in the AsDB attempting "too many projects, which were too complicated, too quickly," officials said. In a letter to the SFRC, the Philippine government likewise listed a number of reasons other than open corruption for the poor performance of the projects. Both sides outlined steps that have been taken to improve the situation, one of which is to be much more careful

about approving projects. The AsDB says it now starts only about one new project per year in the Philippines.)

It may well be that the AsDB is correct and there was no corruption involving AsDB funds in any of the failed programs, or it may be that by taking an overly restrictive view of what constitutes corruption, ignoring the great difficulty in detecting it, the AsDB is able to claim a better record on corruption than is warranted.

THE EUROPEAN BANK FOR RECONSTRUCTION AND
DEVELOPMENT'S OVEREXPOSURE TO RUSSIA

Russia receives by far the largest amount of money from the EBRD. As part of the 2006 Capital Resources Review (CRR), the EBRD's five year strategy said Russia should get up to 41 percent of its business volume by the end of the period (up from 31 percent at the start). The advanced countries' share would drop from 15 percent to 6 percent, reflecting the intent to graduate most of them, and the share for the others (Central Asia, the Balkans) would be largely unchanged at about 53 percent. It is generally understood that this large share for Russia (which was set before the 2007-08 spike in energy prices greatly enriched Russian coffers) was accepted by the Americans in the CRR, at the behest of the Europeans, because the Americans chose to concentrate their efforts on obtaining graduation of the EU-8. In 2008, the EBRD's business volume in Russia was 36 percent, and by the end of 2009 it was expected to be in a similar range, although at the end of August 2009 the figure was 28 percent.

As Russia's commodity-based economy surged in recent years and its large conglomerates, often dominated by persons with apparent political connections, consolidated and expanded their operations, the office of the U.S. Executive Director (USED) began to express growing concern about volume of lending to Russia and the appropriateness of some of the EBRD's clients there. Senator Lugar, upon returning from an "energy tour" of several Central Asian countries, wrote to the EBRD in early 2008 asking if the large volume of lending to prospering Russia was shortchanging the former Soviet republics in Central Asia that were far less developed, and whether the bank was devoting sufficient staff resources to generating projects in these more difficult environments. Outsiders, too, were raising questions about the need for so much lending to Russia, the world's largest energy exporter and holder of the third largest foreign exchange reserves. A November 2007, Wall Street Journal op-ed noted, "With a significant chunk of the EBRD's funds now directed toward financing for companies controlled by the Russian state, Kremlin-friendly oligarchs and large public companies such as Lukoil, it is increasingly difficult to see how these investments are consistent with the bank's goal of furthering pluralism, multiparty democracy or market economics. Russia doesn't need the money—at least, not from the EBRD.[It] is increasingly wealthy, boasting more than \$440 billion in foreign reserves, including over \$110 billion allocated to its sovereign wealth funds. This summer, Russia even announced the creation of its own \$10 billion Russian Development Bank to invest in the same types of projects as the EBRD itself." At the same time, many observers have noted, the gusher of income from oil and gas sales was reduc-

ing the pressure on the Russian government to continue with the wide-ranging economic and governance reforms it had embarked upon after the 1998 economic collapse. “You only reform when you feel the pain,” one IFI manager said.

EBRD officials insist that the nearly 250 projects they have signed with Russia over the past three years are helping reform the economy, expand markets, diversify the product mix, and bring better governance and competition to a host of sectors. “When we invest in Russia, we get something back in terms of transition impact,” one top official told staff. Another said, “We invest in Russia for the same reason the Nunn-Lugar program spends money in Russia—to get them to do things they would not otherwise do because it is in our interest that they do them.” They say that contrary to the characterization, few loans go to the firms of the so-called oligarchs, only 14 percent go to state companies, and that increasingly the money is going to regions outside Moscow and St. Petersburg, where needs are greatest. (From 2005 to 2008, annual investments outside those two centers rose from 68 percent of the total to 94 percent, according to the bank’s figures.) The EBRD has been a big player in the railways, ports, and power sector. Where critics might view this as propping up state-linked monopolies, the bank sees this activity as implementing large scale reform by investing in commercial subsidiaries, private rail operators, and improving corporate governance and transparency in transportation, and by helping privatize generating companies, and investing in safer, cleaner and more efficient power plants. A restructured, more flexible power sector has follow-on benefits throughout the economy in terms of transition, one official explained: “One of the biggest problems facing a start-up small or medium enterprise is getting access to the electricity grid.”

The EBRD is investing significantly in the Russian energy sector, hardly one that is unable to attract capital. But after gorging on cheap oil and gas for years, many Russian energy users are highly inefficient. The bank says that “Russia has been the largest single recipient of EBRD sustainable energy investment during Phase I of the bank’s Sustainable Energy Initiative, representing 28.3 percent of the total cumulative SEI investments.” This includes what the bank calls a “landmark” loan of 600 million euro to Severstal, a Soviet-era steel and mining behemoth that was privatized in the hectic early days of post-Communist Russia and is headed by Alexei Mordashov, a one-time Soviet-era manager of the plant who is now reputed to be one of Russia’s richest so-called “oligarchs.” Severstal employs 92,000 people worldwide; has operations in France, Britain, Italy and the United States (where it is the fourth largest American steelmaker); and is listed on the London Stock Exchange. The loan helped finance the company’s “strategic energy efficiency program.” The U.S. voted to abstain (the only naysayer) on this 2007 loan because, while it supported the goals of improving energy efficiency in the region, it felt that a company of Severstal’s strength could have obtained private financing, and the company was already pursuing an energy efficiency strategy. (In fact, the U.S. has voted “abstain” or “no” on the other three Severstal-linked loans made since 2002.) The bank also makes loans in the small business sector, and about a third of the portfolio is in the banking

sector. Roughly a third of the EBRD's Russia investments in 2008 were equity or quasi-equity stakes.

The EBRD's own annual indices provide a mixed picture of accomplishment at the macro level in Russia. While some areas are already at the top of the scale—the index of small-scale privatization and the index of price liberalization—others have stubbornly refused to improve, or have even worsened slightly. For instance, the index of large-scale privatization fell from 3.3 in 2002 to 3.0 in 2005, where it remains today. The index of competition policy has remained stuck at 2.3 since 2002, as have the “roads” component of infrastructure reform and the enterprise reform index. The index for railways, where the EBRD has put in much effort, has steadily improved from 2.3 to 3.0, and the power sector index has done even better, from 2.3 to 3.3.

The EBRD is aware, of course, that Russian tycoons control many corporate assets that were formerly state-owned in Russia (and similarly, if to a lesser degree, in other former Soviet republics), and that the stories of how they obtained control are not always clear. But bank officials have essentially decided that whatever happened in the murky past, right after the Soviet Union collapse when the World Bank and western governments were urging rapid privatization, should stay in the past. They have in effect drawn a line in history and judge their clients from that point forward. The EBRD says it does due diligence integrity checks on that basis and only does business with oligarchs who have proven their bona fides as legitimate corporate chieftains and entrepreneurs.

To better understand the issues regarding Russian lending, staff looked at loans not supported by the U.S. at Executive Board meetings, including one for 120 million euro in July 2009, to the conglomerate Sistema, controlled by Vladimir Evtoushenkov, listed by one account as Russia's 18th richest billionaire. A chemical engineer by training with a doctorate in economics from Moscow State University, he created the company in the 1990s by cobbling together a bunch of telecommunications, technology, and retail firms, the Soviet travel agency Intourist, as well as some oil interests. It now bills itself as “the largest public diversified financial corporation in Russia and the Commonwealth of Independent States (CIS), which manages companies serving over 100 million customers in the sectors of telecommunications, high-tech, oil and energy, radio and aerospace, banking, real estate, retail, mass-media, tourism and healthcare services.” It is the largest mobile phone operator in Russia and the CIS, and its mobile company, Mobile TeleSystems (MTS), was listed on the New York Stock Exchange in 2000. Sistema itself is listed on the London Stock Exchange. Mr. Evtoushenkov, who is active on corporate governance issues, is credited by one British newspaper as having built the “most western” Russian conglomerate. The loan, billed in the EBRD's press release as “a shot in the arm for the high-tech sector at a time of tight credit,” in part financed the sale of the EBRD's own equity interest in Sitronics, Sistema's electronic chips subsidiary, back to Sistema, and provided liquidity for Sitronics, which was facing a crisis-related credit squeeze. The U.S. voted to abstain, citing a lack of transition impact and the fact that 60 percent of the loan

would be used to pay for EBRD's exit. (The loan went to Sistema because Sitronics itself couldn't qualify.)

