

# U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Secretary of the Treasury Timothy F. Geithner Written Testimony before the House Committee on Appropriations Subcommittee on State, Foreign Operations, and Related Programs on the Fiscal Year 2011 International Programs Budget Request

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Chairwoman Lowey, Ranking Member Granger, and Members of the Committee, thank you for the opportunity to discuss the President's Fiscal Year 2011 Budget Request for the Department of the Treasury's International Programs. There has been a long history of bipartisan support for American leadership on these programs and that support has brought substantial achievements in reducing poverty, implementing reforms, and fostering economic growth around the world.

As President Obama noted in his State of the Union address, America's destiny is connected to the welfare and security of those beyond our shores. Our strategy for renewing American leadership is guided by four enduring priorities: 1) supporting economic growth at home and abroad; 2) protecting our national security interests; 3) lifting the lives of the poorest; and 4) promoting global solutions to address climate change and other transnational challenges.

The focused investments contained in Treasury's Budget Request support these key goals.

### Supporting Economic Growth

At their core, the multilateral development banks (MDBs) are designed to support private-sector-led growth and integration into the global economy. U.S. investments in these institutions support efforts to develop property rights and the rule of law, strengthen financial systems, and promote strong institutions, which support the broader objective of expanding economic growth--at home and abroad.

By helping developing nations stabilize and grow, we build new markets for U.S. exports and create jobs here at home. We provide the seeds for private sector development, entrepreneurship, and innovation. Our investments in the MDBs help generate new engines of growth that benefit the U.S. economy and the global economy, as a whole.

At no time has the importance of this central mission of the MDBs been more evident than during the recent financial crisis. The MDBs acted with exceptional speed and force to cushion the poorest from the worst impacts of the crisis and help restore liquidity for world trade flows. At a time when few institutions were lending, their decisive actions, including \$222 billion in financing, were critical to global stabilization efforts and are a fundamental part of the reason we are now seeing signs of economic growth. The MDBs helped more than 130 countries, representing 44 percent of the world economy, and 31 percent of America's export markets. In Africa, the world's poorest continent, the African Development Bank more than tripled its lending in 2009 and provided \$8.5 billion in assistance. In Eastern Europe, which suffered a severe recession during the crisis, the European Bank for Reconstruction and Development increased its investments by 50 percent, to \$11.8 billion, helping to avert an economic depression.

### Developing the Private Sector

Ultimately, sustainable growth must be led by the private sector. That is why the United States has long been committed to fostering private sector development through its leadership of the MDBs. From improving access to financial markets to building the capacity of entrepreneurs and providing training, efforts to support a strong and dynamic private sector will fuel sustained growth in developing economies and will also help open markets for American businesses and workers.

We have pressed the MDBs to focus on fostering a strong environment for private sector development, with notable results. The Asian Development Bank is working to triple its private sector lending so that it represents at least 50 percent of its portfolio. And the United States has asked the International Finance Corporation, which finances private sector investment as part of the World Bank Group, to increase its focus on the poorest countries, with those activities now representing over 40 percent of its portfolio. These efforts are critical to generating employment opportunities, stronger investment, better access to finance, and improved corporate governance.

## **Supporting National Security Objectives**

The second core U.S. priority supported by Treasury's International Programs is the stabilization of frontline states vital to national security, such as Afghanistan, Pakistan and Iraq. Through our investments in the MDBs, through debt relief, and through our group of civilian advisors in finance ministries and central banks around the world, our programs directly bolster U.S. national security objectives every day.

The World Bank and the regional development banks have been our partners in reconstruction and economic rebuilding in countries vital to U.S. national security, providing \$543 million in grants to Afghanistan and \$3.35 billion in assistance to Pakistan in 2009. This assistance is at the center of our civil-military strategy, which calls for a civilian surge to push back the Taliban in Afghanistan. For example, last year in Afghanistan, the Asian Development Bank completed a \$300 million electricity infrastructure project in Kabul. This funded the construction of a transmission line that brought a stable power supply to Kabul for the first time in decades and increased the supply of electricity for the city's four million residents, from a few hours a day to 24 hours. These kinds of programs create the foundation for Afghan livelihoods and economic growth, both crucial components to bringing stability to Afghanistan.

### Technical Assistance

Treasury's Office of Technical Assistance (OTA) also directly supports our national security objectives by building the capacity of governments in more than 40 developing countries around the world. Working side-by-side with officials in finance ministries and central banks, Treasury's civilian advisors help governments improve their management of public finances, as well as build protections against abuses of the financial system. This work is a cornerstone of good governance, and is essential for the provision of basic public services that citizens rightly expect—security, education, health, and infrastructure. Strengthening financial management also helps countries use foreign assistance more effectively and hastens the day when they will no longer need it. As we work towards the President's goal of a civilian-led strategy in Iraq, Treasury's ongoing support can speed this transition by strengthening the government's capacity to support its citizens.

