Testimony of Secretary Lew before the House Committee on Appropriations Subcommittee on State, Foreign Operations, and Related Programs on the Fiscal Year 2016 Treasury International Programs Budget Request

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Chairwoman Granger, Ranking Member Lowey, and Members of the subcommittee, thank you for the opportunity to discuss the President's Fiscal Year 2016 Budget Request for the Department of the Treasury's International Programs.

The President's Budget invests in the American people and our country by promoting inclusive economic growth, increasing job creation, and expanding opportunity. The U.S. economy continues to make considerable progress. By almost every metric, America has come a long way since the depths of the worst recession since the Great Depression. Last year, we saw the best year of job growth since the 1990s, and over the past five years, America's businesses have created 12 million new jobs — the longest stretch of sustained private sector job growth in our nation's history.

Our economy grew by 2.4 percent last year, and private sector forecasters expect the economy will grow roughly 3 percent this year, while the International Monetary Fund recently revised its U.S. growth estimate higher, expecting 3.4 percent growth in 2016. We continue to outperform our trading partners, many of which are still struggling to recover from the global economic crisis. American exports set another record last year for goods and services sold overseas. And our fiscal deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year. While our economic recovery is well established, we have more to do to build on this momentum and make sure every American who works hard has a chance to get ahead.

The President's Budget puts forward sensible solutions to keep our progress going — and one of the pillars of his approach is a responsible alternative to the automatic, across-the-board spending cuts known as sequestration. The President would replace sequestration by cutting spending and closing tax loopholes. This commonsense plan would continue to rein in the deficit and put the debt on a downward path as a share of the economy.

Of course, at the end of 2013, policymakers came together on a bipartisan basis to reverse a portion of sequestration and pay for higher discretionary funding levels with long-term reforms. This bipartisan agreement allowed us to make critical investments in areas like research and manufacturing and to maintain a strong military, which is essential to our national security.

Still, nothing has been done to alleviate sequestration in 2016. If Congress does not act, defense and non-defense funding will fall, when adjusted for inflation, to their lowest levels in a decade. As the Joint Chiefs and others have outlined, that would damage our national security, ultimately resulting in a military that is too small and equipment that is too old to fully implement the defense strategy. Failure to act would also damage our economy and keep us from making needed investments in key priorities, including education, infrastructure, and international financial stability. But we do not have to follow this course. With the right policies, we can fuel economic growth, job creation, and opportunity – while strengthening our national security and driving long term prosperity. The President's Budget is a blueprint for getting this done.

The international financial institutions — the International Monetary Fund (IMF) and multilateral development banks (MDBs), including related multilateral trust funds — are a critical part of the President's approach to bolstering national security and driving long term prosperity. Our investments in these institutions promote our strategic interests and international stability. They help unlock the next generation of export markets for America's businesses and workers, while fostering private sector development and entrepreneurship.

That is why our FY 2016 request of $2.9 billion is so important. These investments are some of the most cost-effective ways to reinforce economic growth at home and respond to critical challenges abroad, like financial instability, poverty, environmental degradation, and food insecurity. Contributions from other donors and internal resources can further leverage MDB investments. For example, the World Bank's International Development Association (IDA) provides a cost-effective means to support the world's poorest countries; every $1 contribution from the United States leverages almost $13.

The IMF Quota Reforms and U.S. Influence

Critically, we are seeking Congressional approval of the IMF quota and governance reforms.

A well-resourced and effective IMF is indispensable to achieving our economic and national security interests, protecting the health of the U.S. economy, and enhancing the prosperity of America's workers. As the largest shareholder in the IMF and the only country with veto power over major IMF decisions, we have a great deal of influence within this critical institution. The proposed reforms will put the IMF's finances on more stable footing over the long-term, help modernize the IMF's governance structure, and preserve America's strong leadership role in shaping the institution.

The Administration has included the required legislation in our Budget Request, and we are prepared to work with Congress to secure passage of these critical reforms as soon as possible. Specifically, the legislation increases the U.S. quota in the IMF and simultaneously reduces, by an equal amount, U.S. participation in the IMF's New Arrangements to Borrow (NAB). The legislation also includes an amendment to the IMF's Articles of Agreement that facilitates changes in the composition of the IMF Executive Board but preserves U.S. influence on the Board.

Our continued failure to approve the IMF quota and governance reforms is causing other countries, including some of our allies, to question our commitment to the IMF and the other multilateral institutions that we worked to create and that advance important U.S. and global economic and security interests. Our international credibility and influence are being threatened.

