

Questions for the Record
Senator Richard G. Lugar
Nomination of Ian Solomon to be
U.S. Executive Director to the World Bank

1. What are the major challenges, both internal and external, confronted by the World Bank?

While developed and emerging market economies begin to recover from the crisis, the World Bank remains a critical partner for those developing countries that are still feeling the effects of the crisis. The World Bank response has been key for many developing countries' crisis response through lending, the provision of guarantees, trade finance, and technical assistance. Going forward, the World Bank faces the challenge of directing its post-crisis strategy toward the key development challenges of our time: food security, global public goods such as climate change, and promoting private sector development. However, to be effective in meeting these new development challenges the Bank will need to continue to tackle the challenge of improving its results on the ground as well as its accountability to shareholders.

2. If confirmed, what reforms would you promote at the World Bank?

If confirmed, I will promote reforms that will continue to strengthen financial management and improve institutional effectiveness, as evidenced by a strong record of achieving results in development. I will focus on improving the Bank's internal governance, efficiency, accountability and internal controls, and transparency. If confirmed, I will also push the Bank to increase its level of innovation in its pursuit of positive development outcomes.

3. The IMF, International Fund for Agricultural Development, United Nations and the regional development banks multilateral institutions operate in overlapping areas. What role should the World Bank have within the spectrum of global foreign assistance? Does the World Bank adequately coordinate with the other multilateral institutions? If not, what more could it do to coordinate effectively?

The World Bank provides financing primarily for bankable development activities for reconstruction, poverty reduction, and economic growth. The World Bank also has a unique role in providing a global platform for providing development assistance and sharing development knowledge to all member countries. While there is room for continued improvement on issues where the World Bank is engaged with UN agencies, it is my understanding that they coordinate so as not to duplicate effort and have recently signed an agreement on financing in emergency situations. The IMF and World Bank also have a formal coordination mechanism and work closely, especially in the areas of debt management and financial sector support. Coordination between the regional development banks and the World Bank generally occurs at the country level through donor coordination mechanisms.

4. The World Bank is working in many issue areas. What do you believe is the World Bank's "core competency?"

The World Bank's mission is poverty reduction through economic growth. As a global institution with a breadth of development expertise, the World Bank is uniquely qualified to take on an enhanced focus on climate change, food security, fragile states, and private sector growth. I believe that the Bank has also played an important role in social sectors, such as health and education, not just by providing financing, but in helping recipient countries to better manage and track the use of scarce public resources.

5. Given the growing appetite for private sector lending to emerging markets, is there a need for the World Bank to increase its lending?

The Bank assures that its lending has strong development additionality and reflects its unique institutional strengths. This type of development focus is not easily replicated by private sector investment. It also acknowledges that not all middle-income countries have the know-how to tackle their development challenges, and the World Bank can be a key partner in this regard.

6. How does the World Bank perform on the six criteria identified by Secretary Geithner for weighing general capital increases for the multilateral development banks (clear division of labor between MDBs, flexible balance sheet utilization, governance and risk management, achieving results, focus on the poorest, demand analysis)? What other criteria should be considered with respect to the AfDB?

President Obama and the G-20 heads of state indicated in Pittsburgh that MDB requests for new capital need to be accompanied by a reform package of key institutional reforms to ensure effectiveness. At this point, the World Bank Governors have a process in place to evaluate those needs and to put together a package of reforms. The United States is actively participating in such processes, which I understand will conclude by Spring 2010, and as a result it is still too early to offer any conclusions on the outcome of this review.

7. How could the World Bank focus more of its financing on the poorest?

The World Bank focuses on the poorest through its concessional window, where the United States plays a leadership role, as well as through several trust funds such as the climate and food security funds. Seventy percent of the world's poor live in middle-income countries and the IBRD should structure loans to target these populations in those countries. I also believe that continued innovation and a relentless focus on improving development results will increase the Bank's effectiveness in addressing the needs of the poorest.

8. What more should the World Bank do to fight fraud and corruption? If confirmed, will combating corruption within the World Bank or related to World Bank financing be a priority?

Management should continue to deepen and mainstream the Bank Group's Governance and Anti-Corruption Strategy into all Bank Group operations. If confirmed, I will make it my priority to press the Bank to be vigilant against corruption - within the institution and externally on Bank projects - and to assist borrowing countries to strengthen their own efforts to combat corruption.

9. If confirmed and you are called upon by a Congressional Committee to testify, but Treasury Department officials or other Administration officials recommend that you not testify, how will you respond?

In my response to the Committee's questionnaire, I agreed to appear and testify upon request before any duly constituted committee of the Senate. I also look forward to meeting with Congressional staff and to a close working relationship with Congress. I have been informed that Executive Order 11269 delegates to the Secretary of the Treasury the President's authority "to instruct representatives of the United States to international financial organizations." I expect that any specific decision to testify before Congress will be made in coordination with the rest of the Administration.

