

**THE ROLE OF THE U.S. IN THE WORLD  
BANK AND MULTILATERAL DEVELOPMENT  
BANKS: BANK OVERSIGHT AND REQUESTED  
CAPITAL INCREASES**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
INTERNATIONAL MONETARY  
POLICY AND TRADE  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED TWELFTH CONGRESS  
FIRST SESSION

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**THE ROLE OF THE U.S. IN THE WORLD  
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**Tuesday, June 14, 2011**

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL  
MONETARY POLICY AND TRADE,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 2:35 p.m., in room 2128, Rayburn House Office Building, Hon. Gary Miller [chairman of the subcommittee] presiding.

Members present: Representatives Miller of California, Dold, Manzullo, Campbell, Huizenga; McCarthy of New York, and Carson.

Chairman MILLER OF CALIFORNIA. This hearing will come to order. Without objection, all members' opening statements will be made a part of the record. With the agreement of the minority ranking member, we are going to allow 10 minutes for opening statements for each side.

Today's hearing is focused on the United States' role in the World Bank and the multilateral development banks (MDBs).

The United States is a lead shareholder in the World Bank and regional multilateral development banks. The Administration has requested contributions to the capital at these institutions. It has argued that such contributions are important to retaining our leadership position.

Today, we begin the process of considering the Administration's request for capital increases for the MDBs. I look forward to hearing from Under Secretary Brainard—welcome; it is good to have you here again today—on how these banks are supporting many activities that are consistent with American interests and American values.

For example, fragile and broken states represent opportunities for terrorist actors to operate and threaten the United States and its interests. MDBs can bring development and stability to these areas, filling the vacuum that allows terrorist actors free rein.

The MDBs are hard at work in Afghanistan supporting the U.S. mission. General Petraeus has spoken about the importance of the Asian Development Bank's work to develop much-needed infrastructure across Afghanistan.

As North Africa and the Middle East undergo tumultuous transitions, the MDBs are able to provide technical assistance and capital to nations enacting democratic reforms and moving forward in a sustainable and positive manner.

In addition, the MDBs are making progress on regional integration in Africa, which holds promise for improving commerce and addressing many of the long-term issues that have exacerbated famine and poverty across the continent. The MDBs provide poor countries across Africa an alternative to China for development finance and natural resource development.

MDBs allow the United States to leverage its resources alongside those of other member nations to achieve U.S. interests. As part of that model, MDBs must adopt necessary controls to ensure MDB actions achieve desired outcomes, and the borrowing nations must move toward the ability to borrow from private markets.

Our subcommittee's goal is to ensure the World Bank and regional multilateral development banks are using U.S. resources in a transparent, corruption-free, and effective manner before committing U.S. taxpayers' funds to these institutions. The United States must use its leadership position at the banks to fight for the end of corruption and to make sure that all lending is conducted through transparent and accountable processes.

We cannot lose sight of the fact that these requests are coming at a time when our country must focus on getting our own massive debt under control. While the United States has a vital interest in continuing to assist emerging economies to implement economic, political, and social reforms, we cannot overlook the costs. During these economically challenging times, Congress must continue to make the difficult choices necessary to reduce the debt and grow our economy, while also furthering U.S. strategic interests around the world.

The American people are demanding that their government learn to live within its means and stop spending borrowed money. The fact is, we cannot continue to borrow 40 cents on the dollar and pass on the debt to future generations to repay. We must prioritize Federal dollars to ensure essential needs are provided for, and do more with less, just as American families and small businesses have had to do during these lean economic times.

It is with these financial constraints at the forefront of our minds that the subcommittee will assess the Administration's request for funding. Today's hearing will give Members the opportunity to hear from the Administration about their rationale for the specific funding requests made for each MDB.

Before we act, we want to understand clearly the consequences to global and U.S. economic and security interests from any delay or reduction in the amount requested by the Administration. Specifically, it is our hope that today's hearing will: highlight the role of the MDBs and their relevance in today's world; discuss the benefits to the United States of its membership in the MDBs, including the impact of the MDBs on the U.S. economy and U.S. strategic interests around the world; examine how the current role of the United States at the MDBs allows for the influence of day-to-day operations at these institutions and shapes their medium- and long-term goals; detail the reforms that the MDBs have agreed to

implement as part of their general capital increases; and explore what additional reforms are needed at each MDB to improve their operations and combat fraud and corruption.

In conclusion, since I accepted the gavel of this subcommittee, I have said that the agenda will be focused on four things: one, job creation; two, global competitiveness; three, economic growth and stability; and four, protecting taxpayers.

This is the lens under which we will review the Administration's request for funding for the MDBs. Our ultimate goal is to promote favorable conditions around the world for American companies in order to increase U.S. exports, and thereby create jobs in the United States.

Through development activities, the MDBs help contribute to stability around the world, opening markets for our companies to engage. By ensuring the global environment is stable, American companies can thrive and contribute to robust economic growth.

I yield 5 minutes to Ranking Member McCarthy.

Mrs. MCCARTHY OF NEW YORK. Thank you, Chairman Miller, for holding this important hearing. And I also would like to welcome Under Secretary Brainard here this afternoon to discuss the role and the operation of the multilateral development banks and the role of the United States in these institutions.

Development banks are owned by member countries and provide financial and technical assistance through loans and grants to emerging markets in developing countries for investment projects and policy-based loans. For even the poorest countries that are too unstable to borrow from the private markets, development banks provide assistance for fundamental projects such as health services, clean water, sanitation, and agriculture through low-interest loans with longer repayment options.

The United States has played a leading role in developing a policy agenda to ensure our financial contributions will be leveraged by other donors and borrowers, and that investments made by the institutions directly support our priorities.

We receive a great deal of value from our contributions to these institutions, such as increased markets for U.S. exports and enhanced national security through investments in industries that promote long-term stability for a conflict country.

A long-term member of the various development institutions, the United States is the largest shareholder in the World Bank and in the Inter-American Development Bank. By fulfilling our contributions and maintaining shareholder position, we create economical growth opportunities in emerging markets and maintain global competition.

The financial crisis brought an increased demand in support for the multilateral development banks, requiring them to seek additional resources from their member countries to allow for substantial lending. Under these general capital increases, member countries agreed to increase support to the development banks by purchasing additional shares in the institution.

I recognize that our Nation is faced with serious fiscal challenges that must be addressed. Fulfilling our funding commitment to the multilateral development banks and pledge for general capital increases enables us to strengthen our domestic economy and en-

hance national security, as well as promote economical development, good governance, and stability in developing countries.

I do look forward to hearing your testimony, and I yield back the balance of my time

Chairman MILLER OF CALIFORNIA. Thank you. Vice Chairman Dold is now recognized for 3 minutes.

Mr. DOLD. Thank you, Mr. Chairman. And I want to thank you for calling this important hearing. And I certainly want to thank the Under Secretary for your time and for your testimony today.

It is to our benefit and the entire world's benefit that America has been and remains the world's economic, military, political and, I would argue, cultural leader. We did not achieve our world leadership position through fearful isolation. We achieved our world leadership position by energetically engaging with the world through trade, investment, security arrangements, diplomacy, and foreign aid.

While we can always do better, and while we will always have problems, our world leadership position has made America and the world more open, more prosperous, more secure, and more free. And for many decades, the World Bank has been one of the most important and most effective instruments of American leadership.

Through the World Bank, America has been able to influence corrupt and tyrannical governments to become more open, more transparent, more peaceful, and more humane. Through the World Bank, America has been able to influence foreign nations to open their markets to American exports and to American investment.

We have seen the World Bank have great success in places such as Indonesia, Korea, Africa, and Eastern Europe, which has helped create more security and more economic prosperity right here at home. Now, we see this great promise of a rapidly reforming Middle East where people are demanding more political freedom, government transparency, and economic opportunity. I expect that, as in the past, the World Bank will play an important role, which will in turn make the rest of the world more secure and more prosperous.

Our military leaders recognize how important these multilateral development banks are to our own national security. General Petraeus and Commander Duncan McNabb have written a letter emphasizing the importance of the multilateral development banks to our own strategic interests, and I would ask the chairman for unanimous consent to submit this letter for the record.

Chairman MILLER OF CALIFORNIA. Without objection, it is so ordered.

Mr. DOLD. Our business leaders through various business organizations have recently written to the United States Congress to emphasize the vital importance of the MDBs in promoting our own export markets, economic development, and American leadership. I am convinced that the relatively small amount that we spend on the World Bank funding pays huge dividends in money we don't need to spend on military action and money that we don't need to spend on increased security measures and on economic prosperity that we receive through new markets for our businesses all across the land.

We all benefit greatly in both tangible and intangible ways from America's great influence in the world, and the World Bank is one of our best assets for maintaining this influence, all at a relatively low cost.

I realize that Federal spending is dramatically out of control and must be dramatically reduced. However, we must fund our priorities, and these programs provide significant value.

With that, I yield back the balance of my time.

Chairman MILLER OF CALIFORNIA. Thank you. I now have the honor of introducing the Honorable Dr. Lael Brainard, who is the Under Secretary of Treasury for International Affairs. Dr. Brainard has spent most of her professional life as a devoted public servant, working to further understanding of competitiveness, trade, international economics, foreign assistance, and global poverty.