As emerging economies have grown, they have gained greater voice in global economic policy. It is important that we recognize this enhanced role in multilateral institutions such as the IMF and encourage their commitment even as we maintain our leadership and veto position.

Implementation of the 2010 reforms is critical to reinforcing the central position of the IMF, especially as others are establishing new and parallel financial institutions. The IMF reforms will help convince emerging economies to remain anchored in the multilateral system that the United States helped design and continues to lead.

The U.S. is constantly pushing to accomplish important policy objectives through the IMF – from supporting Ukraine's financing needs to providing debt relief for countries affected by Ebola. But, because Congress has not yet enacted reform legislation, our leadership in the IMF is being undermined. For instance, the IMF has sought to bolster its precautionary resources by securing bilateral borrowing agreements with China, Germany, Korea, and others.

To preserve our leadership role at the IMF, it is essential that these reforms be approved. The alternative will be a loss of U.S. influence and our ability to shape international norms and practices that ensure an open, resilient global economy. A more closed international financial system hurts U.S. workers and companies.

Let me be very clear: These reforms do not increase the current U.S. financial commitment to the IMF. Instead, they change the composition, but not the level, of our financial commitment. The U.S. quota increase will be matched by an equal and permanent reduction in U.S. financial participation in the NAB. We look forward to working with Congress on approaches to get legislation passed as soon as possible.

The IMF supports the U.S. Economy and National Security

The IMF supports U.S. jobs, exports, and financial markets. When foreign economies are in crisis, they import less from U.S. businesses, they invest less in the United States, and they can damage our financial markets, hurting the value of 401Ks and other savings and retirement investments for Americans. U.S. exports accounted for roughly 13 percent of U.S. gross domestic product in 2014, and American export industries supported nearly 12 million jobs. IMF surveillance helps prevent crises and its role as first responder reduces the severity and duration of crises.

The IMF continues to play a role in the resolution of the euro area crisis, and is providing critical technical and financial support to countries in Eastern Europe, including Ukraine, which are undertaking reforms to build secure economic foundations and achieve prosperity for their relatively new democracies. Without IMF policy advice to European countries in crisis, the spillover effects from Europe's economic problems on the United States in terms of lost growth and lost jobs would have been far worse.

While the IMF was critical in helping Europe to avoid an economic meltdown, the Europeans provided the lion's share of the financing and bore the brunt of the financial risk. Moreover, the IMF's investments in Europe are proving effective, as Ireland and Portugal have emerged from crisis and are making early repayments to the IMF. IMF support for Greece helped avoid contagion throughout the Eurozone and the global economy, which would have harmed the American economy. The IMF continues to engage closely with Greece as it continues to strive to reform its economy to ensure lasting stability and long-term growth.

The IMF also supports nations in the Middle East and Africa that are threatened by extremism and undergoing challenging political transitions. IMF programs in Jordan, Tunisia, and Morocco in the last few years have helped transition countries prevent economic crises which could erode the political environment to the detriment of U.S. interests.

As a clear example of the IMF's role in promoting American security and economic interests, the IMF is providing Ukraine with critical financial and technical support to restore macroeconomic stability, strengthen economic governance and transparency, and lay the foundation for robust and balanced economic growth. The IMF is the cornerstone of a broader international effort to support Ukraine amid extraordinary circumstances, and recently approved an augmented, longer program that allows for a more comprehensive and sustained set of economic reforms. No other entity could provide this level of financing and essential policy advice to enable Ukraine to make a decisive break from the past and unleash its economic potential.

Economic development is also critical for political stability. The IMF works alongside other development institutions in fragile states to combat economic stagnation and instability. With strong U.S. diplomatic support and without costs to the U.S., the IMF has significantly increased its support for low-income countries, including through interest rate relief on its concessional loans and helping protect health and education spending. U.S. leadership in 2014 was crucial in the IMF's extension of interest rate relief for low income countries for two more years.

The IMF is also helping to combat the Ebola outbreak. In late 2014, we called on the IMF to provide partial debt relief to the three African nations hardest hit by the Ebola epidemic. In response, the IMF committed to use internal resources that do not involve costs to the U.S. to provide new concessional loans, grants, and debt relief to these countries.

