

Senate Foreign Relations Committee
Chairman Richard Lugar
Opening Statement for Hearing on
Combating Multilateral Development Bank Corruption:
U.S. Treasury Role and Internal Efforts
July 21, 2004

Today the Foreign Relations Committee meets to review U.S. policy toward the multilateral development banks (MDBs), which include the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development. This is the second in our series of hearings examining ways that the U.S. Congress and our government can contribute to anti-corruption and anti-fraud efforts at the multilateral development banks. Our Committee is committed to continued oversight of the multilateral development banks through hearings, site visits, interviews, and document reviews.

The United States has strong national security and humanitarian interests in alleviating poverty and promoting progress around the world. That is why the Congress funds foreign assistance programs and also why we fund multilateral development banks. The MDBs leverage our resources to promote poverty reduction and development around the world. For 2004, the United States provided the MDBs with \$1.2 billion, and the MDBs provided developing countries with more than \$35 billion in financing.

In our May 13 hearing, we learned that the MDBs have been taking steps to curb corruption, but that more needs to be done to ensure that bank funds are used properly. Today, our hearing will focus on what the U.S. Treasury Department is doing to stem corruption at the MDBs. The Treasury Department is responsible for dealing with the MDBs on behalf of the United States. We also will discuss the World Bank's efforts to impede fraud and its response to prosecutions of corruption related to one of its projects.

As one of its anti-corruption initiatives, the World Bank commissioned former Attorney General Richard Thornburgh to produce three reports analyzing World Bank operations. We will discuss these three reports, which make recommendations for improving the World Bank's mechanisms to address fraud and corruption, streamlining the process used to debar companies that fail to abide by World Bank policy, and strengthening the Department of Institutional Integrity – the World Bank office responsible for investigating allegations of fraud and corruption.

We also will discuss the Lesotho Government's ongoing campaign against corruption. Lesotho has made a significant effort to prosecute a number of companies for bribery related to a World Bank-financed project. The World Bank's response to the Lesotho prosecutions is important not only in Lesotho, but to the perceptions of countries and companies around the world. How the World Bank deals with international corporations convicted in a court of law for corruption associated with World Bank projects will be a powerful indication of the seriousness of the World Bank's anti-corruption efforts.

Finally, our hearing will examine the responsibilities and activities of the Treasury Department concerning investigative oversight of the multilateral development banks. Our initial inquiries into this topic suggest that there is confusion or indecision within the Treasury

Department about its oversight role. In February 2004, my staff forwarded a specific allegation of World Bank corruption to the Treasury Inspector General's office. We received a response stating that, "We are in the initial phases of determining Treasury OIG's criminal investigative jurisdiction in matters like the one you have referred to this office... At this time, we anticipate no further action with this matter." A copy of the Inspector General's letter will be entered into the Record. I am perplexed that the Office of Inspector General of the Treasury Department remains unsure of its jurisdiction in multilateral development bank matters, because the Treasury Department has had the responsibility for MDB oversight since the creation of the World Bank in 1946.

We invited the Acting Inspector General of the Treasury Department, Dennis Schindel, to testify today, but he declined. His staff informed us in an e-mail that the Treasury Inspector General's office was not currently working on multilateral development bank corruption. It said, "We are exploring bases for invoking jurisdiction to do work in this area, but have not reached any conclusions." They added that the Treasury Inspector General is "low on resources since our divestiture to Homeland Security."

Given that the United States has provided more than \$39 billion in direct contributions to the MDBs since 1960, I am concerned that the Treasury Department is unable to dedicate sufficient resources to investigate the use of those funds. Congress needs to determine whether the Treasury Department Inspector General is suffering from a lack of resources. If we need to direct additional funds to ensure that the Office of the Inspector General can provide effective oversight, we should do so. If the Treasury Department Inspector General's office is not the best location for MDB oversight, then the Administration and Congress should work together to provide clear authority for this mission to another agency.

Today, we have two panels to discuss corruption and the multilateral development banks. On the first panel, we are pleased to welcome Mr. John Taylor, Under Secretary for International Affairs at the U.S. Treasury Department. On our second panel, we will hear from Mr. Richard Thornburgh, former U.S. Attorney General and former Governor of Pennsylvania; Mr. Guido Penzhorn, Advocate and Senior Counsel of the Durban Bar in South Africa and a prosecuting attorney in corruption cases in Lesotho; and Ms. Kimberly Ann Elliot, Research Fellow at the Institute for International Economics.

We welcome our witnesses and look forward to their testimony.

###