This was actually the sixth investment that the EBRD had made in Sistema or its subsidiaries since 2004. The U.S. supported three of the other five, and abstained on the other two, in both cases arguing that a \$17 billion a year company like Sistema could easily obtain commercial financing for the deals. The three it supported were to MTS for expanding or upgrading mobile phone service to underserved areas in rural Russia and the CIS countries. The bank said the Sitronics loan was part of its larger effort to help Russia diversify away from over-reliance on raw materials and develop "a knowledge economy" and that it was riding to the rescue of a long-time client, a solid company that ran into crisis-related trouble.

Staff interviewed Mr. Evtoushenkov, 61, at his offices near Red Square in Moscow. He said he was grateful for the loan and that his firm has developed good relations with the EBRD over the years. "They believe we are a very reliable partner," he said. He stated he has known all the EBRD presidents, and said he has never had any disputes or disagreements with the bank. Staff asked why he would seek financing from the EBRD, which doesn't offer concessional rates and often makes more demands than normal banks. "Some people may find it difficult to get a loan from them, but for us it is not difficult," he said. Prior to the crisis, he said, "We had no difficulties getting money," with about 40 percent of his company's financing coming from within Russia, the rest from foreign sources, including Asian banks. He said he was unaware that the U.S. had voted against some of the Sistema loans. He praised the EBRD's other work in Russia, especially its support for small and medium businesses, which, he said, have difficulty getting regular bank financing. Asked if he had any suggestions for improving the EBRD or changing the way it operates, he said he was quite satisfied with current arrangements, and urged that there be no changes until the current crisis is over. "Maybe after 2010 they could reconsider their strategy, but not today," he said.

Given Russia's size and importance, it is probably inevitable that it would receive a large portion of the EBRD's loans. It is also inevitable that there will be a political dimension to the bank's lending strategy. Given the EU's proximity to Russia, its much broader commercial engagement with the country, its heavy reliance on Russian gas to keep warm in the winter, and its member countries' tradition of state-backed investment programs, the Europeans are naturally more predisposed than the Americans (and others) toward an expansive view of the EBRD's involvement in the Russian economy. These two views will never be completely reconciled, but staff believes that by applying a more rigorous and transparent standard for lending decisions to Russia and adopting a principle similar to graduation for the Russia lending program the bank could come closer to a consensus on a way forward that would more equitably distribute its resources around the region and enhance its credibility among donor country taxpayers.

Additionality is the prime source of skepticism about the EBRD's activities in Russia. If the EBRD is doing things in Russia that "they would not otherwise do," (to quote the EBRD official above), taxpayers are reasonable in asking just why Russia isn't doing it

and why the bank is. The EBRD should be especially transparent when it is lending to large state-owned or controlled enterprises like the railroads, or to the oligarchs. As Mr. Evtoushenkov said, during normal times he, and presumably most of Russia's tycoons, has ready access to commercial capital. It strains public credulity on additionality when the bank lends money to a private firm controlled by a man whose net worth is greater than the bank's annual profit in a good year. The bank should issue a detailed public policy statement on the additionality criteria and a step-by-step explanation of how the determination is made, and with each Russian investment include a statement on how the criteria were applied and the procedures followed.

SRI LANKA: THE NEED FOR CONCERTED CONFLICT SENSITIVITY⁴⁹

Sri Lanka's economy suffered from the high cost of fighting its separatist war with the Liberation Tigers of Tamil Eelam (LTTE). Expensive purchases of war-related equipment and ammunition, often on longer-term contracts and using up valuable foreign reserves, coupled with a drop in exports due to the global economic downturn, pushed Sri Lanka to request a \$2.6 billion stand-by arrangement from the IMF in early 2009 which was approved in July. The overall defense budget has yet to see any sort of "peace dividend." Longer-term contracts with foreign suppliers of military equipment, particularly China, continue to weigh heavily on the budget, and the military has pushed for an expansion of bases and personnel in the North. Some contend that a continued high level of troops is required in the formerly LTTE-held areas to hunt down remaining LTTE forces, seize hidden caches of weapons, and prevent any resurgence of violence. At the same time, military and civilian officials stressed to staff that the bulk of the requested increase of about 15 percent in the defense budget is due primarily to the government's need to pay down military debts incurred during the final stages of the war.

Donors have responded to the war's end by shifting their portfolios to the North and East of Sri Lanka. However, there is a chance that this could breed resentment in the South where there is still much poverty. While some international donors seemed to be artfully calibrating their operations in Sri Lanka so as not to exacerbate underlying tensions, others chose to ignore the conflict outright. U.S. government assistance has focused on conflict sensitivity and economic equity among all ethnic groups—Sinhalese, Tamil, and Muslim—and on addressing the regional economic imbalances in conflict-affected areas that have been amplified by the conflict.

World Bank staff in Sri Lanka, including Country Director Naoko Ishii and Senior Country Economist Claus Pram Astrup, should be commended on their development of a "conflict filter to enhance effectiveness and reduce reputational risks" at the concept design and implementation stages of projects. As laid out in the World Bank Sri Lanka Country Assistance Strategy Paper 2009-2012, the filter asks:

⁴⁹ Excerpt from "Sri Lanka: Recharting U.S. Strategy After the War" December 2009, Senate Foreign Relations Committee.

- Have sufficiently broad stakeholder consultations been conducted?
- Have adequate impartial grievance mechanisms been established?
- Are project management and administration adequately sensitive to inter-ethnic issues?
- Are conflict-generated needs adequately identified?
- Have opportunities to strengthen reconciliation and inter-ethnic trust been adequately identified?

World Bank staff noted that the filter had been a useful engagement tool. The Asian Development Bank as well as other international donors factor in conflict though in less formal ways.

However, the IMF does not officially consider conflict sensitivity at all and almost prides itself on its tunnel focus on financial indicators, although the IMF's mandate is macroeconomic stability—and a key factor to economic stability is resolution of war and conflict. On July 24, 2009, the IMF approved a \$2.6 billion loan to support the Government of Sri Lanka's "ambitious program. to restore fiscal and external viability and address the significant reconstruction needs of the conflict-affected areas, thereby laying the basis for future higher economic growth." The IMF did not examine the possible impact of its program on the conflict in Sri Lanka. The IMF reportedly did not provide its Executive Board with a copy of the government's reconstruction program, a program which had not been shared publicly in Sri Lanka and received no input from civil society. Though the World Bank consults IMF assessment letters when it does significant budget support, the IMF did not reciprocate the consultation and incorporate the results of the World Bank's conflict filter.

IMF Resident Representative Koshy Mathai argued that although the government had used the IMF Letter of Intent as a vehicle to clarify its own reconstruction plans and humanitarian assistance and despite IMF staff interest in those issues, it was outside the IMF's mandate to have conditionality in political and military areas. He suggested that other international fora were more appropriate for addressing those concerns. The first of eight tranches (roughly \$330 million each) of the loan was in the reserves at Central Bank as prescribed and the second tranche was also approved.

In addition, the IMF did not fully engage with Sri Lanka around issues of military spending. In October 1991, the IMF Executive Board discussed Military Expenditure and the Role of the Fund. While most Directors indicated that military expenditures "can have an important bearing on a member's fiscal policy and external position, national security, and judgments regarding the appropriate level of military expenditures required to assure that security, were a sovereign prerogative of national governments and were not in the domain of the work of the Fund."⁵⁰ This is a discussion that should be revisited by the IMF Executive Board.

⁵⁰ Document of the International Monetary Fund, Buff Document No. 91/186—October 3, 1991, "Concluding Remarks by the Acting Chairman Military Expenditure and the Role of the Fund," Executive Board Meeting 91/138 October 2, 1991.

THE ASIAN DEVELOPMENT BANK'S INSPECTION PANELS

Two projects reviewed by AsDB inspection panels are illustrative of the bank's attitude. One, the \$500 million Samut Prakarn wastewater project in Thailand outside Bangkok, led to numerous corruption-related charges by the Thai government against many senior officials of the project. (None of them were AsDB employees). The project is not only notorious in Thailand, where the Prime Minister at the time was quoted in the local press as saying, "This project is riddled with corruption" related to major, unapproved changes in the plans for the huge sewage treatment facility, land speculation, political influence peddling, gross overcharging, and selection of a site that posed major environmental hazards. It is also famous within the AsDB, which provided a portion of the financing. As one bank official explained to staff, "It became a very hot issue within the AsDB. Half the staff said nothing was wrong, half said there was. It paralyzed the board, which refused to find the bank at fault."