In this 20th anniversary year of the Office of Technical Assistance, we have requested \$38 million for FY 2011 to continue this critical work around the world. This is a small investment that complements other major U.S. investments in reconstruction, security, and foreign assistance.

In Haiti, shortly after the devastating earthquake struck the capital, OTA sent two technical advisors to assist the crippled finance ministry and central bank. This team has been working around the clock to help the government stabilize its financial sector and help facilitate an economic recovery.

In Afghanistan, OTA's work on economic crimes has helped the Afghan government develop a financial intelligence unit staffed and trained to track large cash transactions and suspicious activities from financial service providers. This unit can now share data with other law enforcement agencies in Afghanistan and help prevent money laundering and terrorist financing.

In a recent speech to the Aspen Institute, Ashraf Ghani, the former Afghan Minister of Finance, gave a strong tribute to the strength of our OTA efforts. He said, "It's an appreciation that needs to be made public: The best technical assistance I received was from the U.S. Treasury."

## **Lifting the Lives of the Poor and Advancing Core Values**

Over the last few decades, we have seen a dramatic improvement in global living standards, thanks in no small part to the collective effect of bilateral assistance and the multilateral development banks to support developing country reforms. The proportion of the developing world's population living in extreme poverty has been halved since the early 1980s, with a 28 percent reduction in infant mortality, and large improvements in overall life expectancy and adult literacy. While great strides have been made, great challenges remain. The financial crisis showed us how rapidly gains can be erased. The World Bank estimates that about 64 million more people will be living in extreme poverty in 2010 than would have been the case had the crisis not occurred.

Our leadership in the fight against global poverty through the development banks is a sign that America is committed to pursuing solutions in cooperation with our partners. Treasury's request for \$1.709 billion for the MDBs is an essential investment that will fund programs critical to advancing humanitarian goals. These are largely past commitments made by President Bush.

For example, in Yemen, the World Bank has helped expand access to basic education, especially for girls, by increasing the number of classrooms and improving teacher skills and performance. Investments in Rwanda have helped nearly half a million people in rural communities gain access to basic drinking water facilities and improved sanitation. The African Development Bank has invested in roads and transport infrastructure across Ethiopia and into Kenya in order to facilitate trade and regional integration, which is increasingly recognized as an important development imperative among the highly fragmented and often landlocked economies of sub-Saharan Africa.

And, in the aftermath of the devastating earthquake in Haiti, these institutions are working on the front lines to provide immediate and critical access to capital, the lifeblood of any economy, so that people can buy supplies and begin rebuilding their lives, businesses can open doors, and the government can function. Within days of the earthquake, the Inter-American Development Bank worked closely with the U.S. Government and Fonkoze, a remittance provider with retail branches throughout Haiti, to identify ways to deliver cash to the most vulnerable people in Haiti. With support from the Inter-American Development Bank's Multilateral Investment Fund and the U.S. military

and government agencies, Fonkoze distributed \$2 million in cash to 34 of its retail branches. This means money in the hands of Haitians to buy food, water, and other essentials.

### Strengthening Food Security

Today, more than one billion people suffer from chronic hunger. With a rising population and a growing global middle class, global food supplies will have to increase by an estimated 50 percent over the next 20 years to meet projected demand. This challenge is compounded by climate change, soil erosion, water shortages, and, in many of the world's poorest countries, stagnant agricultural productivity. Unfortunately, over the last 20 years, donors have scaled back their investments in agriculture with agriculture's share of official development assistance dropping from 17 percent in 1979 to just 3.5 percent in 2004.

At the G-8 Summit in Italy last year, President Obama pledged greater focus on reducing global hunger and extreme poverty by increasing investments in the agricultural sector, including a new multilateral trust fund.

For this trust fund, which will be administered by the World Bank, the U.S. will contribute \$408.4 million from the FY 2011 Budget Request, and \$66.6 million from the already approved FY 2010 USAID budget. We expect this fund to have a 10-year time horizon, which will provide predictable financing to support country-owned agriculture plans. We expect total initial contributions to the fund to exceed \$1 billion once sizeable investments from other donors, such as Canada, Spain, major foundations and other countries, are included. Treasury, State, and USAID are reaching out aggressively to prospective donors to increase both contributions and participation in the trust fund. The trust fund will utilize and leverage the technical capacity of the multilateral development banks and provide financing for country-owned agricultural plans.

