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Opening Statement by Secretary Henry M. Paulson, Jr.

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U.S. DEPARTMENT OF THE TREASURY

Press Center



Opening Statement by Secretary Henry M. Paulson, Jr.

4/10/2008

HP-917

Before the House Committee on Appropriations Subcommittee on State, Foreign Operations and Related Programs on the FY 2009 International Programs Budget

Washington – Chairwoman Lowey, Congressman Wolf, Members of the Committee: Thank you for the opportunity to discuss the President's FY 2009 Budget request for the Department of the Treasury's International Programs. This Budget request of approximately \$2.241 billion reflects the Bush Administration's commitment to promote economic growth and reduce poverty in the developing world. The Budget request provides support for the on-going efforts of the multilateral development banks (MDBs), debt restructuring programs and technical assistance. In providing these resources, the United States invests in economic, social and political stability around the world. Our support for these programs helps countries establish the policies and programs necessary to create the conditions for long-term private sector-led growth.

The FY 2009 Budget request also includes funding for a new, multilateral clean technology fund that will help major developing countries move towards a low carbon growth path. I will talk about this new initiative first.

International Clean Technology Fund

In September 2007, President Bush proposed the creation of the international clean technology fund (CTF) to help developing countries adopt clean energy technologies. As these countries build infrastructure that will exist for 30 years or more, we need to assist them to take advantage of cleaner, more advanced technologies. Otherwise, developing countries may be locked into a legacy of highly-polluting, less efficient – though less expensive – technologies. The proposed CTF would help cover the cost difference between older, dirtier technologies and cleaner, more advanced technologies. It would be created as a multilateral trust fund administered by the World Bank, and implemented through the MDBs. This fund represents a truly international approach to reduce rapid greenhouse gas emission growth in major developing countries.

The FY 2009 budget request includes \$400 million for the first installment of a total U.S. pledge of \$2 billion over three years. With additional funding from other countries, we will help finance clean energy projects in the developing world, which will benefit people around the world.

Multilateral Development Banks

In addition to this new initiative, the President's FY 2009 Budget requests a total of \$2.071 billion for MDB funding, including \$42 million to pay a portion of outstanding U.S. arrears to the International Development Association. The Budget request also includes U.S. contributions to replenish the International Development Association and the African Development Fund. This replenishment pledge will cover the U.S. contribution to the Multilateral Debt Relief Initiative from FY 2009 to 2011.

Through U.S. leadership, the MDBs are reforming their business practices. We have seen important progress in how the banks measure results. They are better at encouraging private sector development and business climate reforms. The MDBs are also showing improvements in transparency, anti-corruption systems and strengthening performance-based allocation systems to ensure that countries with stronger policies receive higher funding priority.

This progress is reflected in the new replenishment agreements that require policies which should deliver results for the world's poorest people and improve the Banks' effectiveness as it works with fragile states such as Afghanistan and Liberia. These measures will also expand the MDB work on anti-corruption policies, regional economic integration, and climate change initiatives.

In response to U.S. urging, the MDBs have made substantial progress to improve the debt sustainability of many developing countries. This includes the 2005 Multilateral Debt Relief Initiative (MDRI) and last year's agreement by the Inter-American Development Bank to provide 100 percent debt relief to the bank's five poorest borrowing countries. To ensure the gains from debt relief are not lost, all MDBs now use the World Bank/IMF debt sustainability framework to determine the appropriate mix of grants and concessional loans.

While efforts to make the MDBs more effective must continue, the banks are more accountable, transparent and results-oriented today than when President Bush took office in 2001.

Debt Restructuring Programs

This request also includes \$141 million for debt restructuring programs. These funds will meet U.S. commitments for bilateral debt reduction for Heavily Indebted Poor Countries (HIPC) and U.S. pledges for contributions to the HIPC Trust Fund. This request also includes \$20 million for the Tropical Forest Conservation Act. The HIPC initiative is lifting crippling debt burdens off many of the world's poorest countries, freeing resources for poverty reduction, when those countries have demonstrated both sound economic policy and a commitment to fighting poverty.

Technical Assistance

The third component of this request includes \$29 million for Treasury's Technical Assistance program. This is a small program that never makes the headlines. But from my travels around the world I know that it is both cost effective and valuable. Treasury's financial experts help countries strengthen their capacity to manage public finances, lay the financial groundwork for private sector led growth, and combat money laundering and terrorist financing. Building that capacity is also a vital complement to investments in other areas – debt relief, for example – and to the effectiveness of development assistance generally. If developing countries' fiscal houses are not well managed, our investments in schools, hospitals, roads and other critical infrastructure will not be sustained, or will have to be sustained by us indefinitely.

Conclusion

Overall, we believe that full funding of these international programs will allow Treasury to work with and support developing countries throughout the world as they strive to lift their people out of poverty and provide greater opportunities for prosperity and security.

Thank you for your past support and for your current consideration of these programs. I look forward to working with you during your deliberations and welcome your questions.

- 30 -