During her tenure at Treasury, Dr. Brainard heads the Administration's agenda of strengthening U.S. leadership in global economies to foster growth, create economic opportunities for Americans, and address transitional economic challenges, including development, climate change, food security, and financial inclusion.

I love this next part. Dr. Brainard is the highest ranking female Treasury official in American history—kudos to you—and plays a critical role as the most important financial diplomat in the Administration's efforts to sustain recovery from the financial crisis and strengthen global growth.

The Honorable Dr. Brainard is recognized for 5 minutes.

**STATEMENT OF THE HONORABLE LAEL BRAINARD, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY**

Ms. BRAINARD. Thank you very much. I want to just express my appreciation to Chairman Miller, to Ranking Member McCarthy, and to the distinguished members of this subcommittee for holding this hearing on this very important topic.

The Administration's pending requests to recapitalize and replenish the multilateral development banks come at a moment of extraordinary importance. New powers, such as China, are expanding their global influence and investments. Historic transformations are sweeping the Middle East and North Africa. And as we witnessed during the recent financial crisis, in today's highly interconnected global economy, currents can shift suddenly, leaving the world's poorest even more vulnerable.

At this critical time, America's leadership and investment in these institutions yields significant returns. The numbers speak for themselves. For each \$1 that the United States contributes to replenish IDA and the African Development Fund, we leverage \$25 of multilateral development investments. Our investments in Fiscal Year 2012 alone will leverage over \$95 billion of MDB financing off a base that is below 3. But the most important reason for our engagement is the people who are helped by these investments.

In Zambia, U.S. investments have helped reduce malaria deaths by 50 percent. In Moldova, mother-to-child HIV transmission has decreased by 90 percent. And in Benin, more than 2 million insecticide-treated nets have been provided by the MDBs.

Let me briefly touch on four reasons why we are seeking authorizations from this committee for our MDB commitments.

First, these institutions have long advanced U.S. global leadership and provided unrivaled leverage. If we do not secure congressional authorization for recapitalization and replenishment, U.S. leadership will surely wane. At the World Bank, we would risk our unique veto over changes to the Articles of Agreement, which protect our prerogatives on bank membership and leadership. At the African Development Bank, the United States would miss our next payment, reducing U.S. shareholding by two-thirds, and putting our seat on the board of directors in jeopardy. And at the Inter-American Development Bank, no contributions can be made by any member unless the United States contributes.

So being unable to participate for lack of authorization would deny the IDB of any funding. This would be interpreted as a retreat on the part of the United States from Latin America at the very time that China and others are deliberately increasing their presence in this institution and in this resource-rich region.

These are once-in-a-generation investments. In 1988, President Reagan secured authorization for the last recapitalization of the World Bank. The U.S. capital contribution at that time of \$420 billion supported \$325 billion in key investments over the next quarter century, a multiplier of 800 to 1. We are all familiar with the record of achievements secured by those investments: transition to democracy and to market economies throughout Central and Eastern Europe, South Korea, and Indonesia; the growth of stable democracies following the Cold War; and stronger national security for the United States.

Second, today we see a similar opportunity in the Middle East and North Africa. The success of the historic transformations now under way in countries like Egypt and Tunisia will depend on whether democracy delivers on its promise of freedom and opportunity. By investing again today in the multilateral development banks, we will secure brighter futures for the generation gaining a voice in those countries and for Americans as we strengthen our foreign security and economic partners.

The MDBs are already at work to support Egypt and Tunisia. At the recent G-8 summit, they committed to providing \$20 billion of investments to stabilize economies, invest in private sector growth, and promote greater accountability, transparency, and the fair rule of law, an investment many times larger than we would be able to make ourselves.

Third, over the past 3 decades, investments by these important development banks have helped foster peace, stability, and growth in countries emerging from conflict, including Bosnia, Rwanda, and Liberia. In Afghanistan today, the World Bank and the Asian Development Bank are the second and third largest donors after the United States, building critical infrastructure like the Ring Road and the Uzbek-Afghan railroad. And as was noted here, both General Petraeus and General McNabb have noted that these projects are vital to the success of the U.S. strategy in both Afghanistan and the region.

The MDBs are also on the front lines with us when disasters and conflicts leave countries weak and vulnerable. Today, the World

Bank is assisting refugees fleeing repression in Libya. When the devastating tsunami hit Aceh in 2004, the MDBs immediately formed a new recovery and reconstruction fund to address urgent health crises, feed school children, and rebuild canals and bridges. And again, they did the same following the devastating earthquake in Haiti.

Fourth, the multilateral development banks play a vital role in advancing our commercial and economic interests. They build the roads and ports to get our products to new markets. They build the soft infrastructure that makes markets work, reducing trade barriers, improving property rights, and slashing red tape.

In infrastructure, the multilateral banks help to level the playing field for U.S. companies to compete. The alternative to multilateral development bank financing for infrastructure in too many of these countries is borrowing from countries like China.

In contrast, the development banks, due to our leadership, have rigorous safeguards to protect the environment, uphold the rights of vulnerable populations, and combat corruption. They establish fair and consistent rules that create opportunities for U.S. companies to invest.

And finally, we have consulted closely with Congress throughout the negotiations over the recapitalization and replenishment of these institutions, and the reforms in these institutions show the results of those consultations. We have made disclosure of significant policy documents the norm. We have put in place procurement rules to ensure companies have a fair chance to compete, and secured more effective internal audits to prevent and deter corruption.

We have achieved higher standards for results. Indeed, a recent study by the Center for Global Development ranked IDA at the very top in development effectiveness among a large field of bilateral and multilateral development agencies.

As our key partners in alleviating poverty, strengthening national security, and fostering economic growth and prosperity, we seek your support in reaffirming U.S. leadership in the multilateral development banks.

Thank you.

[The prepared statement of Under Secretary Brainard can be found on page 29 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Under Secretary. I want to thank you for your candidness on the process. You have been forthright in providing the information we have needed. Ex-Im was a great example of that. You have expressed the concerns you have, the benefits you saw. There seems to be a nexus between MDBs and Ex-Im, as I listen to your testimony.

I guess my concern would be, what consequences would there be for the United States if we didn't authorize your requests? And are there consequences the institution would suffer in the ability they have to do their business? Can you explain the importance of the United States maintaining a leadership position?

Ms. BRAINARD. I think there are very direct and measurable consequences. As was noted earlier, we have built up our position of leadership in these institutions over decades, and it would be a ter-

rible cost to us to forfeit that leadership at a time when it seems more important than ever.

At the World Bank, if we were not able to support our capital contribution, we would have the risk of forfeiting our veto. We are the largest shareholder, and we are the only country that has a veto at the World Bank at present. And of course, with that, goes a long history of having an ability to provide leadership in direct policy directions in that institution.

At the African Development Bank, if we fall behind, we risk our seat on the board of directors. We are the largest nonregional shareholder in the African Development Bank. And as you know, that institution sits in a region of the world where poverty is greater than in any other region, but so too we believe the opportunities for infrastructure, for food security, for a whole host of things in poverty alleviation and post-conflict development that are critical to the United States and have the greatest potential to be realized.

At the Inter-American Development Bank, we are again the largest single shareholder. And in that institution, if we were unable to move forward with our share on the recapitalization, we would actually hold up the entire institution from moving forward, jeopardizing our investments in our own neighborhood, and very importantly an important agreement that we secured to have \$2 billion worth of grant financing directed to Haiti.

So in all of these cases, we secured very important reforms that will lead to loan pricing to middle-income countries that will allow greater resources to be transferred over to the facilities for the poorest countries. We secured very important reforms on measuring development effectiveness and achieving results, on transparency, on procurement that is very important to our companies.

And so all the things that we all mentioned earlier, whether it be on economic advancement for our companies around the world in these very fast-growing markets, whether it be on ensuring stability in fragile states, responding to natural disasters, supporting the historic transformations now under way in the Middle East, all of those things we believe could be put at some risk if we are not able to move forward on these authorizations.

Chairman MILLER OF CALIFORNIA. How did the Treasury come to the conclusion that capital increases were necessary? And the levels you prepared for Congress for the capital increases and for replenishment, how did you arrive at those?

Ms. BRAINARD. In all cases, the institutions came to us as shareholders only after they had undertaken a great deal of analysis internally. As you know, these institutions very rarely get recapitalized. The last time we put additional capital into the World Bank was in 1988. So these are often once-in-a-generation investments. And I can't think of a time when all of the institutions needed capital, or most of them, at the same time.

In the wake of the financial crisis, when these institutions responded as we prioritized them to do, which was to support trade flows—as you may recall, there was a collapse in trade financing that threatened our exports as much as any country's, as well as threatened to throw a whole generation back into poverty in many countries—these institutions really stepped up and disbursed and made a measurable difference in these economies. And as a result,

their lending levels rose, putting into jeopardy their ability to continue lending in future years.

So if you look at the African Development Bank, if we had not approved an increase in their capital, their lending in that critically important region would have fallen below \$1 billion, which would have been a huge step backwards. And I think you can tell the same story in each institution.

The one thing I will note is that in almost every case, we pushed very hard to ensure that the capital increases would get us maximum value for each dollar invested. And they are in most cases much smaller than was originally requested, in part because we encouraged the institutions to push their own internal financial transfer mechanisms very hard, to raise their pricing on loans in some cases, and to transfer more money to the facilities for the poorest countries.

