Secretary of the Treasury Timothy F. Geithner
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Subcommittee on State, Foreign Operations, and Related Programs on the
Fiscal Year 2012 International Programs Budget Request

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Chairwoman Granger, Ranking Member Lowey, and Members of the Committee, thank you for the opportunity to discuss the President's Fiscal Year 2012 Budget Request for the Department of the Treasury's International Programs.

The global economy is in the process of fundamental changes in the balance of economic power and an ever changing mix of risks and opportunities. As recent developments in the Middle East demonstrate, historic change is creating new openings to expand the circle of democratic societies and open economies.

In the face of these extraordinary global challenges and opportunities, we must advance U.S. interests by working through international institutions that multiply the impact of our investments. This year, Treasury's budget contains requests that leverage our limited resources in service of our national and global interests. With just a 5 percent share of the 150 account, Treasury international funding will allow $95 billion in multilateral development bank (MDB) financing in FY2012 alone – more than one and a half times the entire 150 account budget.

The most significant items include general capital increases for the MDBs and replenishments of the International Development Association (IDA) and the African Development Fund. The provision of additional capital is a rare step for the United States: the last increase occurred two decades ago for the World Bank and more than 10 years ago for the regional development banks.

In 1988, then Treasury Secretary James Baker came before this committee to make a similar request to the one I make today. Despite a difficult budget environment, the Reagan administration supported a general capital increase for the World Bank and replenishment of the International Development Association in the same year. Congress had the foresight to recognize that the multilateral banks are vital partners for promoting the national security and values of our country.

A one-time capital increase of $420 million for the World Bank enabled $325 billion in lending over the last two decades. This investment shaped the world that was to follow in ways that advanced fundamental American values and interests. As communism collapsed, these investments helped numerous countries transition to open market economies and free societies. These resources have helped to restore stability during economic crises such as Mexico in 1994, the Asian financial crisis in 1997, and the global financial crisis in 2008-2009. And they have supported reconstruction and recovery in conflict-affected nations like Bosnia, Iraq, Pakistan, and Afghanistan.

What was true then is even more true today. Our success and security at home depend on our ability to expand export opportunities for American companies and to create a more secure world. America needs the MDBs to nurture the next group of emerging markets for our exports, to foster peace in countries facing conflict or on the brink of collapse, and to advance our shared values in the world.

In Egypt and Tunisia, we will engage with governments and multilateral institutions to address pressing economic needs and lay the groundwork for more inclusive growth. With $2.5 billion potentially available, the World Bank and the African Development Bank (AfDB) are prepared to work closely with new democratic governments, the private sector, and civil society organizations to support economic reforms that will promote job creation, particularly for the region's youth. Through the MDBs, we stand ready to forge a new partnership with a new generation in North Africa.

Without new resources, the MDBs will not be able to maintain the level of assistance we believe is necessary to minimize the dangers we face from countries emerging from or at risk of war, and to help build the export markets of tomorrow. Without additional resources, the annual lending capacity of the World Bank would fall by 50 percent relative to the pre-crisis level. Failure to meet our commitments will jeopardize our standing in these institutions, and jeopardize commitments that we secured from the MDBs to transfer income to their concessional windows to aid the poorest countries.

At the World Bank, failure to finance the capital increase would lead to the loss of U.S. power to veto changes to the World Bank's governing agreement. At the Asian Development Bank, if the U.S. does not support this capital increase, we will fall behind countries like China and India. Given China's direct engagement in infrastructure development in developing countries, a reduced U.S. presence in the MDBs will give China a substantial advantage in promoting its own commercial and security interests across numerous regions and sectors.

Let me elaborate on why this proposal merits your support:

Securing our economic and commercial interests

The multilateral development banks are the first responders to crisis and among the most powerful export promotion programs we have.

In 2008, when the global economy faced one of the worst financial crises in recent history, the MDBs moved swiftly to restore finance and credit for world trade. At a time when few institutions were lending, the MDBs provided $222 billion in financing to developing countries, helping restore economic growth and trade. These resources reached more than 130 countries, representing 44 percent of the world economy, and 31 percent of America's export markets. Their support helped to restore global growth in key markets that are critical for U.S. businesses and jobs. The scale of their response illustrates the indispensability of the MDBs for their leverage, speed, and reach.