Aside from the many failures to follow AsDB procedures which led to the corruption, the bank's response to the corruption once discovered also has been found wanting. According to the Bank Information Center (BIC) report, a management mission to Thailand in 2000 "did not take the allegations seriously and was more concerned with defending management's previous decisions." As the case went on, the bank kept citing various bureaucratic and legalistic reasons why its various units could not tackle the corruption issues head-on. "Management's review of the project failed to find any evidence of corruption," the BIC report concludes, "and both the Inspection Panel and the Anticorruption Unit of the Office of the Auditor General declined to consider the issue at all. Moreover, the AsDB has never publicly commented on the results of the investigations by the Thai authorities, or the fact that the government has instituted criminal proceedings against so many senior officials on the project. Nor has AsDB taken any action in light of those findings, or launched a wider investigation of corruption on the project."

Bank officials noted that one major result of the controversy was to completely revamp the so-called "accountability mechanism" and replace the cumbersome Inspection Panel system with a more streamlined and user-friendly "accountability mechanism" that has an ombudsman—called a Special Project Facilitator (SPF)—and a Compliance Review Panel (CRP). An issue that bears monitoring is borrowing country cooperation with AsDB investigations: at the beginning of this controversy, the Thai government refused to admit members of the Inspection Panel into the country. This provoked protests from the U.S. representative and others, as well as formal expressions of concern from the board. The issue may have been resolved by the change in the Inspection Panel system (which was done with the site access issue very much in mind). At the time, the Panel was composed of outsiders, like the World Bank's Panel. Under the new system instituted in 2004, the Special Project Facilitator is considered bank staff, and as such has a clear right to visit AsDB project sites. The Compliance Review Panel, while

they are now also bank employees, are considered agents of the board and have to ask the host country for permission to enter.

A second revealing case was the outcome of a 2004 Inspection Panel on a large irrigation project in Pakistan, the Chasma Right Bank Irrigation Project Stage III, which found a number of areas where the bank failed to follow its own procedures regarding environmental impact and community consultation, among others. No allegations of corruption have so far surfaced. The panel found that AsDB management believes “the provisions of the ‘internal laws’ of the bank are not mandatory” and in this case chose to ignore them because they would cause delays. As the panel notes, “An internal law of the bank may be amended or repealed by the board” but not ignored at management’s whim. “As long as it remains, there must be strict compliance to hold otherwise would result in uncertainty and undermine the authority of the Board.” Equally illustrative is management’s response to the panel report, which was defensive and at times dismissive. Said one compliance official of the bank’s response: “They shouldn’t be in total denial of wrongdoing. It gives a very bad impression of the bank.”

This accountability mechanism—the SPF and the CRP—is overdue for a required five-year review, with some saying there isn’t enough data to review (which itself raises questions). Since 2004, only 25 cases have been brought to the SPF, but all except nine have been ruled ineligible. The SPF is supposed to act as a mediator to help resolve problems between the bank and the complainants, not as a tribunal. Requests to the CRP for compliance review must be preceded by the filing of a complaint with the SPF. Only three compliance requests have actually been filed with the Compliance Review Panel: one was determined by the CRP to be ineligible (a water supply project in Nepal), one is being reviewed by the CRP (an environmental project in Fuzhou, China, filed in June 2009), and in the third, a transport project in Sri Lanka, the AsDB was found to be non-compliant and the remedial action has been under “monitoring” by the CRP for four years. (The CRP also took over the monitoring of the Chasma project in Pakistan mentioned above. That monitoring was completed in 2009, and a final report is due in early 2010.) The new mechanism apparently suffers some of the same problems of access as the old one. In November of 2009, China denied the CRP consent to visit the Fuzhou project site to continue its review. According to the CRP’s website, “the CRP then attempted to obtain further evidence via translator-assisted teleconferences with the Requesting Parties.” Considering the significant amounts of money China has received from the Asian Development Bank (and the World Bank) over the years, it is disturbing that officials would block an investigation into the use of AsDB funds, and raises questions about whether they are trying to protect individuals who may have acted improperly. This development is all the more reason why the AsDB should commence an independent review of the accountability mechanism without further delay.

The office of the USED, which has been pushing hard against management inertia and working with Board colleagues to get the review underway, continues to encourage greater bank engagement with a range of stakeholders and noted to staff that, “according to

some observers, it seems that Affected Persons (APs) still find it difficult to access the Accountability Mechanism; the Accountability Mechanism is not regarded as responsive to the concerns of APs, who are the intended beneficiaries of AsDB interventions; livelihoods are still considered to be at risk under some AsDB projects, especially infrastructure projects; and some stakeholders are still skeptical as to the Bank's commitment to governance and accountability and the 'independence' of the SPF and the CRP." Similar problems have been raised at the inspection panels of other banks.

Whenever (and if) the review is started, it will not be completed until after publication of this report. However, the USED's office and other stakeholders have raised a number of issues that should be addressed in the review, and Congress may want to use them as a checklist to help gauge how thorough the review process was and how effective it was in addressing concerns.

- Has the Accountability Mechanism achieved its 2003 ambition: i.e. has it become a less complex, transparent, independent, more efficient forum to handle complaints and consider compliance? And is it contributing to improved development effectiveness or has it enhanced the quality of AsDB projects?
- The AsDB has a dual phase system requiring APs to go through the consultation/problem-solving phase before requesting an investigation under the compliance review phase—is this two-step system appropriate; or should it be collapsed into a consolidated system (perhaps following the IFC/MIGA model)?
- Is the Accountability Mechanism truly “independent?” The SPF reports to the President, and the CRP reports to the Board, but the President is the Chairman of the Board. Many commentators questioned this arrangement and consider that this does not represent best practice.
- Independence also raises issues of budget, staffing, performance assessment, access to independent legal advice (not dependent on obtaining legal advice from the AsDB's General Counsel) and the right to engage experts and consultants (not dependent on processing by Central Operations Services Office.)
- The Accountability Mechanism policy requires at least two affected persons to initiate a complaint and compliance request (or for representatives to have clear authority to represent them), but an AsDB project may affect natural habitats, heritage sites, endangered species and so forth, where there may be no “affected persons,” as such, to trigger the AM. Nevertheless, the AsDB must still be accountable and compliant in such cases. What can be done to guarantee the AsDB's accountability and compliance in such cases?

YEMEN: EMPOWERING REFORM FROM WITHIN⁵¹

The World Bank has about \$1 billion in existing projects in Yemen. The Bank's objective in Yemen is to facilitate Yemen's fur-

⁵¹Excerpted from “Following the Money in Yemen and Lebanon: Maximizing the Effectiveness of U.S. Security Assistance and International Financial Institution Lending,” January 2010, Senate Foreign Relations Committee <http://foreign.senate.gov/imo/media/doc/54245.pdf>

ther progress toward the Millennium Development Goals. These goals, in turn, are in sync with the stated goals of the Republic of Yemen Government (ROYG), as articulated in the National Reform Agenda, the focus of which is on human development, including education and health; water resource management; and good governance. The National Reform Agenda, however, was developed with substantial input from the international donor community.

Although successful projects can be externally driven, the potential for success increases when IFIs support “locally owned” initiatives. Locally owned reform processes entail participation—and buy-in—from the local community and government in development projects. When there are in-country efforts to solve endemic problems, IFIs should foster and support these endeavors. An examination of the current situation in Yemen reveals that IFIs have opportunities to incorporate these types of locally owned initiatives into their planning and implementation strategies.

One potential opportunity to engage with the ROYG is through locally owned development and poverty reduction planning. Unhappy with the slow pace and uneven results of ROYG reform efforts, a small group of largely Western-educated and well-connected intellectuals and technocrats, under the auspices of the President’s son, developed a targeted action plan to focus the government’s short- to medium-term reform efforts. This group took into consideration the Government’s Third Five-Year Plan for Poverty Reduction, as well as other existing plans and strategies, but determined that these various plans sought to take on too many challenges at once.

Therefore, the group independently developed 10 priorities on which the ROYG should focus for the next year. The 10 points are not perfect; they do not address head on the need to eliminate government subsidies for diesel, for example, relying instead on a strategy of seeking lower prices on the international market to reduce costs. That said, because this plan is “locally owned,” in the words of one of its drafters, it stands a greater chance of success than reforms mandated by foreign donors. IFIs and the international donor community should work to empower and support this model and invest in similarly structured endeavors.

