



FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M., EST
FEBRUARY 26, 1980

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BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

I. INTRODUCTION

We meet this morning to discuss the Administration's requests for the International Financial Institutions in the context of an international situation which is characterized by greater tension -- in both the strategic and economic sphere -- than has been the case in recent history.

The tension affecting our strategic interests is most clearly linked to events in Southwest Asia. The revolution in Iran and the Soviet aggression in Afghanistan have heightened awareness throughout the world of the many different sources of threats to peace.

The economic tension stems from the somber global economic outlook. Much of the 1970's was characterized by high inflation, soaring energy costs, low growth rates, and unprecedented imbalances in external payments. Largely as a result of various cooperative efforts, the international community weathered the economic turbulence reasonably well. Nevertheless, adverse oil market developments have again radically affected economic prospects. The

M-344

re-emergence of a large current account surplus in the OPEC countries -- projected roughly on the order of \$120 billion for 1980 -- and the inevitable generation of a corresponding deficit in non-OPEC countries will make serious balance of payments pressures inevitable for a growing number of countries.

Events in the Middle East have driven home dramatically the linkages between foreign policy and economics. We can be successful only if our strategy deals with both the strategic and economic crises which we face, and the inter-relationships between them.

The Administration response to the increased tensions, in both the strategic and economic arenas, has relied heavily on the international institutional framework which has evolved since World War II. This framework was designed under U.S. leadership to provide a system whereby all countries, large and small, could turn to seek cooperative solutions to their fundamental concerns. In the foreign policy area, we have turned to NATO, the United Nations, and the World Court. Economically, we rely heavily on the institutions which are the subject of today's hearings.

The International Monetary Fund (IMF) and the multilateral development banks (MDBs) are the front lines of defense for the world economy. During the 1970's, they were pivotal factors which both facilitated needed economic adjustments and helped sustain growth: the IMF through its surveillance and oversight activities and also through its expanded and liberalized financing facilities, and the MDBs through their increasingly important role in Third World development.

The distinct but complementary operations of these institutions serve U.S. interests greatly. They will be invaluable assets in facing the growing economic and financial problems of the new decade. The uncertain world economic environment -- which the Soviet Union will seek to exploit -- makes it all the more important for the United States to assure that the IMF and the MDBs can respond effectively to the needs of their members. In the economic arena, as in the international political and military spheres, the United States cannot maintain an effective leadership role -- and assure our national security -- unless we are willing to provide resources adequate to the dangers confronted.

The Administration's appropriations requests for both the International Monetary Fund and the multilateral development banks are designed to do that.

I am submitting for the record a detailed background paper which deals fully with the Administration's request and provides specific material on the operations of the Fund and the banks.

In today's testimony I want to emphasize my conviction that it is absolutely crucial for the United States to continue its strong support for these institutions. They are valuable examples of successful international cooperation. More importantly they are directly supportive of vital long-term U.S. foreign policy interests. Now is not the time to undermine our influence in these institutions and over global economic developments. The stakes are too high.

II. THE INTERNATIONAL MONETARY FUND

The purpose of the IMF is the maintenance of a strong and orderly international monetary system. It is not foreign aid. It is not commodity financing. It is not like any other institution in which our country participates.

The IMF has two basic functions, and they are closely related. The first is general guidance over the operation and evolution of the international monetary system. The second is provision of temporary financing in support of adjustment programs by IMF members facing balance of payments problems.

In its first function, the Fund has been given important new powers of surveillance over exchange rates and the balance of payments adjustment process. The IMF membership has also established the objective of making the Special Drawing Right the principal reserve asset in the system, to avoid the instabilities inherent in a system based on a multiplicity of national currencies.

The Fund's role and performance in these areas are of critical importance to the United States' own economic and monetary interests. A strong IMF role can encourage appropriate adjustment by other countries, both surplus and deficit. This helps ease pressures on the U.S. balance of payments and on the dollar. And a strong IMF role in the area of international reserves and liquidity can help assure an orderly evolution of the roles

of the dollar, other national currencies and the SDR in the reserve system.