The design of the trust fund has been informed by best practices learned from previous multi-donor trust funds. We have been negotiating the framework for the fund, ensuring an innovative and flexible operating model, seeking effective and rapid disbursements, and including participation of civil society organizations and recipient countries in the governance structure. As soon as we launch the trust fund, it will consider proposals from low-income countries from Africa, Asia and Latin America.

Treasury is also requesting \$30 million for the International Fund for Agricultural Development (IFAD). IFAD focuses exclusively on reducing rural poverty and hunger, which is essential to achieving our overall food security objectives given that nearly 75 percent of the world's poorest people reside in rural areas.

The U.S. contribution to IFAD will leverage an additional \$1.1 billion in contributions from other donors pooling in the organization, thereby providing 13 times the initial investment, and helping an estimated 60 million people. IFAD is uniquely positioned to work at the grassroots level with rural communities and farmers' organizations to design and implement projects and programs tailored to the needs of the rural poor, especially smallholder farmers.

### Debt Relief

Debt relief can help stabilize poor countries emerging from conflict and natural disasters, and is an important element of our toolkit to support the poorest and promote prosperity. By putting countries on more sustainable debt paths, we help them restart growth and attract private sector investment. In addition, debt relief programs are structured to ensure that the savings are directed to critical social programs, ensuring countries can invest in their people. In Africa, many governments used debt savings to eliminate primary school fees, providing educational opportunities for children.

For FY 2011, Treasury is requesting \$70 million for debt reduction activities. Of this amount, \$50 million is requested for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The United States has been a leader in this initiative, and has helped support some of the world's poorest countries in their efforts to move beyond debt and into development. As you know, Liberia, Haiti, and Afghanistan have all benefitted from U.S. debt relief in the past. This year's request would be used to make a substantial contribution towards meeting the \$75.4 million in U.S. pledges to the HIPC Trust Fund that have not yet been fulfilled. In addition to the funding request for the HIPC Initiative, \$20 million is requested for activities under the Tropical Forest Conservation Act.

I would like to express my appreciation for the strong support of so many members of this Committee to relieve Haiti's debt following the earthquake, and I urge all of you to support the supplemental that the President submitted yesterday. In parallel with your efforts, we have been working actively with international partners to deliver comprehensive debt relief for Haiti.

Just this past weekend, we reached an agreement with other Inter-American Development Bank shareholders to cancel all of Haiti's \$479 million debt to the institution. And we are doing so in a way that delivers new grant resources to Haiti going forward to meet urgent reconstruction needs. We are also working with our G-7 partners and other donor countries to achieve the same results with the World Bank and IFAD.

### **Addressing Global Challenges--Climate Change**

We are also determined to ensure that our engagement in the multilateral institutions promotes global action to address the world's most pressing global challenges--primary among them: climate change.

This complements our commitment--evidenced in Copenhagen and other venues--to work with our global partners to forge a global solution to climate change and to address its impacts, at home and abroad. That's why you've seen the President implement a sweeping set of incentives for investments in clean energy and energy efficiency.

But this is a global challenge that demands a global solution. Therefore, as we work to develop an effective response to climate change at home, we must help ensure that other countries around the world do their part. That is why we are working with the World Bank to develop a framework and financing mechanisms that effectively support international mitigation and adaptation efforts. Treasury's Budget Request will help lead the United States and its global partners to low-carbon, climate-resilient economic growth, and help the most vulnerable countries prepare for and respond to climate change.

Specifically, the requested contributions of \$635 million to the Climate Investment Funds and \$175 million for the Global Environment Facility are critical to that endeavor. By contributing \$400 million of these funds to the Clean Technology Fund (CTF), we are facilitating the development of country-led clean energy investment plans that can attract private financing and create new models for energy investments in developing countries. The CTF has already mobilized nearly \$44 billion dollars in planned investments for clean energy, energy efficiency and sustainable transport in just over one year of operations on a funding base of \$4.3 billion. Specifically, CTF projects will help produce nearly a gigawatt of clean energy through a network of solar power stations across five countries in the deserts of Northern Africa. They have also helped foster private-sector led, large-scale development of wind energy in the Oaxaca region of central Mexico.

The Global Environment Facility (GEF) has supported more than 2,000 projects in 165 countries to improve the environment since its inception in 1991. Through its sustainable urban transit portfolio, the GEF has helped to avoid global emissions of nearly 60 million tons of CO<sub>2</sub>, equivalent to the annual emissions of Denmark. In Mexico City alone, GEF investments in a clean rapid transit bus system has delivered a 50 kilometer bus system that runs through the city's main transport arteries and has led to a reduction of 80,000 tons of carbon dioxide a year.