So if you take the Inter-American Development Bank for instance, they had originally envisaged a 200 percent capital increase. And after spending a lot of time with them and with you on the numbers, I think they recognized that they could accomplish the same with a much smaller increase in their capital of 70 percent. And in each case, in the EBRD, the European Bank for Reconstruction Development, which will now be reorienting its operations to make room for Egypt and Tunisia and play the same role there that they played in Central and Eastern Europe, we actually called on them to use their existing capital more effectively. So that while we need an authorization, there won't actually be a need for additional U.S. dollars going into that institution.

So we tried to stretch our dollars as much as we possibly could in each case, and I think the results will multiply our leverage and accomplish our goals in a smart way.

Chairman MILLER OF CALIFORNIA. I think it is important that we allow Dr. Brainard time to respond adequately to our questions. I think we easily have time for two rounds of questions. That is why I didn't try to cut her off. I think it is important to hear what she has to say. So I would encourage you to get your responses, because you will have a second opportunity.

Ranking Member McCarthy, you are recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you. I appreciate it. I appreciate the testimony. And certainly, great minds must think alike, because I was going to ask the question that Chairman Miller asked you in the beginning, what would happen if we defaulted on not putting our share of money up. And I think it is important, certainly for the Members of Congress, but also people who actually watch this show—I can't tell you how many times when we go home as Members and people are saying, yes, we are having tough times here in this country. Why are we giving money to the World Bank? Why are we giving money to other nations? And it is our job to be able to explain that to them on how it does have an effect on our folks back home.

But I think I would like to—you have provided in your testimony some good examples of the opportunities that multilateral development bank lending provides for the United States businesses growth through procurement context. But I think if you could go into a little bit more with the general capital increase providing in-

creased lending by the multilateral development banks, how much more of an opportunity do you anticipate for United States business growth? And just if you could touch on, because I can come back to it later, when we talk about global threats and how the World Bank does play in protecting this country, because I think again that is something that people back home need to know.

Ms. BRAINARD. Let me just respond first by saying I think we all are struggling to find the best, smartest way to leverage U.S. taxpayer dollars at a period of belt tightening around the country. And I believe that in part because of the agreements that we have reached with each of these institutions, and in part because of the lending model that they employ, these are some of the smartest investments of U.S. taxpayer money that we can think of. They are investments in expanded economic opportunities for our firms. They are investments in prevention. It is much cheaper to be helping countries to develop and grow and address poverty than it is to have to send in troops when they descend into conflict because of poverty and stresses over resources.

With regard to some of the leverage numbers, again, because we invest in these institutions rarely, and they use their capital in very smart ways, a dollar invested in 1988 in the World Bank leveraged over \$800 in investments over the subsequent 2 decades. And we think that the same kinds of results will come from our investments today.

With regard to the commercial opportunities that these institutions foster for our companies, I think the support that we see from the business community and that was referenced earlier really speaks for itself. The U.S. business community is very supportive of these institutions because they benefit our economic interests both directly and indirectly, indirectly by building those bridges and roads and railroads and ports that enable us to get our products into these countries. And by creating the rules, lowering the trade barriers, getting rid of the red tape makes it much easier for our exporters to sell to consumers in Brazil or in India, around the world.

If you look at direct opportunities that are provided by these institutions, the procurement rules that they put into place are rules that often govern not only the procurements that are directly associated with development banks, but also lead to more transparent and open bidding processes for projects more generally in those countries. And it really gives our companies a chance to compete on the strength of their products.

If you look in the most direct way, I am just going to cite a few companies because you mentioned that, if you look at the procurements that have been made, TCI International of California won a contract to equip Malawi's utilities. Learning Resources of Illinois supplies educational materials to education projects in Honduras. Abbott Laboratories in Illinois won a contract to provide antiretroviral drugs to rural Cambodia. And the list goes on.

So there are also direct procurement contracts. And we are going to keep working to ensure that these institutions promote U.S. economic opportunities.

Chairman MILLER OF CALIFORNIA. Vice Chairman Dold is recognized for 5 minutes.

Mr. DOLD. Thank you very much, Ms. Brainard. My understanding is that the Argentinian Government has recently become the first country in the 30-year history of the International Center for Settlement of Investment Disputes, which is the most widely used international arbitral body in the world, and they refused voluntary payment of the awards that came out of that body. And I am sure you would agree that Argentina's actions are not only harmful to the United States businesses that have invested in Argentina, but that the Argentinian Government is establishing what I would call a very dangerous precedent that other countries, particularly those in Latin America, may follow suit. Although the World Bank can take unilateral action to help preserve the integrity of the ICSID process through the bank's operational policies, it has thus far not done so.

Therefore, what actions can the United States Government take to compel Argentina to comply with its international treaty obligations? And if government-to-government measures are not successful, do you agree that it is appropriate to prohibit financing from multilateral institutions to countries that refuse to comply with their treaty obligations?

Ms. BRAINARD. We think it is very important for countries to abide by the international obligations that they have taken on and to enter into dispute settlement proceedings through ICSID in a way that they actually respect the process. We are engaged through the MDBs as well as the IMF, and will continue to try to engage bilaterally with Argentina to address the various international discussions and decisions where they have not so far been in compliance. And we are happy to consult with you closely as those processes continue.

Mr. DOLD. Great. The Administration has requested increases for all of the MDBs. I certainly know that they stretch the dollar. And I know it is good for exports and for business. Mr. Chairman, I would like to, if I may, submit for the record a letter that we received from the Business Roundtable and the Coalition for Employment Through Exports and other business organizations, if I may.

Chairman MILLER OF CALIFORNIA. Without objection, it is so ordered.

Mr. DOLD. Also, there was a poll that was recently done not too long ago, I think by the University of Maryland, that polled the American public about the amount of money that we are spending on foreign aid. They came back and said they thought it was about 25 percent. And then when asked how much should we be spending, they said, well, maybe only 10 percent. In actuality, it is only about 1 percent is what we are actually spending on foreign aid. And a fraction of that is actually being spent on the World Bank and the other MDBs.

But just from your perspective, how can the Administration, how can the Federal Government do a better job of getting that information out to the American public to let them know indeed what are relatively minor outlays? And yet we do face a significant deficit and debt issue that the Federal Government is spending more money than we should. But how do we get that message out that our priorities still need to be funded? And this is what I would consider to be an outstanding way for the United States to be able to

be spending these resources, and spreading our influence across the globe.

Ms. BRAINARD. I share the priority you put on that. I think American citizens, when they understand, and even better when they have the opportunity to witness firsthand the work in the field of these institutions, as well as, of course, as USAID and the work that we do bilaterally, they become extremely supportive of these institutions. And we also know from talking to Americans around the country, and also from polling, that the kinds of values and goals that these institutions support, rebuilding economies in the wake of disasters, in the wake of conflict, addressing deprivations associated with poverty, addressing food security, all of these things are things that Americans care about, and in their own volunteer time and with their own voluntary contributions they themselves directly support.

So what we try to do is to connect with some of the organizations, whether they be faith-based or nongovernmental organizations, where Americans come together to express support for the goals of these institutions. The President talks a lot about these issues. He has talked a lot about food security, which is something that we have been working very hard to promote through all the multilateral development banks, where they are doing really terrific work. And he talked about it just a few weeks ago when he talked about the incredible work that the multilateral development banks are going to do in supporting the historic transformations now under way in Egypt, in Tunisia, and elsewhere in the Middle East, where these institutions really uniquely have both the scale and the staying power to help underwrite the many years that will be required to transform these economies to be able to give the young people who ushered in these historic transformations brighter futures.

Mr. DOLD. Thank you, Under Secretary Brainard.

Chairman MILLER OF CALIFORNIA. The gentleman from California, Mr. Campbell, is recognized for 5 minutes.

Mr. CAMPBELL. Thank you, Mr. Chairman. I have a couple of questions. Just following up on that Argentina discussion, the World Bank is loaning money to Argentina. I thought that we were supposed to be loaning to underdeveloped countries. Argentina is obviously a developed, established country. Is the World Bank making loans like that as well?

Ms. BRAINARD. Just to step back for a second, the issue for Argentina really is settling outstanding claims, as opposed to moving forward on new loans. But more generally, the World Bank and each of the multilateral development banks have a set of activities that they do with countries which are middle-income countries and a set of activities they do with the poorest countries. Those two sets of activities reinforce each other.

So, for instance, if you look at Egypt and Tunisia, those are middle-income countries. But they have tremendous needs to develop infrastructure to support growth, to develop better financing models so that small businesses can flourish, and young people can start businesses and get jobs and build futures. So when we look to supporting the economic transformations that have to take place to support democratic transition in Egypt and Tunisia, what the

World Bank and the African Development Bank uniquely will bring is a set of policy changes that will go hand-in-hand with the medium-term reforms these economies are undertaking. So just as Egypt may be investing in small or medium-sized enterprise creation, so too the World Bank and the African Development Bank will encourage them to undertake reforms that make it easier for fruit vendors to register their businesses. As you remember, that was one of the issues that touched off the uprisings in Tunisia, that make it easier for entrepreneurs who may be young or who don't have a lot of capital to register businesses and to raise capital, to put in place more mechanisms to combat corruption.