The IMF's second main function, balance of payments financing for its members, is closely linked to its broader role in guiding the overall balance of payments adjustment process. The aim is to encourage timely adjustment by individual countries, through policies that are not disruptive of national or international prosperity.

This objective is in the interest of every country, and every IMF member is obligated to support it in concrete, financial terms. This is a critically important point to bear in mind. The IMF is a revolving fund of currencies provided by every member. Every member must allow its currency subscription to be used by the IMF, and every member in turn has a right to draw on the IMF's currency pool when in balance of payments need. When a country's currency is used by the IMF, that country receives an automatically available claim on the IMF, which it can use to get needed foreign exchange when it runs into trouble.

Financing flows back and forth through the IMF depending on balance of payments developments. There is no set group of lenders or borrowers. Many IMF members, both developed and developing, have been on both sides of the financing and drawing ledger, providing their currency at times and drawing other currencies at other times. In fact, while the U.S. quota subscription has been drawn upon many times over the years, our own drawings of \$7.5 billion on the IMF are the second largest of the entire

membership. As a net result of all IMF transactions in dollars over the years -- dollar drawings and repayments by others, and U.S. drawings -- the IMF's holdings of dollars currently exceed the U.S. currency subscription to Fund resources. Consequently, there has been no net use of dollars by the Fund over its 35 year history.

As you can appreciate, quotas are absolutely central in the IMF. They are the IMF's permanent resources. They determine the amounts countries can draw. They determine the distribution of SDR allocations. And, of key importance, they determine voting power. Because of these important advantages, the competition is always for increases in shares -- not for reduction, as is the case in many other institutions.

IMF quotas are reviewed periodically, and have been increased four times in the IMF's history, in response to growth in the world economy and international trade and finance. These increases have been needed to keep the Fund's financing capability in some reasonable relation to demands that may arise.

The proposal for this quota increase resulted from a review that began in 1977. Quotas had fallen to an unrealistically low level, about 4 percent of world trade compared to 12 percent earlier, during a period of massive expansion of payments imbalances and international financing needs. The recognition that an increase was necessary came early in the review -- even though a long period of negotiation was required to reach agreement on the precise amount and shares.

The 50 percent increase ultimately agreed in December 1978 -- raising total quotas from about SDR 39 billion to SDR 58 billion -- will barely halt the decline in the relative size of the IMF over the next five years. Many countries pressed hard for a larger increase. The quota increase proposed for the U.S. is 50 percent, amounting to SDR 4,202.5 million, or about \$5 1/2 billion at current exchange rates, and will raise our quota from SDR 8,405 million to SDR 12,607.5. This maintains the U.S. quota share intact at 21.5 percent. Given the continuing large role of the U.S. economy and the dollar in the international monetary system, maintenance of an appropriate U.S. share and influence over decisions on the international monetary system is particularly important. An increased U.S. quota will augment the foreign exchange resources available to us should we need them for balance of payments purposes. And without the proposed increase in the U.S. quota, our veto power over major IMF decisions affecting the operations of the entire system could be jeopardized.

Developments since completion of the quota review and the IMF Governors' resolution formally proposing the increase have only strengthened the need.

We are now faced with the consequence of another round of huge oil price increases and with events in Iran and Afghanistan that greatly heighten the level of world concern and tension. These developments make it absolutely essential that we have in place the institutional framework for assuring monetary stability and providing advice and support to countries

as they contend with radically altered economic prospects.

Both financing and economic adjustment are going to be more difficult in this environment. The private financial markets will have to meet the bulk of expanded international financing needs -- no other source is available -- and development aid must continue to increase. But some countries will run into growing financing difficulties and pressures to bring their external balances into line with sustainable flows of financing.

