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Sent: Thursday, March 11, 2010 6:23 PM
To: H
Subject: FW: fyi

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http://thecable.foreignpolicy.com/posts/2010/03/10/lugar_no_more_money_for_development_banks_until_reform

Lugar: No more money for development banks until reform

Posted By Josh Rogin Wednesday, March 10, 2010

In the wake of the global financial crisis, a slew of multinational development banks are asking for large amounts of new capital to both replenish and in some cases expand their resource pools, and much of the burden will fall on the United States.

This creates a unique opportunity for the Obama administration to press these organizations to implement long-awaited reforms, according to the Senate's top Republican on foreign relations, who has a big say in whether and how the Congress doles out the funds.

"As the world struggles to emerge from the worst economic crisis since World War II, it is an appropriate time to ask whether the [International Financial Institutions] are performing optimally and doing the jobs they should be doing," reads a newly released report by the staff of Sen. Richard Lugar, R-IN, "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."

The report, which is the culmination of six years of research, including half a dozen hearings when Lugar was committee chairman, outlines several dozen recommendations for what the Obama administration, Congress, and the banks can do to update their relevance.

"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?" the report asks.

"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."

The Asian Development Bank has already asked the Obama administration for new funds, and the administration has requested in its new budget \$533 million in direct money and \$12.8 billion in borrowing authority for the ADB.

A committee staffer told The Cable that Lugar wants to see progress on reform before he would support authorizing the money.

"We want to make sure that before the American taxpayer puts more money in there that things are fixed," the staffer said. "It's not possible for them to do everything, but they could certainly make progress."

The reforms the administration could press for in the short term include pressing the banks to focus more on development goals rather than the structure and size of loans and "work with the other donor countries to step back and slow down the process," the staffer said.

Congress is also concerned that the Obama administration might not be interested in pressing for these reforms, considering that Obama issued a signing statement in June indicating he did not feel bound to follow congressional direction on such international negotiations.

Negotiations between several banks and the Treasury Department are ongoing. The U.S. side is led by Scott Morris, deputy assistant secretary of the Treasury's Office of International Development Finance and Debt.

The issue will next surface at the end of March when the Inter-American Development Bank convenes its annual meeting in Cancun.

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