Mr. CAMPBELL. Okay. Let me just get to a couple of other things. You mentioned the consequences if we didn't do this, and that our percentage of the multilateral banks, etc., and so forth would be recused. What is the problem with that? Why not say that in the G-20, the other 19 ought to carry more of the load? Maybe they ought to carry more of the share, and maybe we shouldn't be dominant? Maybe we shouldn't be controlling all this. We are not the only country that exports to these places. Germany does, as well as Britain, France, China, Japan, and others. Why not let them carry more of the load?

Ms. BRAINARD. I think what you will see is that to some degree we are seeing a shift in shareholding in these institutions. But the countries that want to share that load, the countries, China for instance, would like to expand its share in the World Bank, they would like to be represented in the Inter-American Development Bank. They would like to have greater participation in the African Development Bank. Why? Because they see tremendous opportunities in these regions for their businesses and also to exercise leadership positions.

I think for us, we have traditionally been able to wield disproportionate influence in these institutions because of our leadership position. We have, uniquely, a veto at the World Bank. We are the only non-regional shareholder, the largest that has its own seat at the African Development Bank. These are investments that we have made over time because we think it is important to our companies, we think it is very important to our national security in places like Afghanistan, and we believe that by exercising leadership in these institutions, we advance our national goals.

Mr. CAMPBELL. Let me ask you one more, because I could follow up with that, but we will come back, and then Mr. Manzullo may follow up on this. But you mentioned, you said that a dollar invested had been turned over 800 times or whatever. If that is the case, why don't we get paid back? In other words, why do we need to invest more? Why doesn't the World Bank generate its own capital to continue forward?

Ms. BRAINARD. The World Bank actually has an internal funding model that we have helped to encourage, which does actually take the reflows from some of the lending to the emerging markets, those economies that started out much poorer and are now growing in wealth because of these investments in many respects, and are also growing as our consumer markets, and takes those reflows and uses them to provide financing to the poorest countries. So the way that we have structured our investments in these institutions has

been to try to get greater contributions from the lending that we do to middle-income countries so we actually do essentially make our contributions to the poorest countries smaller by transferring those reflows to the poorest countries.

Mr. CAMPBELL. Okay. Thank you.

Chairman MILLER OF CALIFORNIA. The gentleman from Indiana, Mr. Carson, is recognized for 5 minutes.

Mr. CARSON. Thank you, Mr. Chairman. Madam Secretary, I have a question. Does the World Bank plan to implement improved strategies to reduce poverty in countries by aiming a set of metrics only on boosting overall growth? It is evident that this strategy may miss opportunities to reduce poverty. I understand the reasoning behind focusing on sectors with growth potential, allowing for relatively quick payoffs. However, do these strategies really impact poverty reduction in the most efficient way?

Ms. BRAINARD. I think at least with regard to the lending facility and the grant making facility for the poorest countries, IDA, we have seen that they are ranked very highly. There was a study done by the Center for Global Development which saw IDA as among the most effective on promoting development and addressing poverty among about 150 agencies that they looked at.

So I think the answer is yes, we push them very hard. And we know this is something that Members of Congress care a great deal about, to be very focused on poverty reduction and on food security, where they have a lot of their resources devoted, as does the African Development Bank, and in coming up with programs that not just address food security today, but put smallholder farms in a much better position to grow more and earn more for their families and allow their kids to go to school and get themselves out of poverty traps over time.

Mr. CARSON. Are you worried that if the United States cuts funding for MDBs that it is tantamount to allowing China, for example, to expand influence in Africa and other developing nations, as was recently explained by Secretary Geithner?

Ms. BRAINARD. I am worried. I would note simply that there is a huge interest on the part of many of the emerging markets to expand their share at these institutions, again because I think they see them, as we do, as very important for influencing the policy frameworks in these countries, for influencing the infrastructure investment plans, and for influencing how easy it is for our exporters to do business in these countries.

So our leadership matters. And I think if we allow it to wane, there will be other countries that are only too happy to take up our shares.

Mr. CARSON. Thank you, Madam Secretary. Thank you, Mr. Chairman. I yield back my time.

Chairman MILLER OF CALIFORNIA. The gentleman from Illinois, Mr. Manzullo, is recognized for 5 minutes.

Mr. MANZULLO. Thank you, Madam Secretary. It is good to see you again. I have some real problems with regard to the practice of the World Bank talking about helping out other countries with loans to medium-sized and small businesses, and yet the regulatory environment that we have in this country, I have constituents back home who can't get loans—they are collateralized and everything—

based upon the harsh regulatory environment of the OCC, the FDIC, etc., and the examiners classifying loans at banks that should not be classified. And I find it very difficult to vote for money to give to the World Bank, especially on the premise, and I know you didn't mean it in your statement, that the man who torched himself in Tunisia, if he had had access to World Bank money, would be alive today. You called that an act of courage and quest for dignity.

I am having problems with the whole approach here, especially when you throw in with what Mr. Dold said about Argentina. Courts of jurisdiction, recognized in the legal system, applying the rule of law, have ordered Argentina to pay these debts not only to bondholders, U.S. bondholders, but to taxpayers who have invested our certificates with them. And as recently as April 28th of this year, long after Members of Congress had bitterly complained to the World Bank to cut off Argentina, the World Bank notwithstanding gave another \$400 million to Argentina. This could be the demise of the World Bank unless something happens with Argentina. It is not just one country.

How do you address my constituents who can't get money to run their businesses and tell them, by the way, let's give \$3.5 billion to the multilateral development banks, especially when President Obama said he wants another \$40 billion to give to these Arab countries so they can be taught democracy, ostensibly with the African Development Bank and the World Bank?

Ms. BRAINARD. Let me just say I know your passion for small business and ensuring they get access to credit. I certainly share it. It is something that I know people at Treasury on the domestic finance side care a great deal about and are working very hard to address. We also think it is important around the world to make sure that credit flows to small businesses in part because that is key to development, and in part because it creates great opportunities for our exporters, as consumers and their business customers in developing countries grow and are able to purchase their goods.

Mr. MANZULLO. If the World Bank is lending money, you mentioned some Fortune 500 company, if the money is being loaned, why isn't it being repaid back?

Ms. BRAINARD. Let me just be a little bit clearer in terms of the authorization for the World Bank, let's just take that for example. It is approximately \$190 million for 1 year, and that takes place over 5 years. And then, we essentially don't fund it again for probably 2 decades. During that time, the United States retains its paid in capital during the World Bank, but that money is put to work as it would be in any well-run financial institution.

Mr. MANZULLO. Then why do you keep on coming back for more?

Ms. BRAINARD. And what that money does is it invests in peace and prosperity and stability around the world.

Mr. MANZULLO. I understand. I am asking—

Ms. BRAINARD. Which I think takes the burden off of—

Mr. MANZULLO. I am not talking about peace and prosperity. I am talking about people who are broke and can't get money from banks. If these investments are working, then why isn't the World Bank working like a bank, as opposed to doling out or losing \$190 million a year?

Ms. BRAINARD. The World Bank is not losing any money.

Mr. MANZULLO. Then why are you seeking—

Ms. BRAINARD. The contribution—let me go back to 1988, when President Reagan requested a capital infusion for the World Bank. This was the last time, 1988. We have not had a request like this for nearly a quarter of a century. He got approval from Congress for an investment of \$420 million at the time. It is a very comparable number in many respects to today's number.

Mr. MANZULLO. I understand that.

Ms. BRAINARD. And those institutions did not need to expand their lending beyond that over the subsequent 23 years. They came back to their shareholders at this time both because it is a period of extraordinary opportunity, and because they had stepped up and supported trade financing and financing to shield poor populations during the financial crisis.

Mr. MANZULLO. I know my time has run out. What I am trying to emphasize to you is you may not get any money. It is very possible you are not going to get \$190 million for 5 years. And my question is, if the bank is so successful, why can't you run it like a bank and not depend upon taxpayers for a subsidy? That was my question.

And my time has run out, so I don't know if I am going to get an answer on that.

Chairman MILLER OF CALIFORNIA. You are welcome to answer if you have time.

Ms. BRAINARD. The way that we think about these investments is they are investments. And essentially, we provide—the U.S. Government puts a capital investment into the World Bank, and then that money works for the United States over 2-plus decades in expanding markets in places around the world.

If you think about the growth of countries like Brazil, India, Vietnam, all of those countries were very poor beneficiaries of multilateral development banks. They are now huge customers for our products, and they are also in many cases supporters and partners in our endeavors in building market economies around the world and in supporting peace and stability around the world. So these are very good investments for the United States, and we hope that there will be a lot of support for them.

Chairman MILLER OF CALIFORNIA. The gentleman from Illinois, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I have a quick question. Along this path, what do you believe are the consequences if we do not put this funding out there, if there are any? And elaborate on that a little bit.

Ms. BRAINARD. I think the consequences across-the-board in the institutions is that we will lose ground. We will signal to the world that we are shifting our posture, that we no longer are going to exercise leadership in these institutions. And again—

Mr. HUIZENGA. Lose ground to whom? And lose ground in what?

Ms. BRAINARD. In the case of the World Bank, if we are not able to secure authorization, we will lose our veto. We are the only country that has a veto on fundamental governance changes at the World Bank. And we will jeopardize our leadership position. This is the flagship institution of the global system.