Without adequate financing, the efforts of deficit countries to adjust would necessitate curtailing economic growth so abruptly that it would cause severe human hardships and could well jeopardize the political stability of a number of countries. Countries could also be forced to adopt restrictive trade policies in an attempt to ration the foreign exchange available to them, or to resort to aggressive exchange rate behavior. In today's interdependent world, the adoption of such policies -- particularly because it could lead to retaliatory policies or emulation by other countries -- could have disastrous worldwide repercussions and would be reminiscent of the self-defeating economic policies followed in the 1930's.

The task of assuring a strong and stable international monetary system in the circumstances of the 1980's will be formidable. We cannot predict the amount of IMF financing that will be needed. No one can. But we can foresee very tangible dangers to the system and to ourselves if the Fund's resources prove to be insufficient when they are called on. It is therefore critical

that IMF operations in this period of stress be buttressed by prompt Congressional approval of the proposed quota increase. In so strengthening the base of our international monetary system, the United States will not only be contributing enormously to an international environment conducive to effective foreign policy, but will also be strengthening a source of balance of payments financing on which it has drawn many times itself.

Before concluding this discussion of the IMF I would like to note that the Supplementary Financing Facility, for which U.S. participation was approved by the Congress late in 1978, has proved to be an extremely important reinforcement of IMF resources during a period of growing financial strain. The Facility began operation in early 1979 on the basis of financial commitments amounting to about \$10.5 billion. OPEC is providing over 40 percent the total with Saudi Arabia the largest single participant. To date, the facility has been used in conjunction with IMF programs totaling \$1.7 billion and is assisting a wide variety of countries -- including Turkey, Jamaica, Peru, and Sudan -- in dealing with severe payments difficulties. A number of countries are now discussing with the IMF programs under the Facility, and total use before the Facility expires (scheduled for early 1981 or 1982) should be substantial. This Facility, designed as a temporary bridge to the quota increase now in process, is a timely and

valuable source of support for the Fund's operations in this period, and Congressional approval for it has proven to be extremely wise.

Finally, let me mention the question of the budget and appropriations treatment of this quota increase. The President's budget proposes that a program ceiling on the increase be provided in an appropriations act. We have been consulting closely on this question with interested committees, and it appears that considerable interest is developing in an alternative approach which would involve the following:

- Appropriations would be required in the full amount of the increase, and that sum would be included in budget authority totals for fiscal year 1981.
- Payment of the quota increase would result in budgetary outlays as cash transfers are actually made to the IMF on the U.S. quota obligation.
- Simultaneously with any cash transfer, an offsetting budgetary receipt, representing an increase in the U.S. reserve position in the IMF, would be recorded.
- As a consequence of these offsetting transactions, transfers to and from the IMF under the quota obligations, therefore, would not result in net outlays or receipts.
- Net outlays or receipts resulting from exchange rate fluctuations in the dollar value of the SDR-denominated

U.S. reserve position in the Fund would be reflected in the Federal budget. These net changes cannot be projected and thus would be recorded only in actual budget results for the prior year.

Thus under either the program ceiling contained in the President's budget or this alternative approach, U.S. payments on its quota subscription would not affect net budget outlays or, therefore, the Federal deficit.

Also under either approach, it is important that the appropriations action be denominated in SDR, though I know this is a departure from normal practice. This is because our IMF quota -- and those of all other countries -- is denominated in SDR, the IMF's unit of account. We negotiated hard to maintain our quota share and influence over IMF decisions. There were many who sought increases in their own shares at our expense. We should not allow a cut through inadvertence, which could happen if the appropriation number were expressed in dollars and the dollar depreciated in terms of the SDR. An SDR denomination of the appropriation figure -- SDR 4,202.5 million -- will protect us against that danger.

III. THE MULTILATERAL DEVELOPMENT BANKS

The United States has an important responsibility in working to establish and maintain an international economic environment which furthers the process of equitable economic growth in the developing countries. This reflects the realities of economic interdependence, in which the prosperity of each nation depends upon the well-being of others. In addition the countries of the developing world are an increasingly important factor in protecting U.S. security and other foreign policy interests. It is a simple truism to recognize that the prospects for developing country support on global issues of importance to the United States will be enhanced by U.S. cooperation on issues of keen interest to them. In the case of most of the third world countries, the fundamental concern is development.