Another opportunity to support locally owned initiatives is by encouraging investment in the private sector. Increased foreign direct investment (FDI), as well as domestic investment, will be critical if Yemen is to create needed jobs—and hope for the future—among its increasing population of young job seekers. According to the 2009 report of the UN Conference on Trade and Development, Yemen is experiencing a downward trend in FDI inflows. Gross domestic investment as a percentage of GDP has also declined over the past two years.

In the face of falling oil revenues and its rapidly depleting oil sector, the ROYG had been putting its hopes in the development of the liquefied natural gas (LNG) sector. As the Country Director for the International Finance Corporation put it, however, the slump in the international market for LNG renders this strategy no longer viable. He made the case that, “If Yemen’s economic development prospects are to have any success, it will be as the result of very time-consuming, hard-slogging micro-financing.” There

are no quick fixes. Right now, he said, there is no coordination among donors on private sector development. Nor were there any micro-finance banks based in Yemen, although one—al-Amal—has announced plans to open there.

To the extent that micro-finance banks need to be induced to enter the Yemeni market, IFIs should provide incentives. The IFIs should work in conjunction with the ROYG to focus more attention—and resources—on private sector development. The International Finance Corporation (IFC) has thus far provided business education training to 26,000 graduates, many of whom will become trainers themselves. Such activities should be expanded and built upon on a national and local level to realize reform and development goals.

TRANSPARENCY AND THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT

At the EBRD, which lends almost exclusively to the private sector, officials have sometimes defended non-disclosure practices as being necessary to protect a firm's competitively significant data. Staff appreciates this concern, but believes that it is used to justify keeping far too much information from public scrutiny. Staff has looked at some internal EBRD documents and believes that in many cases it would be a simple matter to "scrub" the documents of commercially sensitive information. The EBRD in 2006 updated its Public Disclosure Policy, the cornerstone of its transparency efforts, yet the U.S. abstained when the policy came up for board approval. The USED felt, as did a number of NGOs, that while an improvement over the previous policy, the new one did not go far enough, perhaps reflecting the strong desire of the bank's private sector client base for maximum confidentiality. The new public information policy didn't require disclosure of board votes, for instance, and it maintained a poor appeal process for those who feel they were wrongly denied access to information. The exercise demonstrated, as one NGO member put it to staff, "The EBRD is not willing to accept a presumption of disclosure."

The EBRD should take a number of concrete steps to improve transparency. First, the bank should develop and publicize an explicit set of criteria for the advanced countries to "graduate" from EBRD lending. Currently, the only former EBRD client to graduate is the Czech Republic, which did so in 2007. Seven other EU clients were also expected to graduate by 2010, but that was put off when the financial crisis hit—yet there were no public benchmarks to justify the decision. (Why, for instance, didn't Poland graduate, since it escaped the recession that hit other Central European countries?). Making the graduation criteria public and clearly defined would help mobilize public opinion within client countries to press for change. Once graduation is understood in the markets to be a rigorous and objective standard, countries that meet the criteria would be rewarded with improved risk ratings and better access to global capital markets. From the point of view of taxpayers and legislators in donor countries, having an explicit graduation goal and orienting all the bank's operations toward reaching it would make clear that the EBRD is not trying to build an empire or perpetuate its existence, but rather working conscientiously to put

itself out of business. This would help clear up questions about the bank's long-term mandate.

Second, the EBRD should be more transparent about the potential "transition" impact of its loans and investments, since its mandate is to hasten the implementation of capitalist structures, not to be just another commercial lending fund. Staff recommends more transparency and detail in how the potential transition impact ratings are disclosed for each project. Currently on the website there is a brief, two-line description of the transition impact, but more specific information available to those inside the bank, such as a rationale for the loan, its additionality, the downside transition risks, etc., is not disclosed, apparently because "commercially sensitive" information might be revealed. Likewise, staff recommends that the U.S. (and other donors, for that matter) give more detailed explanations for their "abstain" or "no" votes, especially on large or controversial projects. For instance, the U.S. recently abstained on the largest single loan in EBRD history—\$500 million to the Russian railway—without public explanation. Treasury officials said this policy of reticence has to do with internal board dynamics, but staff believes the taxpayer would be better served by bringing these debates out into the open.

Third, the EBRD should be more transparent regarding one of its other key mandates, namely, additionality, the principle that the bank should lend only to clients who cannot get reasonable financing elsewhere. The additionality criteria should be more transparent and more explicit, both as a statement of policy and on individual investments. (This is in addition to the earlier recommendation regarding more transparency in transition impact.) If EBRD is making loans to a resource-rich country like Russia because the government or private investors won't, taxpayers are reasonable in asking just why they aren't and why the bank is. The EBRD should be especially transparent when it is lending to large state-owned or -controlled enterprises like the railroads, or to the so-called oligarchs, the billionaires who control many business groups. It strains public credulity on additionality when the bank lends money to private firms controlled by very wealthy people.

THE INTER-AMERICAN DEVELOPMENT BANK'S NEED TO STRENGTHEN FINANCIAL MANAGEMENT

Inter-American Development Bank is in the process of reforming its practices after its unrealized loss of \$1.9 billion in 2007/2008 from its liquid portfolio of cash management instruments. After detecting the losses, Senator Lugar's staff has met regularly with the Inter-American Development Bank to promote needed changes to the IDB's financial management to ensure that the losses do not recur.

Joshua Goodman of Bloomberg wrote an article "IDB's Losing Bets in U.S. Mortgages May Weaken Case for Funding" on March 21, 2009, excerpted below, which describes the issues around the financial losses:

The Inter-American Development Bank failed to rein in managers who made losing bets in the U.S. mortgage market, including investments in securities issued by Countrywide Financial Corp., according to an outside consultant's findings reviewed by the IDB board today.

The Washington-based bank, the biggest lender for infrastructure projects in Latin America, took a nearly \$1 billion loss last year after plowing as much as 60 percent of its cash reserves into mortgage-backed securities, an unusually aggressive investment strategy that went “largely undetected” by agency officials, according to the review by Oliver Wyman, the consulting unit of Marsh & McLennan Cos.

* * * * *

The weaknesses allowed the IDB to risk twice as much of its cash portfolio in asset-backed securities as the World Bank does, and 10 times as much as the Asian Development Bank, the consultant’s review found.

“You can’t run these things like a hedge fund,” said Morris Goldstein, a former deputy director of the International Monetary Fund’s research department and senior fellow at the Peterson Institute for International Economics in Washington. “Portfolios of official lenders have to be very conservative.”

Wyman recommended possibly hiring outside financial managers, the “urgent” improvement of oversight and the establishment of guidelines so assets have a “high probability of being liquid in the most adverse market conditions.”

IDB Chief Financial Officer Ed Bartholomew disputed the consultant’s findings, saying the mortgage and asset-backed securities peaked at 42 percent, not 60 percent, of its investment portfolio. After writing down the securities by an average 25 percent, the figure fell to 26 percent at the end of 2008, he said. More than 99 percent continue to perform and about 85 percent carry the top AAA credit ratings, he said.

‘No Material Effect’

“The magnitude of these unrealized losses has no material effect” on the bank’s ability to lend, Bartholomew said in an interview today. “Any capital increase would be driven by a long-term vision about the kind of lending we want to support.”

The IDB’s bets were fueled by pressure to increase returns on what were supposed to be highly liquid investments, the consultant’s review found. That led to the purchase of two Countrywide Financial mortgage-backed securities in October 2007, after the collapse of the subprime mortgage market had already caused the mortgage lender’s shares to plunge more than 50 percent, according to the review.

“It’s surprising how far they invested in these toxic assets,” said Claudio Loser, former director of International Monetary Fund’s Western Hemisphere department and now a fellow at the Inter-American Dialogue in Washington. “In hindsight it was a stupid decision.”

Lugar’s Concern

Senator Richard Lugar of Indiana, the ranking Republican on the Foreign Relations Committee, said the strategy was of “grave concern” and sought explanations in a Feb. 5 letter to IDB President Luis Alberto Moreno. A copy was provided by Lugar’s office.

“It would be premature to consider a capital increase before Congress is assured that the IDB’s financial structures and controls are robust and that necessary reforms have been implemented,” Lugar said in an e-mailed statement today.

“The IDB is making a ‘tremendous effort’ to increase donations from members this year so it can approve a record \$18 billion in loans,” Moreno, 55, said in a March 5 interview published on the IDB website. A commission of outside experts headed by former Peruvian finance minister Pedro Pablo Kuczynski will present its recommendations at the annual meeting.