Safety of Our Participation in the IMF

The assets that the United States places with the IMF are part of the U.S. international reserves and account for less than 20 percent of the IMF's total quota and NAB resources. U.S. transactions with the IMF are exchanges of equivalent monetary assets, which do not result in net budgetary outlays. When the United States provides resources to the IMF, the United States simultaneously receives an equal, offsetting claim in the form of an increase in the U.S. reserve position in the IMF. The U.S. reserve position in the IMF is an interest-bearing and liquid asset, held as part of U.S. international reserves and available to the United States on demand.

The IMF is a safe and smart investment for the United States. Every dollar of our participation leverages four more from other member countries. The IMF has a rock solid balance sheet, including reserves and gold holdings that exceed total IMF credit outstanding. In addition, the IMF is recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. The IMF has never defaulted on any U.S. reserve claims on the IMF since its inception 70 years ago.

Multilateral Development Banks (MDBs) Promote National Security, Economic Growth, and Poverty Reduction

Our investments in the MDBs, including the World Bank and the regional development banks, promote national security, economic growth, and poverty reduction. The MDBs finance investments in developing and emerging economies, including in infrastructure, health, education, governance, and business climate reform. This support fosters private sector development, and opens new markets for U.S. exports, boosting American jobs.

In addition to meeting our current MDB commitments, it is urgent that we address the over $1.5 billion in prior unmet commitments – levels that raise significant questions about U.S. credibility and leadership in the multilateral system. Failure to meet our commitments to the MDBs can also result in a loss of U.S. shareholding, at a time when new players are challenging U.S. leadership in the multilateral system. This is also a time when we are asking the MDBs to do more to assist efforts in Ukraine, contribute to the Ebola response, finance projects for the President's Power Africa initiative, and address many of the causes and effects of migration in Central America. It is vital that we demonstrate our confidence in the MDBs through payments toward unmet commitments.

Of the $280 million we are requesting for this purpose, $13 million would go to the World Bank, African Development Bank, and Asian Development Bank to prevent a loss of shareholding under the general capital increases. $142 million would pay down unmet commitments to replenishments of MDB concessional windows, as well as environmental and food security facilities. $125 million would go toward our unmet commitments to the Multilateral Debt Relief Initiative (MDRI). The United States was the leading advocate for the creation of MDRI and has received considerable praise for that effort. This good will could be lost if we fail to pay our share of its cost.

The MDBs are vital partners in containing national security threats by providing emergency economic support and helping to alleviate poverty and spur broad-based, private sector-led economic growth. For example, since April 2014, the MDBs have increased their total combined annual commitments to Ukraine to nearly $5 billion. This assistance has included emergency economic support, banking sector stabilization, improvements in energy security and efficiency, and support for social safety net reform. The World Bank and the Inter-American Development Bank have taken a leading role in helping El Salvador, Guatemala, and Honduras implement reforms to spur economic growth, which will help address the root causes of the flow of migrant children to our border.

The World Bank's IDA, African Development Fund, and Asian Development Fund all focus on fragile states, where nearly 1.5 billion poor people live, many in extreme deprivation. In these difficult environments, the MDBs have the resources and expertise needed to help improve the lives of millions of people and give them a stake in stability. The assistance that IDA and the African Development Fund have provided to Guinea, Liberia, and Sierra Leone to respond to the Ebola crisis is especially notable — providing more than $700 million to the affected countries for emergency health response, economic stabilization, and strengthening health systems for the long term. Continued support from the MDBs will be a critical part of preventing and improving the response to future pandemics.

In addition, the MDBs complement and amplify U.S. bilateral assistance. We have secured strong support from the World Bank and the African Development Bank for President Obama's Power Africa Initiative, which aims to bring an additional 30,000 megawatts of power generation capacity to Africa and increase access to electricity for at least 60 million new households and businesses connections in sub-Saharan Africa. These institutions play indispensable roles, deploying their technical expertise to engage with governments to promote difficult, yet crucial, reforms necessary to encourage private sector investment in Africa's energy sector, and providing financing for electrification infrastructure projects. The World Bank will support Power Africa by committing $5 billion in new technical and financial support, including loans and guarantees to support energy projects in the six initial Power Africa focus countries. This commitment builds on the World Bank's existing $3.3 billion commitment in the six initial focus countries and its broader commitment to developing the energy sector in sub-Saharan Africa. The African Development Bank has also announced its support to advance Power Africa as an anchor partner, with an initial commitment of $3 billion. In addition, Power Africa countries are also eligible to access resources from the World Bank–administered Climate Investment Funds for utility-scale renewable energy projects.