In the case of the African Development Bank, we will put in jeopardy our seat on the board, which allows us to vote on very important issues.

Mr. HUIZENGA. I am sorry, and this is just if we don't increase our standing. We are not talking about removing ourselves, right? This is talking about an increase?

Ms. BRAINARD. What will happen is because the other countries, and you asked who will be interested in expanding their share, China is very interested in expanding their share for obvious reasons. In fact, most emerging markets and many European countries would be very happy to expand their shares if we decided to forfeit ours at all of these institutions, at the World Bank, at the African Development Bank, at the Inter-American Development Bank, and at the European Bank for Reconstruction and Development. So by simply standing still we will jeopardize our veto at the World Bank, we will jeopardize our board seat at the African Development Bank, and in the case of the Inter-American Development Bank, we will simply paralyze the institution's ability to get funding from other countries, which will jeopardize the \$2 billion in grant financing that we secured from all of the countries in the region for Haiti.

Mr. HUIZENGA. So are we the front end of this, or the back end of this, or in the middle of this? Have other countries made commitments, or are they waiting for us to make this commitment?

Ms. BRAINARD. Countries are moving very quickly. For instance in the Asian Development Bank, we have already fallen to I think the 8th position just by virtue of being a little slow off the mark relative to some of the other countries. Other countries like China are paying in their full amount in a single year rather than doing it over the course of 5 years. And so, we will inevitably fall behind if we are aren't able to start paying in on the capital replenishment to these institutions.

Mr. HUIZENGA. So in the last remaining 2 minutes, in your opinion, the most important reason why we need to authorize would be what?

Ms. BRAINARD. The most important reason is because we will lose our leadership of institutions that advance stability, American foreign policy, and our economic interests as well as fighting poverty which Americans care a great deal about.

Mr. HUIZENGA. I appreciate that. And, Mr. Chairman, if it is all right, in my last minute-and-a-half, I would like to yield to my friend from Illinois to continue his line of questioning.

Chairman MILLER OF CALIFORNIA. Without objection, yes.

Mr. MANZULLO. I want to return to Argentina. Courts have held that Argentina owes United States taxpayers through U.S. obligations and U.S. bondholders \$7 billion. You are asking for about a half billion. I don't know the extent of these that are held by the Federal Government, but I would suggest that the World Bank better do something very quickly with Argentina if you want to get any support in this committee or this Congress.

That is not a suggestion. You have to do it. Don't talk to me about eliminating poverty in Argentina. Don't talk about what is going to happen. The United States is complicit with Argentina in disobeying the international rule of law.

I don't think you realize how serious that is and what it means to this body and to the taxpayers to sit there and see this country stiff all the people, \$7 billion to U.S. people, and then you turn right around and give them another \$400 million.

Ms. BRAINARD. I would just say that we agree very much with your position on Argentina. We will continue to pursue—

Mr. MANZULLO. Then don't give them any more money.

Ms. BRAINARD. —honoring their obligations, and we will also continue to think it is very important. We have interests around the world, in Egypt, Tunisia, and Cote D'Ivoire and every region of the world that we think are very important that would be compromised if we were not able to continue to support our leadership position in these institutions.

So we will continue to work on both fronts very assiduously.

Chairman MILLER OF CALIFORNIA. The reapportionment is taking place, but I didn't mean to move Mr. Huizenga from Michigan to Illinois in the process. I move you back to Michigan.

Mr. HUIZENGA. Thank you, Mr. Chairman. That was going to be an interesting gerrymandering across Lake Michigan.

Chairman MILLER OF CALIFORNIA. In California, I could be in Mexico the way I am going. So you never know.

Madam Secretary, I know you have a busy schedule. I think there is a desire to go through another round of questioning if you have time.

Do the members request it?

Many questions have been asked and it raises some concerns and issues. If you had to prioritize funding between general capital increases and a concessional window replenishment, what would you consider most critical and, since we are in tough times, what organizational funding do you consider to be a top priority?

I know you like them all.

Ms. BRAINARD. I would no sooner choose among my daughters. We have already prioritized in the requests that we are submitting to you today, and we have done it in full consultation with members of this committee and more broadly, so that when we presented you with these requests it was following quite hard fought negotiations to ensure that within each institution, the recapitalization of the hard loan windows was done in a manner that would support the replenishment of the facilities for the poorest countries.

In the case of IDA, which is the World Bank facility for the poorest countries, which again has very high marks for effectiveness, we were able to mobilize 75 percent of the additional funding from IDA from internal resources from the middle-income arms of the World Bank. And so, these negotiations have been carefully balanced packages, if you will, that have tried to the greatest extent possible to price loans in a way that we could transfer income to the facilities for the poorest, which then reduces the amount that we have to pay in for the replenishments every year.

And similarly across the institutions, we were pretty hard headed in trying to reduce the overall size of the capital replenishments and push the institutions to make their capital work harder.

And we told them as we undertook these negotiations that because we were doing the negotiations all in one go, we were able to be a little more hardheaded about the actual size each institu-

tion needed because we expect them to work better together. And they have done that. They, for instance in the case of Egypt and Tunisia, have developed a joint action plan and they are developing their lending programs with the other institutions in the room so that we use the money most effectively not only within each institution but across institutions.

So the request that we have presented to you is one where we have already tried to squeeze down the size of the request to the greatest extent possible and make U.S. taxpayer money work as effectively as possible.

Chairman MILLER OF CALIFORNIA. That is a good answer because you eliminated my second question, which was if you had top priorities over some that weren't, why were you asking for the ones that were not a top priority? But it seems that you thought the process through very well.

In your testimony, you mentioned a series of policy accomplishments the United States has been a major player in implementing at the MDBs. What are your top policy initiatives you are pushing at them now? Have they changed in any way?

Ms. BRAINARD. I think they have probably evolved over time, although I will say that a perennial strategic priority for the United States is to keep the institutions focused on poverty, fighting poverty in a way that allows countries to grow permanently out of poverty and move from the more concessional financing to becoming countries that borrow from the middle-income windows. And we have seen very successful transitions over time. Again if you look at the Vietnams, the Indias, the Indonesias, these have become booming markets for our exports. They were very poor countries not too long ago. So we will continue to emphasize poverty.

We are very focused on U.S. national security priorities. Afghanistan is a huge priority in the Asian Development Fund and in the World Bank. And similarly, Egypt and Tunisia are going to be huge priorities right now going forward because we know how important these democratic transitions are.

We also have asked these institutions—and they are very forward leaning on—focused on global health, focused on education and, very importantly right now with food prices skyrocketing, on addressing challenges such as food security and climate.

Chairman MILLER OF CALIFORNIA. I hope somehow through the process, countries like Brazil and Vietnam, we get a message across that some of their tariffs are very excessive on some of the American products we are sending to them, that it is not a fair return for what America is trying to do for them in the process. Hopefully, that message can get to them.

Ranking Member McCarthy, I recognize you for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you. I just want to go back to and follow up, building up off of Mr. Campbell's question earlier, if another country takes leadership, wouldn't that allow them to basically change an awful lot of important U.S.-led accountabilities, transparencies, anti-corruption? So without naming a country, but there are one or two countries out there that have the possibility of taking the lead, and I would say the majority of people sitting here would probably not agree with an awful lot of their policies. They could then put their own policies in place.

I think that is probably what a lot of people don't understand of what we are trying to survive—to get to, which came off the beginning of my question, that the American people have to understand why this so important. Because we are the leaders. And I also think it is worth mentioning again because we hear it all the time on decisions that should be made; let's leave it to the generals.

We have General Petraeus talking about why the World Bank is so important and we have Joint Chief of Staff Admiral Mullen also saying the same thing. So maybe you could clarify that a little bit more so that people understand this isn't just giving money to a bank. Yes, many of us agree we want to help poor countries. We want to build them up. I am one of those who happens to believe that by doing that, hopefully we are preventing future terrorists from coming over here to injure us. When people live in terror, they will believe anything. We are trying to give them a different way of life. If you could, lead off on those questions.

Ms. BRAINARD. Mrs. McCarthy, I think the way you have framed it is exactly right. And the areas where we have been at the forefront are areas that Americans care a great deal about: transparency; full disclosure of lending programs; and ensuring that infrastructure projects undergo full environmental impact assessments and social impact assessments. These are areas, anti-corruption, where by virtue of having a leading share in all these institutions the United States has pushed these institutions to reflect American values. And I think that your fear is well founded that if we forfeit and appear to be less committed to these institutions, that other countries with different values will promote different agendas, which will be, I think, a step backwards on the development of these countries that they are lending to because we promote these values because we think they are good for the countries themselves. They are critically important to the functioning of our economy, but also because they create huge opportunities for us.

I think you are also right that these are preventative investments. In many cases, they allow us to put small investments on the ground now and to avoid much larger and more costly entanglements later if indeed they are successful, and that is why I think our military speaks so strongly in support of these institutions as does our business community.

The final thing I would simply say is that just going back to this question about prioritization, we did actually push back altogether on capital replenishments for both the EBRD and for the IFC because we asked them to work harder at making their capital go further, and so we need authorizations but we actually don't have to make additional contributions to those. So we really did work hard to try to get the maximum in terms of development impact, national security impact for the least amount of U.S. investment dollars.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Chairman MILLER OF CALIFORNIA. The gentleman from Illinois, Mr. Dold, is recognized for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

Under Secretary Brainard, what is the Administration's position on the importance of ensuring that the World Bank presidency remains with an American?