“The IDB faces an uphill battle,” Clay Lowery, a former assistant U.S. Treasury secretary for international affairs who is now a managing director of the Glover Park Group in Washington, said in an interview today. “They are asking for a capital increase, which is important to Latin America, at a time when it appears that they had taken significant risks in their trading book.”

Lowery said the Treasury first raised concerns about the IDB’s investment strategy in late 2007.

Funding Needs

Bartholomew said he couldn’t discuss any plans for the capital increase request until they were discussed by the IDB’s board.

The IDB needs more funding because Latin American and Caribbean countries are increasingly turning to the lender as the credit crisis deepens. Jamaica, on Jan. 16, became the third country following Costa Rica and El Salvador to tap a \$6 billion emergency liquidity line the bank created last October.

Remittances to Latin America and the Caribbean from migrant workers are forecast to fall this year for the first time on record, as unemployment rises in wealthier nations. If the crisis persists two years, poverty could swell by as much as 12.7 million people, according to IDB estimates.

To help relieve some of the strain on social services, the IDB is aiming to approve a record \$18 billion in loans, compared with last year's previous record of \$11.1 billion.

"The IDB is very worried," said Loser. "For the first time in seven years, credit markets are closed to Latin America. They know they'll be called on to increase lending for the next two to three years."

APPENDIXES

Appendix I.—U.S. Engagement

Although the international financial institutions (IFIs) are run by their own managements, the member governments exercise policy direction and oversight responsibility. A board of governors for each IFI, representing all member countries, meets once a year to make policy decisions, while boards of executive directors meet more frequently to approve projects and supervise operations of the institutions.

As the largest shareholder in all of the IFIs except the Asian Development Bank, the United States takes an active oversight role. The U.S. Governor of all six institutions is the Secretary of the Treasury. The Treasury Department is the lead agency in charge of operational policy and the day-to-day conduct of U.S. participation in the IFIs.

The State Department also follows policy on the IFIs as it relates to U.S. political relationships. The Under Secretary of State for Economic, Energy, and Agricultural Affairs is the U.S. Alternate Governor for the multilateral development banks. For the International Monetary Fund (IMF), however, the Alternate Governor is the Chairman of the Federal Reserve.

The U.S. Executive Directors are appointed by the President and confirmed by the Senate. The Alternate Executive Directors are subject to Senate approval only for the IMF, the World Bank, and the Inter-American Development Bank (IDB). The Executive Directors and Alternates represent the United States at executive board meetings and report to the Secretary of the Treasury through the Assistant Secretary of International Affairs.

Other U.S. government agencies are also involved in oversight of the IFIs. The Working Group on Multilateral Assistance (WGMA) meets weekly to coordinate agency views on all loan proposals scheduled for consideration by the executive boards of the multilateral development banks during the following two weeks. Chaired by the Treasury Department, these meetings include representatives from the State, Agriculture, and Commerce Departments, USAID, Federal Reserve Board, and the Export-Import Bank.

In addition to the confirmation of Executive Directors through the Senate Foreign Relations Committee, the Congress determines the level of U.S. contributions to the IFIs. It can also pass legislation directing U.S. policy towards the IFIs. For instance, Congress has adopted laws requiring the Executive Directors to seek specified improvements in the institutions' treatment of environmental issues. In this regard, USAID reports to Congress on the environmental impact of IFI loans. Congress also requires the Treasury

Department to report to the appropriate congressional committees on the actions taken by each IFI to implement the policy goals specified in legislation.

The Senate Foreign Relations Committee and the House Committee on Financial Services have jurisdiction over development bank authorization legislation, while the Senate and House Foreign Operations Appropriations Subcommittees control U.S. funding levels. The authorization committees also conduct oversight of the IFIs through hearings and informal consultation with the executive branch.

Appendix II.—The International Financial Institutions

International Monetary Fund

The International Monetary Fund (IMF) was created at the 1944 Bretton Woods Conference in New Hampshire to prevent a return of the international financial chaos that preceded World War II. Its formal mission is to “foster global growth and economic stability,” provide “policy advice and financing to members in economic difficulties,” and work “with developing nations to help them achieve macroeconomic stability and reduce poverty.”⁵²

The IMF has three principal functions and activities: (1) surveillance of financial and monetary conditions in its member countries and of the world economy, (2) financial assistance to address major balance of payments problems, and (3) technical assistance and advisory services to member countries.⁵³ Based in Washington, D.C., the IMF currently employs about 2,600 staff.

The IMF has developed various loan instruments, or facilities, that are tailored to address the specific circumstances of its diverse membership. The majority of IMF loans come from the General Resources Account (GRA), using one of two facilities: Stand-By Arrangements (SBA), which address short-term balance of payments problems, or the Extended Fund Facility (EEF), which focuses on longer-term difficulties with external payments.⁵⁴

Low-income countries may borrow at a subsidized interest rate under new concessional financing facilities. Approved by the IMF Executive Board on July 23, 2009, these new facilities are intended to make financial support more flexible and tailored to the diversity of low-income countries. They replace the existing Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF), and will be organized under the umbrella of a new Poverty Reduction and Growth Trust. The three new lending windows are the Extended Credit Facility (ECF), which provides medium-term support; the Standby Credit Facility (SCF), which addresses short-term and precautionary needs; and the Rapid Credit Facility (RCF), which offers rapid low-access financing with limited conditionality to meet urgent balance of payments needs.⁵⁵

The United States’ total IMF quota is \$337.2 billion. The United States is the largest shareholder with a quota of 37.15 billion Spe-

⁵²“About the IMF,” International Monetary Fund, <http://www.imf.org/external/about.htm>

⁵³“The International Monetary Fund: Organization, Functions, and Role in the International Economy,” Jonathan E. Sanford and Martin A. Weiss, Congressional Research Service, April 22, 2004.

⁵⁴“IMF Lending,” <http://www.imf.org/external/np/exr/facts/howlend.htm>

⁵⁵“IMF Support for Low-Income Countries,” International Monetary Fund, <http://www.imf.org/External/np/exr/facts/poor.htm>

cial Drawing Rights (SDRs),⁵⁶ worth approximately \$57.7 billion, and a 16.77 percent voting share.⁵⁷

In response to the global economic crisis, the G-20 nations agreed in April 2009 to triple the IMF's lending capacity to \$750 billion, based on contributions from member countries. In June 2009, the U.S. Congress approved \$108 billion in new loan authority for the IMF. Several other countries have pledged contributions to increase IMF resources, including, as of July 2009, Japan (\$100 billion), European Union (\$100 billion), Norway (\$4.5 billion), Canada (\$10 billion), Switzerland (\$10 billion), Republic of Korea (\$10 billion), Australia (\$7 billion), Russia (up to \$10 billion), China (up to \$50 billion), and Brazil (up to \$10 billion).⁵⁸

Table 1.—International Monetary Fund Disbursements⁵⁸
Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GRA	11.13	36.86	39.14	31.52	6.47	3.55	3.67	1.49	20.82	18.43
PRGF-ESF	0.76	1.35	2.09	1.32	1.26	0.63	0.78	0.51	0.99	1.42

Note: 2009 data as of June 30, 2009

⁵⁸ "Total IMF Credit Outstanding for all Members from 1984-2009," <http://www.imf.org/external/np/fin/tad/extcred1.aspx>

World Bank

Like the IMF, the World Bank was created as a result of the 1944 Bretton Woods Conference. Its initial purpose of rebuilding post-war Europe grew to encompass worldwide poverty alleviation and sustainable economic development. Currently focused on the achievement of the Millennium Development Goals, the World Bank aims to "fight poverty" and "to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors."⁶⁰

The World Bank pursues these objectives through the provision of financial and technical assistance. More than 10,000 employees from over 160 countries work at the World Bank. Two-thirds are based at the headquarters in Washington, D.C., while the remaining third work in more than 100 country offices in the developing world.⁶¹

The World Bank divides its lending between the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA). The IBRD assists middle-income countries with loans at near-market rates using funds raised on the international capital markets. Established in 1960 due to concerns that low-income countries could not afford to bor-

⁵⁶The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDR also serves as the unit of account of the IMF and some other international organizations.