As we continue to protect our economic recovery, increase exports, and create jobs at home, support for the MDBs remains as critical as ever. The MDBs' assistance and technical know-how has nurtured the economic reforms, infrastructure, and social investments that have driven the growth of some of our largest trade partners, such as India, Brazil, and Turkey. This assistance and know-how are also important for laying the groundwork for the next generation of strong U.S. export markets, like Indonesia, Vietnam, and Colombia. These three emerging markets, which accounted for $8 billion of U.S. goods exports in 2000, account for $31 billion today — a four-fold increase. Our continued support for the MDBs signals our commitment to supporting significant economic growth like this in emerging and developing countries through the multilateral system.

MDB assistance and technical know-how also play an important role in making economic growth in emerging and developing countries more sustainable, inclusive, and transparent. For example, all of the MDBs have policies in place that are designed to avoid and mitigate the potential negative environmental and social impacts of their lending. These safeguards apply directly to MDB assistance, but may also positively influence the environmental and social policies of borrowing governments. This standard-setting role allows the MDBs to have impacts well beyond the scope of their direct lending.

For this reason, we are focused on the World Bank's ongoing safeguards review. This review will result in revised policies that will govern World Bank lending for years to come. We are working closely with World Bank management, other shareholders, and civil society to secure revised safeguards that will strengthen the protection provided by these policies, improve their implementation, and influence the domestic policies of borrowing governments. The stakes of this review are particularly high – at a time when new institutions are emerging that may have weaker commitments to social and environmental standards, when the World Bank is increasing its lending in high-risk sectors such as infrastructure, and when the World Bank itself has admitted weaknesses in the implementation of its existing policies in areas such as involuntary resettlement.

Furthermore, the ultimate success of the MDBs' activities depends on designing programs around a strong base of evidence about what works and what does not. The MDBs must also be willing to make mid-course corrections when projects need improvements to be effective successful. Treasury is pressing the MDBs to do more to build this required culture of learning and accountability. This includes an increased emphasis on building the capacities of each MDB's independent evaluation unit; conducting more in-depth evaluations, especially for high-risk projects; and holding staff accountable for incorporating evaluation findings into project design.

The MDBs also help foster a more level playing field for firms competing for MDB business opportunities by requiring the use of fair and transparent procurement rules. We are engaging closely on reviews of the World Bank's and African Development Bank's procurement policies to promote changes that level the playing field for U.S. workers and businesses even further.

Finally, I would like to highlight a new five-year commitment to one MDB that promotes our economic and security goals closer to home — $45 million a year for the North American Development Bank (NADBank), which finances projects on *both* sides of the U.S.-Mexico border. The NADBank has become an important financier of environmental infrastructure, renewable energy, and municipal services, such as wastewater treatment and waste management, helping create jobs in the border region. We are seeking to bolster the NADBank's financial resources so that it can expand on this important work.

Addressing Complex Global Challenges

When it comes to global challenges such as the environment, food insecurity, and gender imbalances, the world continues to rely on multilateral institutions and strong U.S. leadership within them to help developing countries make concrete investments to meet these challenges. U.S. support for specialized multilateral funds leverages resources from other donor countries and the private sector, multiplying the impact of American taxpayer dollars. In FY 2016, we are requesting $171 million for the Clean Technology Fund (CTF) and $60 million for the Strategic Climate Fund (SCF), which will complete our pledge to these funds.

As of September 2014 the CTF and SCF had approved $5 billion in projects, which has attracted significant additional funding. In fact, for every $1 the United States has contributed, these programs are expected to mobilize nearly $19 in co-financing from the private sector, host governments, and other non-MDB sources. The SCF has three important programs promoting investments in resilience to environmental impacts, reducing deforestation, and helping low-income countries increase access to renewable energy resources. These programs are making a difference on the ground. As of June 2014, the CTF investments have resulted in 2.3 gigawatts of renewable energy being brought into service, with an additional 15.5 gigawatts of capacity under construction.

In addition to deploying clean energy, the environmental trust funds reach poor people in urban slums, rural villages, and small cities around the world. These funds enable vulnerable communities to battle a wide range of threats, from extreme weather events that affect food production to wildlife trafficking and toxic chemicals.

In particular, the Global Environment Facility (GEF) – for which we are requesting $168 million – helps countries safely dispose of dangerous chemicals that can damage human health and contaminate global food and water supplies. By protecting the environment — including preserving the ozone layer, protecting fisheries, and reducing mercury pollution that can contaminate our food supply — the GEF delivers benefits to the United States and global community. For every dollar that the U.S. has contributed, GEF projects have mobilized $20 from host country governments and private sector entities.