Ms. BRAINARD. I think we believe that the benefit, the World Bank has benefited tremendously from American leadership over the past several decades. And we also believe that the current president, Bob Zoellick, is doing an excellent job of steering the World Bank and advancing the goals of that institution.

We have stated that for all of the international financial institutions we support an open and transparent and merit-based process. And again, we feel that the actual leadership of the World Bank has served the institution very well over many years.

Mr. DOLD. So that means it is important, we hope? You want an open process but you—the Administration is just supporting an open process or do you believe that it is important that an American sit at the head of the bank?

Ms. BRAINARD. We believe that the institution has been very well served by having an American heading it over many years. But we also are very supportive at all the international financial institutions of ensuring an open, transparent, and merit-based process so that we will have the best leadership possible.

Mr. DOLD. I appreciate that.

One of the big responsibilities we have here in the United States Congress is to ensure that taxpayer dollars are protected from corruption, and certainly I would say a conservative estimate of bribery annually is about \$1 trillion. And before we agree to sign on to give the banks additional taxpayer funds, we need to know that they are serious about fighting corruption. I think a World Bank analyst estimates that there is a 400 percent governance dividend of corruption control; in other words, countries that crack down on corruption and improve the rule of law can expect on average about a 400 increase in per capita income over the long run. This means that a country with a per capita income of \$2,000 can, over the long haul, see that increased to \$8,000 by addressing corruption. So especially at this time of cutting back here in the United States Congress, we need to protect our investments and ensure that they are directed.

The real question is, what are the banks doing to ensure that they are cracking down on corruption? And what is the U.S. Government doing to put pressure on the banks to make sure that they are following through on that?

Ms. BRAINARD. I would say that fighting corruption and ensuring that countries put in place strong anti-corruption policies is something that is now a deeply held value at all of the institutions; among the senior management of all the institutions, this is something that they really, I think, have taken to heart. As you said, the World Bank has come up with the most compelling research on why corruption is a scourge on development for countries who allow it to flourish themselves.

They pursue initiatives against corruption in a host of ways. First of all, through the reforms that we have worked so hard to secure, they fight against the space for corruption to penetrate into their own operations. So between inspection panels and publication of documents, they have a whole host of internal controls.

Secondly, they are not banks, as was said earlier. They are policy institutions that bring technical assistance and policy conditionality to bear when they lend into countries. And one of the very im-

portant policy areas that they push is to ensure countries have very strong legal and enforcement frameworks to combat corruption.

Mr. DOLD. The banks I know have the ability to debar people, companies, nongovernmental organizations, if they are found guilty of fraud and corruption. And I would say that some of these corrupt actors also have the ability to be prosecuted criminally.

What are the banks doing? Do they have a mechanism to make sure that those are reported to the different entities so that they can be prosecuted?

Ms. BRAINARD. I can speak to the debarment process. They have, each institution has now agreed to cross debarment so that the information is shared among the institutions, and when a company is debarred from one institution, that debarment also affects the other institutions. So I think they are trying to become more effective as a group on working against corruption.

Mr. DOLD. Are they being transferred though? The debarment process which I appreciate is a good one so that they are not getting engaged in the other MDBs, but are they sending that other information to the different countries so that they can be prosecuted?

Ms. BRAINARD. In each case, they have offices that can develop investigative materials for purposes of pursuing debarment proceedings and investigations of those entities.

Mr. DOLD. Thank you so much.

Chairman MILLER OF CALIFORNIA. The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. And I hope you enjoy Reno in your new district.

I do appreciate you coming here, and this is some tough questioning. We are all in a spot here where we are trying to make sure that we use every dollar that is entrusted to us, and quite honestly most people, including this one, don't believe that we have used those dollars to their highest and most efficient use and that it has been problematic in the past, and whether it is Argentina or some of these other issues, we need to make sure that we can look our constituents in the eye and say those dollars that you are sending to Washington, those dollars that you entrust to us, we are using them properly.

And that is, I think, a legitimate spot for them to be in and much like my friend from Illinois, Mr. Dold, was talking about, the corruption element is something that is concerning. I am also concerned or curious I guess, maybe not concerned as much as curious, about your view as to what makes this particularly more effective or is it more effective than direct aid that may be going to some of these developing countries? And why is this an important element that the U.S. Government should be even really engaged in?

Ms. BRAINARD. Let me just say that we obviously across the Administration support both our bilateral funding mechanisms as well as our multilateral funding mechanisms and we see them working in complementary ways to each other. The multilateral development bank investments that we are talking about today have unrivaled leverage.

So again, first, for an investment today of \$1, or take the investment that President Reagan made in 1988, \$1 into the World Bank at that time has leveraged \$800 million of development and investments. We simply cannot get that kind of leverage by our direct bilateral funding.

Second, these institutions have tremendous scale advantages and staying power so that they have unique capacities to undertake multi-year infrastructure projects. They have very strong criteria for evaluating those infrastructure investments, so that for a country in Africa, for instance, that has very few alternatives on how to finance a port or a railroad or a bridge, the multilateral development banks come with funding that ensures there is transparency and corruption safeguards, that environmental assessments and social impact assessments are done.

The alternative investment comes with different kinds of strings attached and ones that I think serve our national interest much more poorly.

Mr. HUIZENGA. I am assuming you would acknowledge that there have been issues or problems with whether it is corruption or whether it is some sort of ill-gotten gain that people had. What are we doing to ensure that that doesn't continue and diminishes?

Ms. BRAINARD. We are using and have used our leadership position in these institutions to ensure that they to the greatest extent possible reflect best practice and reflect our values. So they publish all of their lending now. That is very important to enable a civil society to exercise some accountability over it. They have very strong internal controls against corruption, and they have inspection panels which allow members of any community in which they are operating to raise questions and to get a hearing about the operations of the institutions.

We have very strong procurement safeguards which ensure that on these projects, procurement processes are open and transparent and awarded to the most cost-effective, highest-value bidder. So there is a whole host of things that we have put in place that reflect how the United States likes to see business being done. We think it is the best practice globally. But I can assure you that if we did not have a leadership position at these institutions it is likely that other countries would perhaps push in other directions.

Mr. HUIZENGA. I appreciate your input, Under Secretary Brainard, and your time as well, and I think it is just our responsibility to make sure that we can look our constituents in the eye and say, we are using your dollars in the most responsible way that we possibly can. So I appreciate that. Thank you.

Thank you, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Dr. Brainard, I want to thank you for your testimony. You were very informative and very candid and you were very generous with your time, and I look forward to working with you as the process continues.

Ms. BRAINARD. I appreciate the opportunity. Thank you.

Chairman MILLER OF CALIFORNIA. The Chair notes that some members may have additional questions for this witness which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to this witness and to place her responses in the record.

The hearing is adjourned.  
[Whereupon, at 4:00 p.m., the hearing was adjourned.]

# **A P P E N D I X**

June 14, 2011

**Opening Statement of Chairman Gary G. Miller  
House Financial Services Committee  
Subcommittee on International Monetary Policy and Trade**

**Hearing on “The Role of the U.S. in the World Bank and Multilateral Development Banks:  
Bank Oversight and Requested Capital Increases”**

**June 14, 2011**

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Today’s hearing is focused on the United States’ role in the World Bank and the multilateral development banks.

The United States is a lead shareholder at the World Bank and regional multilateral development banks. The Administration has requested contributions to the capital at these institutions and has argued that such contributions are important to retaining our leadership position.

**How the MDBs Support U.S. Global Interests**

Today, we begin the process of considering the Administration’s request for capital increases for the MDBs. I look forward to hearing from Undersecretary Brainard to discuss how these banks are supporting many initiatives that are consistent with American interests and American values.

For example, fragile and broken states present opportunities for terrorist actors to operate and threaten the U.S. and its interests.

The MDBs can bring development and stability to these areas, filling the vacuum that allows terrorist actors free reign.

The MDBs are hard at work in Afghanistan supporting the U.S. mission. General Petraeus has spoken about the importance of the Asian Development Bank’s work to develop much needed infrastructure across Afghanistan.

As North Africa and the Middle East undergo tumultuous transitions, the MDBs are able to provide technical assistance and capital to nations enacting democratic reforms and moving forward in a sustainable and positive manner.

In addition, the MDBs are making progress on regional integration in Africa, which holds promise for improving commerce and addressing many of the long-term issues that have exacerbated famine and poverty across the continent.

The MDBs provide poor countries across Africa an alternative to China for development finance and natural resource development

**Effective Use of Funds**

MDBs allow the U.S. to leverage its resources alongside those of other member nations to achieve U.S. interests.

As part of that model, the MDBs must adopt necessary controls to ensure MDB actions achieve desired outcomes and that borrowing nations move toward the ability to borrow from private markets.

Our Subcommittee's goal is to ensure the World Bank and regional multilateral development banks are using U.S. resources in a transparent, corrupt-free and effective manner, before committing more U.S. taxpayer funds to these institutions.

The U.S. must use its leadership position at the bank to fight for the end of corruption and make sure that all lending is conducted through transparent and accountable processes.