Poverty exists on a large and pervasive scale in developing countries throughout the world. There are large gaps between developed and developing countries in terms of living conditions and the quality of life; in health and nutrition, literacy and education, life expectancy, and in the overall physical and social environment. The natural growth of population and the process of industrialization have compounded already immense problems of unemployment and underemployment and fueled a rapid increase in the size of urban populations most of which are without access to rudimentary health and sanitation services. In addition to new problems generated by this rapid urban

growth, the primary concerns in low income countries -- with large numbers of rural poor and heavy reliance on agriculture -- remain with the requirements of the rural economy and the need to improve production of the small farmer.

The multilateral development banks (MDBs) are at the heart of international efforts to address these development concerns. They are unique institutions by which the United States can work cooperatively with developing countries in support of their aspirations for economic and social progress.

The banks have proven themselves to be effective instruments for promoting growth with equity. Last year they made loans totaling nearly \$14 billion which helped to finance 425 projects in 90 developing countries. The banks now account for between 10 and 15 percent of the total external resources moving to the developing world. This proportion is much higher for the poorer countries which do not have access to the international capital markets.

Important as this transfer of resource function is for the MDBs, a far more important contribution to development lies in the way their projects have become the principal catalyst for growth and contributed to rational sector and macro-economic policies in developing countries. In this regard, they have organized increasing amounts of co-financing from private as well as from other public sources.

The MDBs also have a key role in the transfer of technology and in providing sound advice on economic policy associated with their lending activity. This contribution to "institution building" and "human capital formation" permeates the process of project implementation and is perhaps the greatest contribution made by the banks to the long-term economic prospects of the developing countries.

It is the combination of project financier, financial catalyst, and institution builder which makes the MDBs such unique and important agents in the development process.

Throughout the history of bank operations, the United States has supported and encouraged those adaptations in bank operations which we believed would further increase the effectiveness of bank lending. Among the more important results of past U.S. initiatives are the shift in the sectoral composition of MDB lending to those sectors -- such as agriculture and rural development -- where project benefits accrue more directly to the poor, the use of the MDBs' considerable aid leverage to promote policy changes in the borrowing countries which favor the poor, and the recently emphasized step-up of MDB lending to increase developing country energy supplies.

The cooperation among countries within the MDBs contributes significantly to the substance as well as the atmosphere of U.S. ties with developing countries. U.S. participation in the banks also reflects a successful partnership with Europe, Japan,

and Canada -- with whom we work closely on MDB financing arrangements. Any significant slackening of traditional U.S. support for the MDBs would both seriously jeopardize our relations with the developing world and weaken the confidence of our allies in U.S. ability to play a cooperative role across a broad range of international activities. Undermining such a pillar of the international institutional framework would also make it much more difficult for us to get the support of the developing countries for our positions in other international bodies, on issues of central concern to our own national interests.

In this context, Mr. Chairman, we are deeply concerned by the continued failure of Congress to pass the FY 1980 Appropriations Bill. The absence of this legislation is having a major impact on the MDBs.

The International Development Association (IDA), the Fund for Special Operations (FSO) in the Inter-American Development Bank (IDB), and the Asian Development Fund (ADF) have completely run out of commitment authority and have been compelled to process all new commitments on a contingent basis. The lending program of the African Development Fund (AFDF) may soon have to be curtailed completely. The IDB has already scheduled a special meeting to discuss this situation and the Asian Fund may call a similar meeting soon.

The economic consequences for the developing countries will be severe if MDB lending is not maintained. A number of countries, particularly in Africa, are dependent on the banks for a large portion of their development budget and have already expressed

concern to the United States about the cut-off in IDA lending. Some of these countries are of key importance to us right now. Loans to Pakistan and Kenya, among others, are being held in abeyance.

Continued U.S. failure to meet our negotiated shares of MDB financing can only impede our efforts to win widespread support for our own foreign policy and national security objectives. I strongly urge that maximum effort be made to complete final passage of the FY 80 Bill this week with an appropriation as close as possible to the Administration's request.