⁵⁷"IMF Members' Quotas and Voting Power, and IMF Board of Governors," International Monetary Fund, <http://www.imf.org/external/np/sec/memdir/members.htm>

⁵⁸"Bolstering the IMF's Lending Capacity," International Monetary Fund, <http://www.imf.org/external/np/exr/faq/contribution.htm>

⁶⁰"About Us," <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS>

⁶¹"Who We Are and What We Do," <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS>

row at near-market rate terms, the IDA provides concessional loans to the world's poorest countries. The IDA's highly discounted assistance is funded with contributions from donors and transfers from the IBRD and is increasingly provided as grants.⁶²

As of June 30, 2008 (the end of the World Bank's fiscal year), total subscriptions to the IBRD were \$157.43 billion. The United States is the largest contributor, having subscribed to \$31.96 billion of the IBRD's capital stock. Of this amount, \$2.0 billion is paid-in and \$29.96 billion is subject to call.⁶³ The United States has a 16.36 percent voting share.⁶⁴

As of June 30, 2008, total contributions to the IDA were \$177.5 billion. The United States is also the largest contributor to the IDA, having subscribed or contributed \$38.98 billion. The United States has a 12.71 percent voting share.⁶⁵

The last general capital increase of the IBRD was agreed to in 1988, and the United States provided its final installment to the IBRD's capital in FY 1996. The most recent round of IDA replenishment negotiations (IDA-15) concluded on December 14, 2007.⁶⁶ At the meeting, donors agreed to provide \$41.6 billion, an increase of \$9.5 billion over the previous replenishment (IDA-14) (\$32.1 billion). The United Kingdom pledged donations of \$4.3 billion over three years, making it the largest single donor to IDA-15. The United States increased its pledge by 30 percent to \$3.7 billion and will see its share rise from 13.8 percent to 14.7 percent. Several countries are contributing to IDA for the first time: China; Cyprus; Egypt; Estonia; Latvia; and Lithuania.⁶⁷

Since their creation, cumulative IBRD lending is \$446 billion and IDA commitments are \$193 billion.

Table 2.—World Bank Operations.⁶⁸

Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
IBRD	10.92	10.49	11.45	11.23	11.05	13.61	14.14	12.83	13.47	32.90
IDA	4.36	6.76	8.07	7.28	9.04	8.70	9.51	11.87	11.23	14.00

Note: 2009 data as of June 30, 2009

⁶⁸ "The World Bank Annual Report 2008," The World Bank, http://siteresources.worldbank.org/EXTANNREP2K8/Resources/YR00_Year_in_Review_English.pdf.

Inter-American Development Bank

The Inter-American Development Bank (IDB) Group was co-founded by the United States and 19 other member countries in 1959 in response to social and political turmoil in Latin America

⁶² "The World Bank's International Development Association (IDA)," Martin A. Weiss, Analyst in International Trade and Finance, Congressional Research Service, April 1, 2008.

⁶³ Callable capital is a contingent liability, payable only if a multilateral development bank (MDB) lacks sufficient funds to repay its own creditors. None of the MDBs has ever attempted to collect a portion of their callable capital.

⁶⁴ "The World Bank Annual Report 2008," The World Bank, http://siteresources.worldbank.org/EXTANNREP2K8/Resources/YR00_Year_in_Review_English.pdf

⁶⁵ *Ibid.*

⁶⁶ "The World Bank's International Development Association (IDA)," Martin A. Weiss, Analyst in International Trade and Finance, Congressional Research Service, April 1, 2008.

⁶⁷ "Contributions to the Fifteenth Replenishment," The World Bank, <http://siteresources.worldbank.org/IDA/Resources/Table1IDA15.pdf>

and the Caribbean in the context of the Cold War. Based in Washington, DC, the IDB now has 26 borrowing members and employs approximately 2,000 staff.

The IDB aims to “combat poverty and promote social equity,”⁶⁹ providing loans and grants and offering policy advice and technical assistance. The IDB’s primary lending window is non-concessional Ordinary Capital (OC). The Fund for Special Operations (FSO) is the concessional window of the IDB and focuses on economic development in the hemisphere’s poorest nations: Bolivia, Guyana, Haiti, Honduras, and Nicaragua. The FSO makes subsidized loans with interest rates of 1 percent to 2 percent and maturities of up to 40 years.

As of December 31, 2008 (the end of the IDB’s fiscal year), total subscriptions to the IDB were \$100.9 billion. The United States is the largest contributor, having subscribed to \$30.31 billion of the IDB’s capital stock. Of this amount, \$1.3 billion is paid-in and \$29.01 billion is subject to call. The United States has a 30.01 percent voting share.⁷⁰

The most recent general capital increase for the ordinary capital account and the FSO was in 1994. The U.S. contribution of \$153.7 million was contributed in six equal installments over the 1995-2000 period.⁷¹ At a meeting on July 2, 2009, the IDB Board of Governors set a December 2009 deadline for technical discussions on a proposed capital increase and a replenishment of the FSO.⁷²

Between 1961 and December 2008, the IDB approved \$149.00 billion of operations from its Ordinary Capital and \$18.52 billion from the FSO.

Table 3.—IDB Operations.⁷³
Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008
IDB	4.969	7.411	4.143	6.232	5.468	6.448	5.632	8.577	11.085
FSO	0.297	0.443	0.406	0.578	0.522	0.41	0.605	0.152	0.138

⁷³ “IDB Annual Report,” Inter-American Development Bank, www.iadb.org/ar/2008

African Development Bank

The African Development Bank (AfDB) Group was founded in 1964 “to help reduce poverty, improve living conditions for Africans and mobilize resources for the continent’s economic and social development.” It employs 1,491 employees in its headquarters in Tunis, Tunisia, and in 23 field offices.⁷⁴

The AfDB Group comprises two main lending facilities. The African Development Bank provides grants, loans, and technical assist-

⁶⁹ “What We Do,” Inter-American Development Bank, <http://www.iadb.org/aboutus/whatWeDo.cfm?lang=en>

⁷⁰ “Annual Report 2008,” Inter-American Development Bank, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1924122>

⁷¹ “Report on the Eighth General Increase in the Resources of the Inter-American Development Bank,” Inter-American Development Bank, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=2080953>

⁷² “IDB Governors set roadmap to strengthen Bank, increase resources to fight crisis,” IDB News Release, July 2, 2009, <http://www.iadb.org/news/detail.cfm?language=English&id=5504>

⁷⁴ “About Us,” African Development Bank Group, <http://www.afdb.org/en/about-u>

ance. The African Development Fund (AfDF) is a concessional facility for low-income African member countries created in 1972. There are currently 38 AfDF borrower countries. The AfDF is primarily financed by 24 non-regional countries including the United States, Canada, and several European and Asian countries.⁷⁵

The United States is the second largest shareholder after Nigeria. At current exchange rates, total U.S. paid-in capital through December 31, 2008 is approximately \$220.4 million. Total callable capital is approximately \$1.95 billion.⁷⁶ The United States has a 6.33 percent voting share.

The most recent general capital increase for the AfDB was in 1998. The total capital increase was approximately \$7 billion, the U.S. share of which is 5.8 percent. The total U.S. paid-in capital commitment of \$40.8 million was paid over 8 years ending in FY 2007. In December 2007, negotiations concluded for the eleventh replenishment of AfDF resources (AfDF-VI) that will provide financing of \$8.9 billion during 2008 to 2011. The U.S. total three-year commitment for AfDF-11 is \$468.2 million. In the current AfDF-11 replenishment, the U.S. share is 8.7 percent (behind the United Kingdom, Germany, and France).⁷⁷

Between its inception in 1967 and December 2008, the AfDB approved approximately US\$38.2 billion of operations and the AfDF approved approximately \$28.0 billion.

Table 4.—African Development Bank Group Operations.⁷⁸
Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008
AfDB	0.63	1.24	1.36	1.16	1.25	1.16	1.45	2.30	2.36
AfDf	1.01	1.46	1.08	1.54	1.42	1.54	2.13	1.70	2.55

⁷⁸ “The African Development Bank 2008 Annual Report,” African Development Bank Group, <http://www.afdb.org/en/about-us/financial-information/annual-report>

Asian Development Bank

Founded in 1966, the Asian Development Bank (AsDB) aims “to help its developing member countries reduce poverty and improve the quality of life of their people.” With headquarters in Manila, Philippines, and 27 field offices, it employs approximately 2,500 staff.⁷⁹ The AsDB’s primary activities are extending project loans and grants, making equity investments, and providing technical assistance to its developing member countries.

The Asian Development Fund (AsDF), the AsDB’s concessional facility, was created in 1972 to provide loans to Asia’s poorest countries. The AsDF is funded principally through periodic replenishments by donor nations. There have been seven replenishments since the AsDF was created in 1972.

⁷⁵ “The African Development Bank Group,” Martin A. Weiss, Analyst in International Trade and Finance, Congressional Research Service, January 30, 2009.