10. If confirmed, will you be available and willing to meet with Committee Members or staff?

Yes.

11. Have you had opportunity to yet review the anti-corruption strategies of the World Bank? If so, what is your view of them?

Yes. I support Bank management's continuing efforts to deepen and mainstream the Bank Group's Governance and Anti-Corruption Strategy into all Bank Group operations in an effort to improve development outcomes. I understand that the Bank has implemented the Volcker Report's recommendations. However there is always continued room for improvement, especially in ensuring accountability and safeguarding the Bank's reputation and financial assets for improving development results.

12. Have you been briefed on the World Bank's audit process? If so would you make recommendations to increase its effectiveness?

Yes. If confirmed, I look forward to serving as an active member on the Audit Committee to ensure that the World Bank maintains strong operational, risk, and financial oversight of the Bank's work.

13. As the IFC undergoes a revision of its 2006 Performance Standards on Social and Environmental Sustainability, an important opportunity exists to promote increased transparency in the extractive industries. What are your views possible changes to the IFC transparency requirements that many that would encompass the following:

- Public disclosure of all extractive industry investment contracts to which the government is a party, without regard to any threshold size or scope, and
- Public disclosure of all social and environmental monitoring reports by IFC clients (as instituted by the Asian Development Bank)?

I support increased disclosure in extractive industries projects and if confirmed I would actively pursue these issues to ensure increased disclosure with due consideration for any legitimate issues regarding the maintenance of client confidentiality and market sensitivities.

14. The IFC might could take advantage of the current revision of its Performance Standards on Social and Environmental Sustainability to increase the voice of communities affected by extractive industry projects in decision-making pertaining to their lands and natural resources. Specifically, the IFC could 1) publish all documentation related to its determination that local communities support projects with potential adverse impacts, and 2) require companies to secure the free, prior and informed *consent* of project-affected communities. What are your views on these IFC policy changes?

I would support IFC publication of information about its determination of Broad Community Support but would have to look further at the issue of whether *all* related documentation should be disclosed. I understand that there are some sensitivities around the “consent” proposal. I also understand that the U.S. supported the recent revision to the ADB safeguards policy, which also addresses this issue.

15. At present, the IFC does not publicly disclose information on development outcomes for all of their projects on a project-by-project basis. Given that the IFC’s stated purpose is “to create opportunity for people to escape poverty and improve their lives”, would you recommend that they begin disclosing this critical information?

Yes.

16. President Zoellick is currently in Africa, visiting many countries that were severely affected by the global food crisis. What has the World Bank done to help address the food crisis and support future food security? What more should the World Bank do on this front?

In May 2008, the World Bank Group set up the Global Food Crisis Response Program (GFRP) to provide immediate relief to the countries hardest hit by food high prices. The GFRP is a \$2.0 billion rapid finance facility to support social safety nets, encourage short-term food production, and to provide budget support to offset tariff reductions on food-related imports. As of December 2009, the GFRP had

approved \$1,167 million in programs for 35 countries and had disbursed \$870 million.

Going forward, the World Bank Group is taking further steps to strengthen global food security. In response to a call by G-20 leaders in Pittsburgh in September 2009, the World Bank is establishing a new trust fund -- the Global Agriculture and Food Security Program -- to support comprehensive, country-owned agricultural development plans in poor countries. The United States, Canada and Spain have indicated the intention to be the initial contributors to the fund. In addition, the World Bank is increasing its own investments in agriculture. Under its FY2010-2012 Agriculture Action Plan, the World Bank projects an increase in Bank Group (IDA, IBRD, IFC) financial support from the current average of \$4 billion a year to between \$6 and \$8 billion annually over the next three years.

17. What is your impression of the coordination between the World Bank and the regional development banks? More broadly, given that many of the regional banks are also planning capital increase requests and what do you see as the division of labor between the institutions? What is your evaluation of the World Bank's need for more resources? Are there steps that the World Bank can take to avoid requesting U.S. taxpayer financial support?

I understand that the World Bank coordinates well with the regional banks, often co-financing projects. Relative to the regional banks, the World Bank has an advantage in issues of global reach such as climate change, food security, and private sector development. It also has developed expertise in building health systems in countries to complement bilateral efforts to combat specific diseases, improving public sector financial management, and creating the enabling environment for private sector growth. It is my understanding that the World Bank used its existing resources to the fullest during the financial crisis, acting quickly and committing to increase lending by over \$100 billion over the crisis period. The Bank has made a credible case that more resources are needed, at least on a temporary basis, to keep lending from dropping below pre-crisis levels during a critical and high-demand period of recovery.