But the MDBs' role is not limited to just emergency response. Over the last 20 years, MDB assistance has helped nurture emerging markets that have become key export markets for the United States. Between 1996 and 2010, U.S. exports increased by nearly 500 percent to Vietnam, 400 percent to India, 290 percent to Turkey, 150 percent to Chile, and 75 percent to Indonesia. Over the same time, the value of U.S. exports to these markets grew from $69 billion to $179 billion. By partnering with these countries, the World Bank and regional development banks have provided financing and policy assistance to reduce trade barriers, improve private sector development, increase educational access, build infrastructure, and promote open markets.

Similarly, the investments we make today in these multilateral institutions will help shape new export markets. A significant share of the World Bank's non-concessional lending through the International Bank for Reconstruction and Development (IBRD) is targeted at countries such as Mexico, South Africa, Turkey, and Indonesia. Their investments to improve law, justice, and public administration reduce red tape, bolster private sector growth, strengthen legal systems, and combat corruption. Transportation projects support construction of thousands of miles of roads, expansion of ports, and development of inland waterways. Projects across these sectors help to enhance trade and create future consumers of American goods.

The MDBs also directly support U.S. business growth through procurement contracts. These contracts reach various corners of America: Cooper Power Systems, a company based in the small town of Waukesha, Wisconsin recently won an Asian Development Bank contract for $2.8 million to provide light breakers for electrical projects in Pakistan. And in September 2010, the European Bank for Reconstruction and Development approved a $120 million loan to CHS Inc., the largest domestic grain supplier in the United States and the world's largest agricultural cooperative, to expand their business to Ukraine and Russia. Because of its success, CHS is planning to expand its operations from approximately 1.5 million tons exported annually today to approximately 4.6 million tons in 2013.

Too often, the only alternative to MDB financing is low-cost financing from countries like China. In contrast to these countries, the MDBs have strict procurement processes and rigorous safeguards to strengthen property rights, protect the environment, and uphold the rights of vulnerable populations. The World Bank and regional MDBs were also among the first international institutions to focus on combating corruption in developing countries. Over the past five years, the World Bank has debarred 80 firms and individuals as part of its efforts to fight fraud and corruption. The World Bank and the regional development banks have also forged a cross-debarment agreement, sending a clear message that cheating from one institution will lead to punishment by all.

Capital increases are a rare but occasional necessity. The last increase for the World Bank was in 1988, for the Inter-American Development Bank (IDB) and Asian Development Bank in 1994, and for the African Development Bank in 1998. The impact of U.S. dollars is multiplied because the MDBs are able to borrow in the markets, and because together other donors' contributions far exceed U.S. contributions. Thus the increases we provide in 2012 will sustain these institutions for another generation.

Strengthening our national security

Through our investments in the MDBs, and through Treasury's group of civilian advisors in finance ministries and central banks around the world – our international programs directly bolster U.S. national security objectives every day.

In key frontline states vital to U.S. national security, such as Afghanistan, the World Bank and Asian Development Bank are the second and third largest donors after the U.S. In Afghanistan, as our troops continue their courageous efforts to bolster security, multilateral institutions are creating the conditions for development. The Asian Development Fund is investing in the Afghan energy sector and IDA has improved the lives of millions of people through projects that provided better access to roads, clean water and sanitation, power and irrigation. These improvements in people's lives are essential to the long term stability of Afghanistan.

Fifty years ago, under President Eisenhower, the United States took the lead to establish the International Development Association to tackle the most fundamental deprivations: infant mortality, disease, undernourishment, illiteracy, and poverty. Successive administrations have strived to improve IDA, ensuring that resources are allocated based on the performance of governments. During the past decade, IDA funding has helped to save 30 million lives, immunized 311 million children, and increased education for more than 100 million children worldwide. The regional MDBs also have established grant-making arms that are vital sources of financing to help break the cycle of conflict and poverty.