⁷⁶ “The African Development Bank 2008 Annual Report,” African Development Bank Group, <http://www.afdb.org/en/about-us/financial-information/annual-report>

⁷⁷ “The African Development Bank Group,” Martin A. Weiss, Analyst in International Trade and Finance, Congressional Research Service, January 30, 2009.

⁷⁹ “Our Vision,” Asian Development Bank, <http://www.adb.org/About>

The United States and Japan are the largest shareholders, each owning \$8.5 billion worth of shares in the institution. This ownership stake corresponds with a voting share of 12.76 percent. As of December 31, 2008, the United States has contributed \$3.42 billion to the AsDF. Voting shares in the AsDF are the same as in the AsDB.

The most recent capital replenishment, AsDF-9, covers the years 2005 to 2008. Donors agreed to contribute \$7 billion over the four-year period, an increase from the \$5.7 billion provided during AsDF-8 (2001-2004). Japan maintains its position as the leading AsDF contributor in AsDF-9 with \$1.18 billion pledged, followed by the United States with \$461 million, Australia with \$218 million, and the United Kingdom with \$202 million. Contributions from the Asia and Pacific region accounted for almost half of the replenishment.

The most recent general capital increase of the AsDB was agreed to in 1994. In April 2009, the Board of Directors (including the United States) approved a resolution providing for a new capital increase allowing for a 200 percent increase in the capital stock of the institution. It is expected that the administration may seek an increase in the U.S. paid-in capital for the institution over the next several years as part of the new general capital increase.

To date, the Asian Development Bank has approved \$143.5 billion of operations.

Table 5.—Asian Development Bank Group Loans.⁸⁰

Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008
AsDB	4.01	3.98	4.01	4.73	4.05	4.40	5.99	8.07	8.70
AsDF	1.57	1.36	1.65	1.38	1.24	1.36	1.27	1.89	1.79

⁸⁰ "Asian Development Bank Annual Report 2008," Asian Development Bank, http://www.adb.org/Documents/Reports/Annual_Report/2008

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is the newest of the multi-lateral development banks, founded in 1990 to help bring capitalism and market economies to formerly Communist eastern and central European countries and the new states from the former Soviet Union and Yugoslavia. (Mongolia was originally included, too, and Turkey was added last year.) Unlike the other development banks, it does not have development or poverty alleviation as one of its stated missions, and it usually works with the private sector, state-owned companies or municipal entities, rather than with national governments. As a result, it has until now had little direct role in promoting economic or governance reforms outside of specific sectors. "We are a project-driven bank," one official told staff in August 2009 during an interview in London. Also, uniquely, the EBRD applies a political standard to its clients, namely, that their countries are "committed to and applying the principles of multiparty democracy, pluralism and market economics."

EBRD investments, like those of the other development banks, take the form of loans, guarantees, and equity investments. The EBRD's loans are required to meet three criteria—that they have “transition impact;” that they provide additionality, that is, the client must be unable to get reasonable financing elsewhere; and that they be based on “sound banking principles.” The EBRD does not have a concessional loan window like the other development banks, it takes commercial risk, and it nearly always gets its money back. In fact, in the three years before the current crisis, the bank turned handsome profits, up to more than two billion euros a year, leading to talk of a dividend for shareholders and raising questions about whether the bank was really necessary in the booming east. (That ended last year when the bank recorded its first annual loss since the Russian financial crisis of 1998.) There is an inherent tension between the additionality and sound banking requirements—if the investment is sound, why couldn't the client get the financing from someone else? Similarly, transition impact is sometimes difficult to define and quantify.

The United States is the largest shareholder in the EBRD. The United Kingdom is the second largest shareholder. As of December 31, 2008, the United States has committed approximately \$2.7 billion. The United States has a 10.15 percent voting share.

The most recent general capital increase of the EBRD was agreed to in 1996. The U.S. share was \$285 million. Since its founding, the EBRD has approved approximately \$59.99 billion in operations.S6602

Table 6.—EBRD Operations.⁸¹
Billions of U.S. Dollars

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EBRD	3.61	4.94	5.267	5.03	5.58	5.78	6.67	7.54	6.87

⁸¹ EBRD Annual Report and Financial Statements, “European Bank for Reconstruction and Development, 2008, <http://www.ebrd.com/pubs/general/ar08.htm>

Appendix III.—World Bank Lending and Parliamentary Approval

February 2009.

Borrowing member countries which require parliamentary approval or ratification of lending instruments (loans, credits, IDA grants) with the Bank and IDA include those requiring approval or ratification of each loan or other agreement, and countries where parliament sets a ceiling within which the executive branch can conclude individual agreements without further approval or ratification.

Sub-Saharan Africa:

Angola, Benin, Botswana, Burkina Faso, Burundi, Chad, Comoros, Congo Brazzaville, Cote D'Ivoire, Democratic Republic of the Congo, Ethiopia, Gabon, Ghana, Guinea, Madagascar, Malawi, Mali, Niger, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Togo, Uganda, Zambia, Zimbabwe*

* in non-accrual, current status unclear. Current status of Liberia also unclear.

East Asia & the Pacific:

Cambodia, China, Timor Leste, Republic of Korea, Indonesia,** Mongolia, Palau, Vanuatu

** parliamentary approval of development projects is given through annual budget law.

Eastern Europe & Central Asia:

Albania, Armenia, Bosnia & Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Romania, Russia, Serbia, Tajikistan, Turkey, Ukraine

Latin America & the Caribbean:

Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, *** El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Trinidad & Tobago, Venezuela

*** Ecuador currently unclear based on 2008 Constitution.

Middle East & North Africa:

Algeria, Djibouti, Arab Republic of Egypt, Lebanon, Tunisia, Republic of Yemen

South Asia:

None

Appendix IV.—Inter-American Development Bank (IDB)

LIST OF COUNTRIES THAT REQUIRE LEGISLATIVE AUTHORIZATION OR RATIFICATION OF IDB LOAN CONTRACTS

August 2009

Countries that Require Legislative Authorization
or Ratification of IDB Loan Contracts
(for Sovereign or Sovereign Guaranteed Loans)*

Legislative Authorization Required for Signing of Loan Contract	Legislative Ratification of Signed Loan Contract Required for Entry into Effect
Bahamas Belize (> US\$10 million) Brazil El Salvador Guatemala Honduras Venezuela	Bolivia Costa Rica Dominican Republic El Salvador Haiti Honduras Nicaragua Paraguay

* The summary information included in the above chart was prepared by the Bank based on information provided, as of August 2009, by borrowing member countries concerning their approval of Bank sovereign (or sovereign-guaranteed) loans. The chart does not address the details of any applicable legislation or regulation, and there may be circumstances under which, depending on the details of a specific Bank operation, the rules summarized in the chart may direct a different conclusion. Further, the Bank does not represent itself as having the authority to interpret the laws of its member countries, and authoritative text on the subject of the chart should be provided by those member countries with respect to their own legislation.

Appendix V.—Tables

Table 7.—U.S. Contribution and Voting Shares in the
Multilateral Development Banks.⁸¹

	Contribution Share (percentage)	Voting Share (percentage)
World Bank Group		
IBRD	16.8	16.4
IDA	22.1	12.9
IFC	24.1	23.6
MIGA	18.9	15.1
Asian Development Bank		
AsDB	15.6	12.8
AsDF	12.6	12.8
EBRD	10.1	9.8
NADBank	50.0	50.0
Inter-American Development Bank		
IDB	30.3	30.0
FSO	50.5	30.0
IIC	25.5	25.1
MIF	39.4	29.1
African Development Bank		
AfDB	6.4	6.4
AfDF	12.7	6.1
IFAD	13.6	13.6

⁸¹ "Multilateral Development Banks: U.S. Contributions FY1998-2009," Jonathan E. Sanford, Specialist in International Trade and Finance. Congressional Research Service, January 27, 2009 (RS20792).

Table 8.—Development Bank Management's General Capital Increase (GCI)
Requests as of January 13, 2010
(in millions of U.S. dollars)

Multilateral Development Bank	Current Subscribed Capital Base (dollars)	Proposed Increase (percent)	Proposed Increase Paid-in Capital (percent)	Implied Annual U.S. Paid-in Contribution over 5 years (dollars)
World Bank Group: IBRD (including SCI)* *	\$190,000	30	6	\$655
World Bank Group: IFC***	2,400	85	100	482
AfDB	38,000	200	6	270
EBRD	30,000	50	10	150
IDB	101,000	200	4	2,420
AsDB	50,000	200	4	535

* Paid in only. Budget estimates assume five year pay-in period.