Economic Benefits of U.S. MDB Membership

As the Administration's chief fiscal officer, I am committed to budget restraint. At the same time, for the reasons I have outlined, the United States must maintain a reasonable program of foreign assistance. The multilateral development banks reconcile these needs.

First, other members contribute \$3 for every \$1 contributed by the United States. Second, supported by callable capital, the banks finance the bulk of their lending program through borrowings in the private capital markets. The result is that U.S. budget expenditures are multiplied many times over in actual MDB lending. For every dollar the United States has paid into the World Bank over the past 35 years, for example, the Bank has lent over \$50. Our development assistance gets maximum leverage when channeled through the MDBs.

In addition, U.S. producers and consulting firms have received the largest share of MDB-financed procurement contracts. This has led to a significantly beneficial impact on U.S. employment and GNP. For every dollar we have paid into the MDBs for the years 1977 and 1978, the U.S. economy has grown by an average of \$3.00. Over the life of the institutions, they have also contributed \$11 billion to our current account.

The FY 1981 Appropriations Request and Callable Capital

For FY 1981, the Administration is requesting total budget authority of \$1,666 million for U.S. subscriptions and contributions to the MDBs. The request is based on the assumption that the FY 1980 Appropriation Bill, as finally approved, will include the higher amount for each of the banks contained in either the House or Senate version. This conforms to OMB's practices regarding all of this year's programs. The FY 1981 request will have to be amended depending on the outcome of the FY 1980 bill. The outlay effect of the request will be spread over time, and thus the request will have only a minimal impact on this year's or next year's budget.

The amount of the FY 1981 request is much lower than that for last year. This is principally because we are not seeking budget authority for the callable portions of our capital subscriptions to the banks. The treatment of callable capital is an issue to which you have rightly called attention, Mr. Chairman, and indicated that a change in budgetary approach would be

desirable. Full appropriation of callable capital has been totally out of line with the treatment of other contingent obligations of the United States Government.

The "callable capital" concept is one of the most attractive features of the multilateral development banks and results in considerable budgetary savings for the U.S. Government. With callable capital as backing, the MDBs are able to borrow most of the non-concessional funds they require in international capital markets. The cost to the U.S. Government of subscriptions to callable capital is solely contingent in nature, since callable capital can only be used to meet obligations of the MDBs for funds borrowed or guaranteed by them in the unlikely event that the banks' other resources are insufficient to meet those liabilities

Even if calls were made, \$11.5 billion has already been funded by the Congress against the potential U.S. liabilities. It is therefore virtually certain that there will never be budget outlays resulting from the subscriptions proposed in the legislation before the Committee. Unlike other donor countries, however, the U.S., in its budgetary procedures, has heretofore treated callable capital subscriptions as though they would have an outlay impact.

The issue of changing the appropriations and budgetary treatment of callable capital has been raised by you and other members. The Administration has given this matter very careful study and concluded

that appropriation for the full amount of callable capital, and the resulting scoring of the appropriated amounts as budget authority, distort the true size of the request for the MDBs.

After consultations with you, Mr. Chairman, and many others in the Congress, the Administration therefore proposes enactment of program limitations in the FY 1981 Foreign Assistance Appropriations Act for U.S. subscriptions to callable capital instead of actual appropriation and budgetary authority. We have also submitted proposed changes in the authorizing legislation which will enable us to make the subscriptions after program limitations are enacted. Full Congressional control over callable capital subscriptions is retained, both by the program limitations and because subscriptions to callable capital and paid-in -- which must be appropriated in full -- generally have to be made in specified proportions. The General Counsel of the Treasury Department issued opinions in 1975 and 1979 that appropriations are not legally required to back subscriptions to callable capital unless and until payment is required of the United States on a call made by an institution.

The Sixth Replenishment for the IDA (IDA VI)

The background paper submitted for the record details the specifics of the Administration's full appropriations request. I would like to highlight two of the larger components of the request: the sixth replenishment for the IDA and our remaining subscription to the Special Capital Increase of the World Bank itself.