When disasters leave countries vulnerable, the MDBs are among the first to arrive. When the tsunami hit Aceh in 2004, the MDBs immediately formed a new recovery and reconstruction fund that laid a foundation for a secure and peaceful Aceh. When the earthquake hit Haiti in 2010, the World Bank responded within 36 hours to prepare the first satellite and aerial maps to inspect the damage, collecting crucial information to begin relief and reconstruction efforts. The MDBs cleared drainage canals to avoid flooding, started programs for feeding school children, and re-built roads and bridges. The IDB is supporting post earthquake recovery and development and, as a result of the general capital increase agreement, will be providing $2 billion in grants to Haiti through 2020. In addition to the reconstruction efforts in Haiti, Treasury, with strong support from Congress, led an innovative effort of debt relief: a U.S. contribution of $204 million led to a cancelation of more than $800 million of debt owed by Haiti to international financial institutions and made available an additional $318 million in new grants.

Recognizing that the transition from conflict to peace is long, the MDBs provide sustained assistance long after the immediate crisis has passed. In Bosnia, since the conflict ended in 1996, World Bank assistance has had a significant impact on restoring basic infrastructure and services, and creating pre-conditions for sustainable return of refugees and displaced persons, economic growth, and employment. As a result, a country that was once war-torn is today preparing for accession to the European Union.

The Multilateral Debt Relief Initiative, a new component of our request, is specifically targeted at preserving the benefits of debt relief for the poorest fragile countries in the world that have carried out fundamental economic reform programs. A significant number of these countries, such as Liberia, Sierra Leone, and Mozambique have suffered from terrible conflict and civil war. But with the benefit of debt relief, private investment is increasing, human development indicators are improving, and economies are growing at rates not seen in decades.

These successful transitions are underpinned by good governance and a well-functioning state. For the last 20 years, Treasury's Office of Technical Assistance (OTA) has successfully helped developing countries to strengthen their capacity to manage public financing. OTA's presence stretches around the globe to more than 50 countries including high priority national security engagement in Iraq, Afghanistan, Pakistan, and Haiti. OTA helps countries improve their capacity to mobilize domestic resources for growth through efficient revenue collection, well-planned and executed budgets, judicious debt management, sound banking systems, and strong controls to combat corruption.

Addressing global challenges of food security and climate change

Promoting peace, security, and stability around the world requires tackling critical, long-term drivers of volatility and conflict: food security, environmental degradation, and climate change. Left unchecked, these risks will undermine our broader development efforts, and roll back hard-won gains in poverty reduction and economic growth, which can lead to desperation, radicalization, and increased risk of conflict. These problems are global – they ignore national boundaries, and require coordinated and multilateral solutions. U.S. leadership in promoting a strong MDB response is critical.

Food Security

Today, nearly 1 billion people suffer from hunger. In the wake of the 2008 food price spike, the United States led the G-20 countries to establish the Global Agriculture and Food Security Program (GAFSP) to increase long-term investment in agriculture in the poorest countries. In a short time frame, this fund has mobilized pledges and contributions totaling nearly $1 billion from six governments, as well as the Bill and Melinda Gates Foundation. It has awarded $337 million in grants to eight poor countries with sound agricultural reform strategies – Bangladesh, Haiti, Rwanda, Sierra Leone, Togo, Ethiopia, Niger, and Mongolia. In these countries, the fund is helping to connect small farmers to markets, it is building rural infrastructure, and increasing agricultural productivity. Similarly, U.S. investment in the International Fund for Agricultural Development supports projects that are improving the livelihoods of smallholder farmers in the poorest rural areas around the globe. If small farmers can grow more, they can earn more, and can lift themselves out of poverty.

GAFSP is a compelling example of how the United States can internationalize the burden of dealing with pressing global problems. In fiscal year 2010, the United States contribution to this fund was only 8 percent of the total food security appropriated resources. In less than a year, it has unlocked $380 million in actual contributions from other donors. However to sustain our leverage, and signal our commitment to addressing global food security, the U.S. will need to make good on its pledge of $475 million. To date, the United States has contributed $67 million compared to $229 million by Canada and $95 million by Spain.