**Fiscal Responsibility**

We cannot lose sight of the fact that these requests are coming at a time when our country must focus on getting our own massive debt under control.

While the United States has a vital interest in continuing to assist emerging economies implement economic, political, and social reforms, we cannot overlook the cost.

During these economically challenging times, Congress must continue to make the difficult choices necessary to reduce the debt and grow our economy, while also furthering U.S. strategic interests around the world.

The American people are demanding that their government learn to live within its means and stop spending borrowed money. The fact is we simply cannot continue to borrow forty cents on the dollar and pass on the debt to future generations to repay.

We must prioritize federal dollars to ensure essential needs are provided for and do more with less, just as American families and small businesses have had to do during these lean economic times.

It is with these fiscal constraints at the forefront of our minds that this Subcommittee will assess the Administration's requests for funding.

Today's hearing will give members the opportunity to hear from the Administration about their rationale for the specific funding requests made for each MDB.

Before we act, we want to understand clearly the consequences, to global and U.S. economic and security interests, from any delay or reduction in the amount requested by the Administration.

Specifically, it is my hope that today's hearing will:

- Highlight the role of the MDBs and their relevance in today's world.
- Discuss the benefits to the United States of its membership at the MDBs, including the impact of the MDBs on the U.S. economy and U.S. strategic interests around the world.
- Examine how the current role of the United States at the MDBs allows for the influence of day-to-day operations at these institutions and shapes their medium- and long-term goals.
- Detail the reforms that the MDBs have agreed to implement as part of their general capital increases and explore what additional reforms are needed at each MDB to improve their operations and combat fraud and corruption.

### **Conclusion**

Since accepting the gavel for this Subcommittee, I have said that our agenda will be focused on four things:

1. Job Creation
2. Global Competitiveness
3. Economic Growth and Stability
4. Protecting Taxpayers

This is the lens under which we will review the Administration's request for funding for the MDBs.

Our ultimate goal is to promote favorable conditions around the world for American companies in order to increase U.S. exports and thereby create jobs in the United States.

Through their development activities, the MDBs help contribute to stability around the world, opening up markets for our companies to engage. By ensuring the global environment is stable, American companies can thrive and contribute to robust economic growth.

**Under Secretary of the Treasury Lael Brainard**  
**Written Testimony before the House Financial Services Committee**  
**Subcommittee on International Monetary Policy and Trade**

“The Role of the U.S. in the World Bank and Multilateral Development Banks: Bank Oversight and Requested Capital Increases”

June 14, 2011

Chairman Miller, Ranking Member McCarthy, distinguished members of the Committee, thank you for the opportunity to testify before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade regarding the central role the multilateral development banks (MDBs) play in promoting U.S. interests and leadership around the world.

The Administration’s pending requests to authorize recapitalization of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development, and to authorize replenishment of the International Development Association and the African Development Fund, come at a moment of extraordinary importance.

The global economy is undergoing a profound reconfiguration, with historic transformations now unfolding in the Middle East and North Africa, and new economic powers like China increasingly exercising their influence. In a region where the United States has deep strategic interests, citizens from Tunisia to Egypt to Libya to Syria to Yemen are rallying for freedom and opportunity. This is a test of U.S. leadership—a crisis and an opportunity we can ill-afford to lose.

Since the reconstruction of Western Europe after World War II, from the beginning to the end of the long Cold War, and throughout economic crises that shook Latin America in the 1980s and East Asia in the 1990s, the multilateral development banks have been pillars of U.S. global leadership, bulwarks for U.S. interests, and shepherds of U.S. values around the world. Once again, we rely on the MDBs as our partners in protecting U.S. interests at a time of upheaval and global transformation.

**Leverage and Leadership**

If we do not secure congressional authorization for recapitalizing and replenishment of these multilateral institutions, U.S. leadership will wane. At the World Bank, we would risk our unique veto power over changes to the Articles of Agreement, which protects our prerogatives on Bank membership and leadership. Likewise, without authorization for recapitalization of the African Development Bank, the U.S. would miss our next payment, reducing U.S. shareholding by two-thirds and putting our single seat on the Board of Directors in jeopardy. And at the Inter-American Development Bank (IDB), no contributions can be made by any member unless the United States contributes, so being unable to contribute for lack of authorization would deny the IDB of any new funding. This could be interpreted as a deliberate U.S. retreat from the

region at the very time that other emerging donor countries, such as China, are increasing their presence.

Treasury international funding to the MDBs will allow \$95 billion in MDB financing in FY2012 alone. Each \$1 dollar that the U.S. contributes to replenish IDA and the AFDF leverages \$25 dollars of multilateral development investments—to fight hunger and disease, bring education and opportunity to those who have been left out and left behind, stabilize fragile states, support freedom and democratic transitions, and tackle global challenges like tsunamis, earthquakes, and climate change.

And the multiplier effect of our capital contributions is even more dramatic. Capital increases are rare events, occurring once every ten to twenty years and providing funding streams over several decades. A U.S. capital increase contribution of \$420 million for the World Bank in 1988 supported \$325 billion in development investments—a factor of over 800-fold—over the last two decades through the power of leveraging.

In prior meetings, we had an opportunity to discuss these issues, and to share the critical importance of sustaining our leadership role at these multilateral institutions. Let me now elaborate on how these institutions are effectively leveraging scarce resources to foster freedom and opportunity, secure America's economic and commercial interests, protect our national security, alleviate poverty and deprivation, and address urgent global threats.

#### **Fostering Democracy and Freedom in the Middle East and North Africa**

Last December, a young fruit seller in Sidi Bouzid, Tunisia set himself on fire in a final act of resistance against a government that denied too many young people meaningful freedoms, or the opportunity to build a future. His act of courage and quest for dignity unleashed an unprecedented wave of change. Popular uprisings washed away repressive regimes in Egypt and Tunisia and planted the seeds of an Arab Spring.

The success of these transitions will depend on whether democracy delivers on its promise of freedom and opportunity; on whether young people see visible improvements in their lives.

On this road towards expanding freedoms and opportunity, the multilateral development banks will play a vital role. They are now deploying short-term support to stabilize economies, and preparing medium-term strategies to invest in private sector growth, and promote greater accountability, transparency, and the fair rule of law. By financing investments and catalyzing key reforms, they will foster inclusive growth that can bring widely shared benefits, ensuring freedom and opportunity for a young generation.

The multilateral development banks have played this role in previous transitions—in Eastern Europe, and in Indonesia and South Korea—and will do so again.

The Marshall Plan has been invoked to describe the size and scale of assistance that will be required to aid the transitions now unfolding in the Middle East and North Africa. And although standing alone, the United States does not now have resources of that size or at that scale to

invest in these transitions, standing with our international partners, and leveraging our investments in the multilateral development banks, we do have those resources. At the recent G-8 summit in Deauville, the MDBs boldly committed to provide \$20 billion to support transitions in the region.

#### **Securing Our Economic and Commercial Interests**

The multilateral development banks also play a vital role in securing our own economic and commercial interests. The MDBs build the roads and ports to get our products to new markets, and the “soft infrastructure” that makes markets work: reducing trade barriers, improving property rights, and slashing cumbersome red tape. Their assistance nurtures the emerging economies that become key export markets for U.S. companies, generating jobs at home.

Over the past decade our exports to Brazil more than doubled, to \$30 billion, while our exports to India almost quadrupled, to \$16 billion. In Turkey, Columbia and Indonesia, to name just a few other key emerging economic partners that have benefited from MDB investments, development fueled rapidly increasing demand for U.S. products, growing our exports to these economies by more than 200 percent.

In infrastructure, the multilateral banks also level the playing field across the world so U.S. companies have a fair chance to compete. The alternative to MDB financing in infrastructure in many countries is lending from countries like China. In contrast, the MDBs have rigorous safeguards to protect the environment, uphold the rights of vulnerable populations, and combat corruption—establishing fair and consistent rules and creating opportunities for U.S. companies to invest.

And the MDBs directly support U.S. business growth through procurement contracts. In 2005, TCI International of California won a \$3 million contract to equip Malawi’s utilities with manufactured components. Learning Resources of Illinois supplies \$1.2 million in education materials to community education projects in Honduras, and in 2007 Illinois-based Abbott Laboratories won a \$350,000 contract to provide anti-retroviral drugs to rural Cambodia. MWI/APCO International of Florida, and Terex Cranes of Iowa, each were recently awarded \$1 million in contracts to manufacture hydro-pumping parts for Egypt. And in 2009 and 2010, Montran Corporation of New York earned \$6.06 million developing mobile phone banking payment systems in the Maldives and Ethiopia. In their work to build a fair and open global economy, these multilateral institutions rely on U.S. firms for goods and services, directly supporting American jobs.

#### **Addressing Global Threats**

These institutions also protect our national security by bringing stability to fragile states, providing over \$5.9 billion in reconstruction assistance to conflict countries since 2001. Terrorism and political violence, civil wars, piracy and drug trafficking, and refugee flows cascade across the borders of weak states to hurt our interests here at home. Citizens of countries racked by violence are twice as likely to suffer from hunger, and their children are three times as likely to be uneducated.