IDA expresses the determination of the more advanced countries to reduce, albeit slowly, the problems of absolute poverty in the poorer nations of the world. The 54 IDA borrowers account for approximately 31 percent of the world's population, but only about 3 percent of the global gross national product. Approximately 90 percent of IDA's funds go to countries whose per capita income is below \$300 per year (1977 dollars). Lending is concentrated on those sectors which promise to improve most directly the lives of the very poor.

With few exceptions, IDA recipient countries lack the physical and human resources to adapt quickly to the problems confronting the global economy. Their terms of trade have deteriorated. They have not been able to attract sufficient capital to maintain imports and thus sustain even their already low growth rates. Since 1974, the real value of their imports has declined. As a result, most of the poorest countries achieved per capita growth of only around 1 percent per annum during the 1970's.

Even with a major effort by the poorest countries themselves, additional concessional resources are required to achieve both higher rates of growth and greater progress in poverty alleviation. More than one-third of the total population of the developing world -- 800 million people -- still subsist in conditions of absolute poverty.

After eighteen months of negotiation, donor countries reached agreement last December on a \$12 billion IDA VI to permit continued IDA lending for the three year period beyond June 1980. Relative to donors' gross domestic

products, the size of the replenishment remains at roughly the ratio of IDA V and will thus permit a modest annual growth in IDA lending.

The United States joined other donors in supporting this replenishment noting, however, that our support was contingent on the enactment of necessary authorization and appropriations legislation. The United States insisted on a sharp reduction in the U.S. share. After lengthy negotiation, we achieved a reduction in our share from 31 percent in IDA V to 27 percent in IDA VI. This decline continues the downward trend in the U.S. share of IDA from its initial level of 42 percent, and was accompanied by a substantial increase in the shares of Germany (from 10.9% to 12.5%) and Japan (from 10.3% to 14.65%). The reduction of four percentage points in the U.S. share constitutes a very significant improvement in the distribution of responsibility for providing funds for IDA, saving us \$480 million over the life of the agreement.

A U.S. share of 27 percent of a \$12 billion IDA VI replenishment results in an average annual U.S. contribution of \$1,080 million. This represents virtually no increase in real terms in U.S. funding for IDA -- its annual lending rises by a modest amount, but our share declines by 4 percent. All real growth in IDA lending will be financed by other donors.

World Bank Selective Capital

In 1977, Congress authorized United States participation in a Selective Capital Increase (SCI) for the IBRD.

The United States has been behind in its scheduled SCI payments since the first installment, however, and the shortfall now totals \$200 million assuming the Senate level for FY 1980 (i.e. \$825.8 million) is agreed. A subscription of the full amount would require only \$20 million in budget outlays, since 90 percent of our subscription represents callable capital.

Reluctance to meet our full SCI subscriptions is ironic because the Bank's great success is to a large extent due to the leadership the United States has provided in the Bank since its creation in 1946. The shortfall in U.S. funding is particularly inopportune now that the Bank, at U.S. initiative, has mounted a major program to increase world energy supplies. The World Bank's energy program will grow to at least 15 percent of total Bank lending within five years. It will amount to \$7.7 billion over the period for the exploration, production, and development of oil, gas, and coal, and for the construction of new hydroelectric facilities. In operation, these Bank projects will produce additional primary energy estimated at 2-2.5 million barrels of oil a day, thus reducing by that amount potential world demand for OPEC oil.

A U.S. failure to complete our SCI subscription could lead other members to insist on a significant cutback in the Bank's annual lending program because doubts would be generated about U.S. support for Bank lending throughout the 1980's. Such a cutback in the lending program would be disastrous for our relations

with the developing world, undermining Bank programs in countries and regions of particular concern to the United States (e.g. Egypt, Turkey, the Caribbean, and Central America) and heightening international monetary problems by increasing demand on private capital markets.