Tackling Climate Change

Chairman of the Joint Chiefs of Staff Mullen recently highlighted that climate change “could generate conditions that could lead to failed states and make populations more vulnerable to radicalization.” Through investments in both the Climate Investment Funds, initiated by President Bush and Secretary Paulson, and the Global Environment Facility, Treasury’s programs reduce the threats caused by changing environmental conditions by combating their causes, by helping countries better prepare for and respond to their impacts, and, ultimately, by providing leverage with China, India, and other nations to do their fair share.

These investments also play an important economic role – investments in energy infrastructure in developing countries are expected to total more than $20 *trillion* over the next 25 years, including a $10 trillion global market for clean energy. Treasury’s programs help create open, fair, and functioning markets in which American businesses can compete and win. Just last year, a loan from the Clean Technology Fund was the catalyst for a Mexican wind farm that bought 27 Liberty Wind Turbines from Clipper Windpower, a U.S. company that makes turbines in Iowa. It was Clipper’s first ever export. These investments also spur local economic opportunities for our partners, including solar power initiatives in Egypt and Tunisia and geothermal energy in Indonesia and Kenya. This leads to local job creation, economic growth, and political stability. By fostering local opportunities while leveling the playing field for international competition, these programs are turning aid recipients into trading partners.

Finally, our participation in these multilateral programs magnifies our "bang for the buck" in two important ways. First, our contributions bring in other donors – between $4 and $5 for every $1 the U.S. contributes. And, by remaining the largest donor, we exert considerable influence. Second, these programs attract MDB, government, and private sector sources. For example, the Clean Technology Fund (CTF) in the past year approved clean energy investment plans that blend $4.3 billion of fund money with other financing to mobilize total planned investments of more than $40 billion - leveraging nearly $10 from other sources, including the private sector and host country, for each CTF dollar spent.

Reforming the Multilateral Development Banks

As part of this year's budget request, we have secured a series of important reforms of the multilateral development banks. Through close consultations with Congress, these reforms are designed to improve the financial effectiveness of these institutions; promote a fair playing field across the world, increase transparency, and enhance the impact of our investments. Key reforms include:

1. *Financial discipline.* We have successfully pushed for reforms that will promote more effective use of the capital we provide by transferring more of the resources from the middle income "hard loan" windows to the poorest countries and enforcing more disciplined budget strategies. For example, each dollar contributed to capital will result in nearly $8 in transfer from IBRD to IDA, providing a total of $6.6 billion over the next 10 years to the countries most in need.

2. *Transparency and accountability*. The multilateral institutions play a critical role in promoting reforms to combat corruption and increase transparency and accountability. As part of these efforts, the U.S. has secured more effective internal audit and investigative functions. We have made disclosure of significant policy documents the norm and enhanced the role of inspection panels to give citizens a voice in MDB operations.

3. *Impact and results.* Finally, the United States has consistently pushed for higher standards for the design, monitoring, and evaluation of projects across all of the institutions to make sure that investments are made where they will have the most impact. We want to make sure we pull back from projects that are not achieving strong enough results, so that we can increase the investments needed to scale up projects that are. A recent study by the Brookings Institution and Center for Global Development ranked IDA among the very top in development effectiveness out of 150 bilateral and multilateral aid agencies. And the Global Agriculture and Food Security Program has committed up to 2.5 percent of its resources for independent evaluation of its projects, setting a new standard for result-based investing among trust funds.

Conclusion

The partnership between the U.S. and multilateral development banks has endured across years and across parties because these institutions have proven their worth. They were indispensable in stabilizing the global economy during the recent financial crisis. They are vital for addressing the challenges of the moment and will be integral for responding to changes that lie beyond the horizon. These institutions provide unparalleled returns: for capital increases once every 15 to 20 years, the MDBs stretch the impact of our dollars around the world, toward every global challenge, and through time. With domestic resources constrained, no other institutions so effectively leverage our limited resources in service of our national and global interests.