

Opening Statement
Subcommittee Hearing on World Bank-IDA Loans to Grants and the North
American Development Bank
May 2, 2002

The Subcommittee on International Monetary Policy and Trade meets today in open session to examine the following two different subjects: First, the General Accounting Office's (GAO) report on the Administration's proposal to convert World Bank loans to grants, and second, proposals to reform the North American Development Bank (NADBank). With respect to the NADBank, I would like to thank the following three Members of the House from Texas for their contributions to this important hearing: Mr. Gonzalez, Mr. Hinojosa, and Mr. Bonilla.

Loans to Grants

Regarding our first topic of discussion, that of the GAO report on the Administration's proposal, of converting loans to grants, it should be noted that in July 2001, President Bush proposed that the World Bank replace up to 50% of future lending to the world's poorest countries with grants. This proposal was motivated, at least in part, by concerns about poor countries' long-term debt burdens.

The President's loans-to-grants proposal has been controversial within the donor community, and indeed is at the heart of current negotiations which began yesterday and continue today in London over the terms involving contributions to the World Bank's International Development Association (IDA). The IDA is the World Bank's fund for highly concessional loans made to the world's poorest countries. As you may know, the IDA is slated for congressional reauthorization this year. However, as of yet, the Administration has not made a formal request for an IDA replenishment because the IDA negotiations generally have been stalled on the issue of whether a percentage of the loans made by the IDA should be made in the form of grants to the recipient countries. Many European donor countries are opposed to any grant-based proposals on the grounds that grants will be too costly to the IDA and would jeopardize the long term financing of the World Bank.

To address the issues that have been and will be raised during the London negotiations, Senator Jessie Helms and I co-requested a GAO study on the effect of the President's 50% loans-to-grants proposal. It is important to note that the GAO recently published their report on the subject. Therefore, today, we review findings of the GAO Report. The loans-to-grants issue is a complex one and only part of our calculation in considering U.S. financial commitments to the IDA.

NADBank

Furthermore, I would now like to briefly discuss the subject of our second panel -- the NADBank. Before introducing our witnesses, I will provide some background on the following three areas of the NADBank: history and functions, the proposal of President Bush and

President Vicente Fox of Mexico to reform the NADBank, and Rep. Gonzalez's legislation (H.Res. 355) on this subject.

First, regarding the history and functions of the NADBank, in October 1993, due to concern that the increase in economic activity resulting from the implementation of NAFTA would promote poor environmental conditions along both sides of the U.S.-Mexico border, the United States and Mexico agreed to the creation of a new institutional structure to promote the environmental health of the border region. As such, the Border Environment Cooperation Agreement established the NADBank and the Border Environment Cooperation Commission (BECC). These institutions work together to assist communities within 100 kilometers on either side of the U.S.-Mexico border by financing environmental infrastructure projects that address the need for wastewater treatment, drinking water, and disposal of municipal solid waste.

The BECC specifically would provide assistance to these communities to coordinate, design, and mobilize financing for these infrastructure projects. In addition, the BECC is to certify the projects. The NADBank determines the feasibility of BECC certified projects, and subsequently provides the appropriate funding. Since its inception, the BECC has certified 57 projects, with a total construction cost of \$1.2 billion. The NADBank has committed Environmental Protection Agency grant funds to 37 of these projects. However, with respect to the performance of the NADBank generally, it is important to note that it has only approved \$23.5 million in loans and disbursed only \$11 million in project loans in its seven years of existence. Yet the NADBank does have \$405 million in authorized paid-in capital and a lending capacity of \$2.7 billion.

Second, with respect to proposals to reform the NADBank, Presidents Bush and Fox formed a bi-national working group that held a series of discussions with states, communities, and other stakeholders in the border region with the purpose of generating plans for reform to strengthen the performance of the NADBank and the BECC. As a result of these meetings, the two presidents came forth with a joint reform proposal.

One of the reforms would expand the jurisdiction of the NADBank and the BECC only in Mexico from 100 kilometers to 300 kilometers from the border. The jurisdiction of the NADBank and the BECC in the U.S. would remain unchanged under this proposal. Additional reforms would increase the capacity of the NADBank to provide grants and low-interest loans by doubling the low-interest rate lending facility to \$100 million and establishing a \$50 million grant financing allocation.

The presidents' proposal also would provide for a change in the organizational structure of the NADBank and the BECC through the creation of a single board of directors to oversee both institutions. The board would have representation from both countries' Federal Governments; the four U.S. border states of California, Arizona, New Mexico and Texas; as well as representatives from those border states in Mexico, and from the public.

In addition, the Subcommittee needs to begin examining H.Res. 355, which was introduced by Representative Gonzalez of Texas and which is cosponsored by 10 additional House Members. This resolution would offer alternative recommendations for reform to the

NADBank. While this resolution would allow the NADBank and BECC to remain separate entities, it would require a review and subsequent improvement of BECC's certification process. This resolution would also express the sense of the House that the boards of the BECC and the NADB should consult with interested parties in exploring options for better follow-up of projects. Additionally, Mr. Gonzalez's resolution, among other things, would allow the remaining paid in capital and callable capital to be lent without BECC certification for non-border and non-environmental infrastructure projects.

Therefore, to assist the Subcommittee in examining these issues, I am pleased that we have the opportunity to hear from our distinguished witnesses. In the first panel, we will hear testimony from Mr. Joseph Christoff, the Director of the General Accounting Office's International Affairs and Trade Team. Among the various areas under his direction at GAO is that of the multilateral financial institutions. Since Mr. Christoff joined GAO in 1980, he has worked in their offices in Washington, Chicago, and Frankfurt, Germany. He received a Master's Degree in Public Administration from American University, and a Bachelor's Degree in Public Policy from Miami University of Ohio.

With respect to the second panel, which will be testifying on the current status of the North American Development Bank, we will hear from the Honorable Victor Miramontes. Mr. Miramontes is currently the President and Chief Operating Officer of American City Vista, where his responsibilities include operations, finance and project development. Prior to this position, Mr. Miramontes served as Managing Director and Chief Executive Officer of the NADBank. He holds a Bachelors, and a Masters Degree in Economics from Stanford University, and a law degree from Stanford University as well.

In addition, the Honorable Jose A. Aranda, Jr., the Mayor of Eagle Pass, Texas, will testify on the second panel. Mayor Arranda was first elected in 1998 and is now serving in his second term. Eagle Pass is a border town which has interaction with the NADBank and the BECC. Mayor Arranda, who was suggested as a witness by Representative Bonilla from Texas, is also the Chairman of the Texas Border Infrastructure Coalition.

Further, we will hear from Mr. Ernesto Silva, the City Manager of Mercedes, Texas. Mr. Silva was suggested as a witness by Congressman Hinojosa of Texas. As City Manager, Mr. Silva has had direct involvement with the NADBank, coordinating in Mercedes a Water Treatment Plant Expansion, a Master Drainage & Paving Program and a Master Wastewater Interceptor Program. Mr. Silva began his work in Mercedes in 1997, after serving the previous 10 years in the City of Pharr, Texas, also as City Manager, coordinating similar infrastructure projects.

Lastly, Mr. Don Gonzalez will testify. Mr. Gonzalez, who was suggested as a witness by Rep. Charlie Gonzalez, is the Executive Vice President-Manager with the investment banking firm of Estrada Hinojosa & Co., based in San Antonio. He has direct experience working with border communities in obtaining financing from the NADBank.

Before the witnesses testify, I now turn to the distinguished gentleman from Vermont, the Ranking Member of the Subcommittee (Mr. Sanders) for any comments that he might have.