** IBRD includes approx. annual cost of a selective capital increase (SCI) to maintain shareholding at \$23 million.

*** The IFC does not have callable capital.

Source: Treasury Department Staff

Table 9.—Projected Net Private Financial Flows to the Emerging Markets and Estimates of MDB Lending, With and Without Implementation of Management's General Capital Increase (GCI) Requests

	Net private flows to emerging markets* (\$ billion)			
	2007	2008	2009(f)	2010(f)
Total	1252	648	348	672
Latin America	229	132	100	151
Emerging Europe	446	270	20	179
Africa/Middle East	155	75	37	69
Emerging Asia	422	171	191	273

* Source: IIF, <http://www.iif.com/emr/article+204.php>

Table 10.—Regional MDB Commitments*
(\$ billion)

	2007	2008	2009(f)	2010(f)
Total	29.3	31.8	50.2	48.1
IDB with GCI	8.7	11.2	15.1	16.0
EBRD with GCI	8.0	7.4	11.9	14.1
AfDB with GCI	2.6	2.7	10.3	5.3
AsDB with GCI	10.0	10.5	12.9	12.7
Total w/o GCIs	29.3	31.8	50.2	27.5
IDB without GCI	8.7	11.2	15.1	12.0
EBRD without GCI	8.0	7.4	11.9	9.0
AfDB without GCI	2.6	2.7	10.3	2.5
AsDB without GCI	10.0	10.5	12.9	4.0

* Source: MDBs, U.S. Treasury Department estimates

Appendix VI.—Senate Foreign Relations Committee Hearings Chaired by Senator Lugar

With the intent of strengthening reforms at the multilateral development banks (MDBs), particularly those related to corruption, Senator Lugar chaired six Senate Foreign Relations Committee hearings in the 108th and 109th Congress on May 13, 2004, July 21, 2004, September 28, 2004, April 21, 2005, March 28, 2006, and July 12, 2006. The hearings included representatives from the Treasury Department, the United States Executive Directors to the MDBs, academics, non-governmental organizations and members of civil society. (A summary of recommendations from the hearings is available in Annex I.)

The following witnesses testified at the first hearing on Thursday, May 13, 2004, entitled “Combating Corruption in the Multilateral Development Banks:” Ms. Carole Brookins, U.S. Executive Director, The World Bank; Mr. Hector Morales, Alternate U.S. Executive Director, Inter-American Development Bank; Dr. Jeffrey Winters, Associate Professor, Northwestern University; Mr. Manish Bapna, Executive Director, Bank Information Center; Ms. Nancy Zucker Boswell, Managing Director, Transparency International USA; Professor Jerome I. Levinson, Distinguished Lawyer in Residence, Washington College of Law, American University. Written testimony is available at <http://www.foreign.senate.gov/hearings/2004/hrg040513a.html>

At the second hearing on Wednesday, July 21, 2004, named “Combating Multilateral Development Bank Corruption: U.S. Treasury Role and Internal Efforts,” the following witnesses testified: The Honorable John B. Taylor, Under Secretary for International Affairs, Department of the Treasury; The Honorable Richard Thornburgh, Of Counsel, Kirkpatrick & Lockhart; Mr. Guido Penzhorn, Advocate and Senior Counsel, Durban Bar (South Africa); and Ms. Kimberly Ann Elliott, Research Fellow, Institute for International Economics. Written testimony is available at <http://www.foreign.senate.gov/hearings/2004/hrg040721a.html>

On Tuesday, September 28, 2004, at the third hearing called “Combating Corruption in the Multilateral Development Banks (III),” Mr. Bruce M. Rich, International Program Manager, Environmental Defense and Dr. George Ayittey, Distinguished Economist in Residence, Economics Department, American University both testified. Written testimony is available at <http://www.foreign.senate.gov/hearings/2004/hrg040928p.html>

The subsequent witnesses testified on Thursday, April 21, 2005, at the fourth hearing entitled “A Review of the Anti-Corruption Strategies of the African Development Bank, Asian Development Bank and European Bank on Reconstruction and Development:” The Honorable Paul Speltz, U.S. Executive Director, Asian Devel-

opment Bank; The Honorable Mark Sullivan, III, U.S. Executive Director, European Bank for Reconstruction and Development; Mr. Hemantha Withanage, Executive Director Center for Environmental Justice Convenor, Sri Lankan Working Group on Trade and International Financial Institutions; and Mr. Tom Devine, Legal Director, Government Accountability Project. Written testimony is available at <http://www.foreign.senate.gov/hearings/2005/hr050421a.html>

At the fifth hearing called “Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption” on Tuesday, March 28, 2006, the following witnesses testified:

The Honorable Clay Lowery, Assistant Secretary for International Affairs, Department of the Treasury; The Honorable Cynthia Shepard Perry, U.S. Executive Director of the African Development Bank; Dr. William Easterly, Professor of Economics, Co-Director of the Development Research Institute, New York University; Dr. Ruth Levine, Acting President, Director of Programs and Senior Fellow, Center for Global Development; and Dr. Adam Lerrick, The Friends of Allan H. Meltzer Chair in Economics, Director of the Gailliot Center for Public Policy, Tepper School of Business, Carnegie Mellon University. Written testimony is available at <http://www.foreign.senate.gov/hearings/2006/hr060328a.html>

At the sixth hearing named “Multilateral Development Banks: Development Effectiveness of Infrastructure Projects” on Wednesday, July 12, 2006, the following witnesses testified: The Honorable Clay Lowery, Assistant Secretary for International Affairs, Department of the Treasury; The Honorable Jaime Quijandr a, Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay, The World Bank; The Honorable Carlos Herrera Descalzi, Former Minister of Energy and Mines, Vice-Dean, National Engineers Association of Peru; Dr. Korinna Horta, Senior Economist, Environmental Defense; and Mr. Manish Bapna, Executive Director, Bank Information Center. Written testimony is available at <http://www.foreign.senate.gov/hearings/2006/hr060712a.html>

Appendix VII.—Acronyms and Abbreviations

AfDF—African Development Fund
AfDB—African Development Bank
AFT—Transantiago Financial Administrator
AIDS—Acquired Immune Deficiency Syndrome
APs—Affected Persons
AsDB—Asian Development Bank
AsDF—Asian Development Fund
BIC—Bank Information Center
CIS—Commonwealth of Independent States
CPIA—Country Policy and Institutional Assessment
CPPR—Country Portfolio Performance Ratio
CRP—Compliance Review Board
CRR—Capital Resources Review
DIR—Detailed Implementation Review
EBRD—European Bank for Reconstruction and Development
ECF—Extended Credit Facility
EFF—Extended Fund Facility
EITI—Extractive Industry Transparency Initiative
ESF—Exogenous Shocks Facility
EU—European Union
EU-8—Poland, Czech Republic, Slovakia, Hungary, Estonia, Latvia, Lithuania, Slovenia
FDI—Foreign Direct Investment
FSO—Fund for Special Operations
G20—Group of 20 (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States, and the European Union)
GAO—Government Accountability Office
GCI—General Capital Increase
GDP—Gross Domestic Product
GOI—Government of India
GOL—Government of Lebanon
GRA—General Resources Account
HIV—Human Immunodeficiency Virus
H.R.—House Resolution
IADB—Inter-American Development Bank
IBRD—International Bank for Reconstruction and Development

IDA—International Development Association
IDB—Inter-American Development Bank
IEO—Independent Evaluation Office
IFAD—International Fund for Agricultural Development
IFC—International Finance Corporation
IFI—International Financial Institution
IIC—Inter-American Investment Corporation
IMF—International Monetary Fund
LHWP—Lesotho Highlands Water Project
LNG—Liquefied Natural Gas
LTTE—Liberation Tigers of Tamil Eleem
MDB—Multilateral Development Bank
MDRI—Multilateral Debt Relief Initiative
MIGA—Multilateral Investment Guarantee Agency
MIF—Multilateral Investment Fund
MTS—Mobile TeleSystems
NADBank—North American Development Bank
OC—Ordinary Capital
OED—Operations Evaluation Department
ROYG—Republic of Yemen Government
PRGF—Poverty Reduction and Growth Facility
RCF—Rapid Credit Facility
SBA—Standby Arrangements
SCF—Standby Credit Facility
SDR—Special Drawing Rights
SEI—Sustainable Energy Initiative
SFRC—Senate Foreign Relations Committee
SPF—Special Project Facilitator
UN—United Nations
US—United States
USAID—United States Agency on International Development
USED—United States Executive Director
WGMA—Working Group on Multilateral Assistance

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