This year we are also requesting $150 million toward the first installment of the U.S. pledge to the new Green Climate Fund (GCF). The State Department has requested $350 million this year, for a total FY 2016 request of $500 million. As you know, this is part of a $3 billion pledge the President made to the GCF, not to exceed 30 percent of total signed contribution agreements. The GCF is designed to be a key element of the global, collective efforts to build resilience and reduce carbon pollution. The GCF will make a significant difference by enabling developing countries to invest in those goals and transition to a more sustainable development path. The GCF also fosters trust and goodwill, so that developing countries increase their ambition for sustainability and mitigation commitments in their national planning. The GCF builds on the Bush Administration's $2 billion pledge to the Climate Investment Funds and has a strong focus on mobilizing private sector resources. We are committed to working with Congress on this request, which is a high priority for the Administration.

The United States has been a leader in the fight against global hunger and poverty through the President's Feed the Future initiative. The Global Agriculture and Food Security Program (GAFSP) and the International Fund for Agricultural Development (IFAD) are key multilateral components of food security.

GAFSP focuses on helping smallholder farmers in some of the world's poorest countries to improve their agricultural productivity and markets and earn higher incomes. Grants to governments are awarded on the basis of a transparent, competitive selection process involving independent technical experts. GAFSP also invests in private entities, with each dollar leveraging ten times that amount in additional private financing. Even though it is a relatively new fund, GAFSP is already seeing positive results. As of December 2014, GAFSP-funded projects have directly reached more than one million farmers, a 37 percent increase over end-2013. We are seeking $43 million that would be matched by $86 million from other donors under our challenge campaign, which pledged $1 for every $2 from other donors.

IFAD is a 38-year old institution dedicated to alleviating rural poverty in a broad range of developing countries. IFAD helps increase the productivity of smallholder farmers, improving nutritional outcomes, and expanding access to rural employment and marketing opportunities. External evaluations have consistently rated IFAD as a good value for money. It is a leader in assessing the impact of its programs on a gender-specific basis and ensuring that women are direct beneficiaries; on average, women represent 50 percent of project beneficiaries. In the FY 2016 Budget, we are requesting $32 million, which consists of $30 million for the first of three installments for IFAD's tenth replenishment and $2 million to clear a portion of our unmet commitments.

Successful development also depends on good governance and a well-functioning state. For the last 20 years, Treasury's Office of Technical Assistance (OTA) has provided advice and training to government officials in developing countries so they can build effective public financial institutions. OTA helps countries improve government operations across several areas, including planning and executing budgets, managing debt, collecting revenue, developing sound banking systems, and combating corruption. Our request reflects a strong and increasing demand for OTA assistance to support U.S. foreign policy, security and economic priorities in Central America, Africa, Asia, Ukraine, and other regions. As demand for assistance has increased in recent years, funding for OTA through its direct appropriation account has declined from $27 million in 2012 to less than $24 million in 2015. Our request aims to restore prior levels of funding for OTA and allows for a modest increase to support the expansion of OTA's work in priority areas. These areas include infrastructure finance and domestic resource mobilization, which helps partner countries generate revenue and manage their resources more effectively, thereby reducing their dependence on foreign aid.

Conclusion

U.S. leadership in international financial institutions enables us to influence how and where resources are deployed — often on a scale that we cannot achieve through our bilateral programs alone. However, bipartisan support is required to ensure that influence remains as strong today as it has been over the past several decades.

It is important that Congress acts to approve IMF quota and governance reform so that we can continue to safeguard our leadership in these essential institutions. Approving these reforms puts us in a stronger position to influence IMF decision-making on a host of issues critical to our economic and national security. Since the creation of the IMF after World War II, successive U.S. administrations and Congresses have supported our participation in this institution. In fact, five of the eight quota increases in the IMF's history took place under Republican Presidents. Unfortunately, at the moment, our ability to influence decisions is diminished by the fact that other IMF members think that the United States is retreating from our leadership role at the IMF.

Similarly, meeting our commitments to the MDBs is a cornerstone of U.S. credibility and leadership. The partnership we have with the MDBs has endured across parties because these institutions have continually provided a significant return for the United States. They allow us to promote national security, economic growth, and poverty reduction. No other institutions so effectively leverage our limited resources in service of our national and global interests.

I look forward to working with you on these critical issues and welcome your questions.

Thank you.