Of the \$70 million Treasury is requesting for debt reduction activities, \$20 million would be for its activities under the Tropical Forest Conservation Act, a U.S. government effort that allows eligible countries with significant tropical forests to be relieved of certain official debt owed to the U.S. while generating funds in local currency to support conservation activities.

### **Pursuing the Reform Agenda**

As first responders to the financial crisis, we asked the multilateral development banks to stretch their balance sheets, and they responded with commendable speed and force. It is now our turn to ensure the World Bank and regional development banks have adequate capital and funding to fulfill their missions of lifting the lives of the poor, promoting security, addressing climate change and other global challenges, and underwriting global growth. That is why we will examine the capital needs of these institutions and work with Congress to determine how best to renew American leadership and deliver results.

We invest in the World Bank and the regional development banks because they provide strong, effective and highly leveraged means to advance global prosperity while also promoting core American interests and values. For every dollar the United States contributes to paid-in capital for the World Bank, six dollars of additional capital is generated by other donors. And, for every dollar we invest in the World Bank, \$26 worth of aid is delivered.

As a result, U.S. contributions to date to the World Bank have generated enormous impact, enabling lending levels that are nearly 250 times that of our paid-in capital investment.

Our focus on resources will be matched by an insistence on results and reform. The United States remains intensely focused on ensuring maximum results for every taxpayer dollar used for development and on ensuring these institutions first and foremost improve sustainable economic opportunities for the poorest around the world. Especially during this time of constrained resources at home and when unemployment is unacceptably high, we must make sure that our investments yield the highest returns.

While our reform agenda varies by institution, broadly we are focused on four critical areas:

1. *Sound Finances:* The United States is pioneering new financing models in the MDBs to promote sound use of the capital we provide and pushing for changes to focus their work on the poorest countries. For example, we are seeking loan charges for the hard loan windows that will result in substantial profits that can be transferred into the soft loan windows for poorer countries. We are also seeking to help make sure that the MDBs do not build up excessive capital when demand from borrowers falls. As middle income countries gain more access to capital markets and their demand for MDB loans decline in future years, we will pursue approaches that either transfer these resources to the soft loan windows or return this excess capital to donors. In addition, we are proposing more disciplined budget strategies within institutions so that they cover their own costs.
2. *Effective Management and Governance:* The United States will seek stronger performance measures and metrics, call better incentives to innovate and demonstrate impact, and press the development banks to become better partners in support of country-led development strategies while improving their coordination with bilateral donors, the private sector, and each other. The Asian Development Bank, in large part responding to US proposals, is taking concrete steps to improve internal controls through the establishment and elevation of the risk management office, and strengthen the internal audit and integrity functions, consistent with best practices in other MDBs.
3. *Transparency and Accountability:* The United States will continue to pursue stronger transparency and accountability at the institutions by making disclosure of significant policy documents the norm, and creating effective inspection mechanisms to allow for direct feedback on projects and policies from affected communities. The World Bank has already implemented a new disclosure policy that sets a strong standard for the other institutions.
4. *Focus on Core Missions:* The core mission of the multilateral development banks has always been to fight poverty and enhance development opportunities. The United States will continue to ensure these institutions concentrate on results for the poorest, with a special focus on four transnational challenges that were agreed upon by the G-20: food security, human development and security in the poorest and most fragile environments, private-sector-led growth and infrastructure, and climate change. Investments in these areas will help ensure sustainable economic growth that can lift lives, as well as advance U.S. national security and values.

For continued progress on these reforms, we need to stay engaged. America's ability to shape these institutions rests upon being a member in good standing who pays our fair share. By fully funding our Budget Request for \$3.065 billion, you will be able to shape the full \$100 billion in development assistance to be provided by the MDBs in 2011.

**Conclusion**

Treasury's Budget Request for \$3.065 billion represents investments that are central to renewing American leadership on initiatives to help move people from poverty to prosperity, from hunger to food security, from fragile states to stable governments, and from environmental degradation to sustainable climate solutions.

The request represents less than 5 percent of the total International Affairs budget, but it contains the capacity to yield enormous results for the United States due to the highly leveraged and effective nature of our investments. This budget increase reflects a deliberate strategy to engage in multilateral efforts that are smart and highly leveraged complements to our bilateral investments.

We make these requests in the context of one of the most challenging economic environments for Americans in generations with our nation facing severe fiscal constraints. Yet we make it with the confidence that these investments will contribute to building a stronger global economy and promoting our national security

Thank you.