Subscription of the full SCI amount is also essential to maintain United States voting strength above 20 percent and thus protect the U.S. veto in the Bank. The veto ensures that no changes are made in the Charter which would have a detrimental impact on U.S. interests.

The African Development Bank

The U.S. subscription to the African Development Bank (AFDB) is an important new component of the FY 81 appropriations request. Subject to receiving authorization for U.S. membership in the bank, an initial appropriation of \$18 million is being sought.

Membership in the AFDB to date has been restricted to African nations. The limited resources of the African members have, however, severely restricted the Bank's access to the private capital markets and its lending program. As a result, in May 1979, the Governors of the Bank invited nonregional countries to join. The proposed U.S. subscription would represent 5.68 percent of the AFDB's total capital and 17.04 percent of the non-regional subscription.

The United States has direct economic, humanitarian, and political interests in assuring a strong and viable Africa

where poverty is reduced, the pace of economic growth accelerated, and serious financial problems avoided. While a wide range of U.S. political and economic policies already contribute toward these objectives, our membership in the AFDB, the most prominent pan-African development institution, would help strengthen our ties with African nations and meet our growing interests in the region.

Other Regional MDBs

The remainder of the Administration's request is for appropriations for capital subscriptions and contributions for the Inter-American Bank (IDB), the Asian Development Bank (ADB) and Fund (ADF), and the African Development Fund (AFDF):

- \$51.6 million in paid-in capital for the IDB and \$318 million for the Fund for Special Operations, the IDB's concessional lending window;
- \$25.2 million in paid-in capital for the ADB and \$111.2 million for the ADF, the bank's concessional window; and
- \$41.7 million for the AFDF, which provides concessional financing for Africa's poorest countries.

These regional institutions were established to complement the activities of the World Bank Group and increase the direct involvement of the recipient countries in the development process. They now provide a central element in the development strategies of many friendly nations, and are uniquely positioned to bring to bear a special regional expertise to local problems. The regional MDBs also facilitate the mobilization of additional resources from the developing countries themselves.

IV. CONCLUSION

In conclusion, Mr. Chairman, I would like to re-emphasize my strong conviction that the International Monetary Fund and the multilateral development banks are essential to U.S. interests.

The international monetary system is undergoing a period of major change and potential strain. The IMF is our central institution for monetary cooperation, and an important source of strength, stability and broad direction as we try to contend with these changes. We need to recognize, of course, our own continuing large role in the world economy, and our responsibility for maintaining a strong U.S. economy and a sound dollar. But we need also to understand that a strong IMF role in guiding the system is of direct importance to our own efforts to strengthen the economy and maintain the integrity of the dollar. In strengthening the IMF, the United States will be making an important contribution to an international environment which greatly facilitates effective foreign policy. We will also be strengthening a source of balance of payments financing on which we are eligible to draw.

The multilateral development banks are the most effective instrument for promoting economic growth and political stability -- and hence U.S. interests -- in the developing world. They encourage sound national economic policies and provide an effective framework for bringing the developing countries into the open market system we espouse. Moreover the banks give

us good value for our money with U.S. budgetary expenditures multiplied many times over in actual bank lending. They benefit borrowers and lenders, developing and developed countries alike. The importance of the banks has been reinforced by the fact that recent economic difficulties have exposed a number of developing countries to serious threats of political, economic and social instability.

The problems we face have a direct bearing on our national security interests. The problems are difficult but not unmanageable. Given a reasonable degree of international cooperation, we have the resources to assure a gradual expansion of the world economy. Healthy and growing economies strengthen the foundation of our international economic system, and maintain an environment conducive to multilateral cooperation on a broad range of other issues critical to the United States.

The seriousness of the current world situation leaves little doubt about the importance of a sound international structure for dealing cooperatively with vital issues. Now is clearly the time for renewed United States leadership in support of the Fund and the multilateral development banks and the mutually beneficial endeavors which they represent. For this reason, the Administration urges Congress to provide the necessary funding to sustain the operations of these institutions and encourage their pivotal role in building a cohesive and stable world.