In Afghanistan, a key frontline state vital to U.S. national security, the World Bank and Asian Development Bank are the second and third largest donors after the U.S., constructing critical infrastructure like the Ring Road and the Uzbek-Afghan railroad. As General Petraeus and General McNabb reiterated in a letter sent to Treasury Secretary Geithner in May 2010, “[t]hese projects are vital to the success of the U.S. strategy in both Afghanistan and the region”. Over the past three decades, MDB investments in Bosnia, Rwanda, and Indonesia nurtured peace, stability, and economic growth. Today, investments in fragile countries like Sudan and Afghanistan are critical to building more resilient societies that can be our partners in addressing global threats, and where educated peoples with economic opportunities will not be led astray by false promises. The MDBs are financing energy and transport, clean water and sanitation, and education for young women—creating the conditions for long-term stability and economic development.

Chairman of the Joint Chiefs of Staff Admiral Mullen recently stressed that “climate change’s potential impacts are sobering and far-reaching ... scarcity of water, food and space could create not only a humanitarian crisis, but create conditions that could lead to failed states, instability and, potentially, radicalization.” The MDBs are essential for assisting countries to prepare for and respond to the impacts of climate change, and transition to a low carbon development path.

Tackling the immense climate change challenge involves both mitigation—to avoid the unmanageable—and adaptation—to manage the unavoidable. In 2009, the World Bank began integrating climate considerations into Country Assistance Strategies: connecting more than 50,000 rural households to solar electricity in Bangladesh; financing energy efficiency programs in Ukraine; and pioneering initiatives in Brazil to sustainably and permanently reduce emissions from deforestation. The MDBs are also advancing climate resilience in arid, vulnerable, and conflict-ridden areas of the Middle East, where pressures on resources can quickly escalate into violence.

And the MDBs are among the first to arrive when disasters leave countries vulnerable. Today, the World Bank is on the frontlines assisting refugees fleeing brutal repression in Libya. When the devastating tsunami hit Aceh in 2004, the MDBs immediately formed a new recovery and reconstruction fund to address the urgent health crisis, feed school children, and re-build canals and bridges. While there is much work left to be done, Inter-American Development Bank operations in Haiti have provided tens of thousands of households access to potable water, and rebuilt schools and roads destroyed by the earthquake.

#### **Alleviating Poverty and Deprivation**

These multilateral institutions are important shepherds of U.S. values around the world, defending against the threat to human freedom posed by poverty, hunger, and disease. Every day, more than 30,000 people perish from poverty. The poor die in shantytowns without safe drinking water or sanitation, in rural villages where droughts mean that crops fail and famines follow, in communities where cheap vaccines, penicillin, and antimalarial bednets are mere folklore. Almost 1 billion people are malnourished in the world today. Hunger kills 5.5 million children each year. And life expectancy is just 43 years in the world’s poorest countries, like

Zambia, where people die from small infections left untreated, starvation, minor parasites, diarrhea, and diseases easily prevented or cured with inexpensive drugs. As Nobel laureate economist Amartya Sen reminds us, the deprivations of extreme poverty are, fundamentally, deprivations of human freedom.

MDB investments are on the frontlines confronting these deprivations. Since its inception, International Development Association (IDA) credits and grants to impoverished countries have totaled \$222 billion, averaging \$13 billion a year in recent years. The African Development Fund (AfDF) likewise plays a critical role in Africa, where more than 50 percent of the world's poor live. Working together, the MDBs have reduced deaths from malaria by 50 percent in Zambia, decreased transmission of HIV from mother-to-child by 90 percent in Moldova, and distributed 2 million insecticide treated nets in Benin. The MDBs have provided more than 47 million people with basic health services, immunized 310 million children, and distributed antiretroviral therapies to almost 2 million people with HIV/AIDS over the past two decades. And since 2001, the MDBs have made it possible for an additional 89 million children to enroll in primary school in Sub-Saharan Africa and South Asia, the regions with greatest education gaps. In Bangladesh, an innovative stipend program tripled girls' secondary school attendance; in Pakistan and Djibouti, MDB investments and policy reforms have increased primary school enrollment by more than 25 percent in a few short years.

#### **Leveraging U.S. Leadership to Improve Transparency, Accountability, and Results**

These institutions, as valuable as they are, also require strong oversight to ensure that resources are invested to maximize impacts. As a leading shareholder, we can exert our influence to hold them to the highest standards. We have been consulting closely with Congress throughout the capital increase and replenishment negotiations on key priorities for improvement. Through our leadership, the U.S. has achieved significant reforms at all the multilateral banks to increase transparency and accountability, guard against corruption, and enhance the results and impacts of our investments.

We have secured more effective internal audits to prevent and deter corruption, and put in place additional procurement rules to ensure money is well spent and all companies have a fair chance to compete. We have made disclosure of significant policy documents the norm. And we have strengthened the role of mechanisms like the World Bank's Inspections Panel to promote compliance with environmental and social safeguards, and make the MDBs more accountable to the communities in which they operate—ensuring that villagers like those in Bangladesh, whose livelihoods were threatened by the World Bank financed Jamuna Bridge Project, can advocate their cause before an impartial arbiter and win redress.

The United States has also achieved high standards for the monitoring and evaluation of projects across all of the MDBs, so investments are made where they have the most impact, and the Banks are held accountable for results. Recently, a study by the impartial Center for Global Development ranked IDA among the very top in development effectiveness out of 150 bilateral and multilateral aid agencies. And impact evaluations, which identify the effects of development projects on people, households, and communities, are being undertaken across the MDBs so that future policies can build on better knowledge about program results. Researchers are testing the

poverty impacts of irrigation rehabilitation projects, the health and behavior impacts of antiretroviral therapies, and the learning and school attendance impacts of conditional cash transfers. In this way, we can use rigorous impact evaluations and results monitoring to learn from set-backs and scale-up successes, maximizing the value of our development investments.

These important reforms would not have occurred without our leadership. Our ongoing work to demand the highest standards in transparency, accountability, results, and corruption safeguards would not long endure if we were to allow our voice at these institutions to diminish.

### **Conclusion**

As General David Petraeus' affirmed in his recent testimony to the Senate Armed Services Committee regarding the vital role played by the MDBs in fostering stability and economic development in Afghanistan, "we need these critical enabling institutions, and further US support for them will ensure that they are able to continue to contribute as significantly as they have in the past."

Our leadership as the foremost shareholder at these institutions guarantees that their sizable and significant investments will continue to foster freedom and opportunity, secure America's economic and commercial interests, address urgent global threats, safeguard national security, and alleviate extreme deprivation around the world. And as a lead contributor we can ensure effective development impacts and strong transparency and accountability.

As the global economy shifts and new powers like China exercise increasing influence, we cannot afford to forfeit our leverage and our leadership. As young people in the Middle East and North Africa raise their voices for freedom and opportunity, we must seize the moment that is ours to assist the young generation chart a new course. At this hour of crisis and opportunity let us not allow U.S. leadership to wane. We must instead, now, redouble our commitments to the multilateral institutions that for almost seven decades have been pillars of U.S. global leadership, bulwarks for U.S. interests, and shepherds of U.S. values around the world.

June 7, 2011

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned business organizations urge you to support authorizing and appropriations measures for capital increases for the multilateral development banks (MDBs), including the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD).

Over the years, the World Bank and the regional banks have funded successful programs to get boys and girls into school; build infrastructure to allow entrepreneurs and farmers to transport their goods to market; strengthen judiciaries and the other governance institutions; support private sector job creation; and combat measles, diarrhea, malaria and other preventable illnesses. These efforts helped developing countries add two decades to life expectancy, cut the mortality rate of children under age five by 50 percent, and reduce by half the proportion of people living in poverty.

American businesses understand these institutions' vital role in fostering prosperity. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods, and over half of all U.S. exports now go to developing countries that have received assistance from the MDBs. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

The United States plays a significant role in helping to shape these policies as the largest shareholder at the World Bank and the IDB and one of the largest at the AfDB and the ADB. Failure to support the capital increase would undermine U.S. leadership and the ability to shape development priorities.

The MDBs provide vital financial assistance to developing countries with minimal U.S. investment but significant impact. For instance, the United States has invested only \$2 billion in the World Bank's capital base since its creation in 1944. The U.S. funding has leveraged contributions from other donors, allowing the World Bank to provide nearly \$500 billion in financing and invaluable expertise to developing countries. Every U.S. taxpayer dollar invested in the World Bank leverages \$25 in additional contributions from other countries. A similar multiplier effect is achieved by the other MDBs.

While the MDBs benefit from sound financial management, they will face serious lending constraints and U.S. influence at these institutions will diminish without a capital increase. In the context of the fiscal challenges facing our nation, this investment will strengthen our economy by shoring up vital export markets, promoting economic development and good governance, and reaffirming U.S. leadership. We urge you to fully fund the U.S. pledge for general capital increases for the multilateral development banks.

Sincerely,

Business Roundtable  
Coalition for Employment through Exports  
Emergency Committee for American Trade

National Foreign Trade Council  
U.S. Council for International Business  
U.S. Chamber of Commerce



UNITED STATES TRANSPORTATION COMMAND  
508 SCOTT DRIVE  
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

10 May 2010

## MEMORANDUM FOR SECRETARY OF THE TREASURY

FROM: CDR USTRANSCOM and CDR USCENCOM

SUBJECT: Support for Work Accomplished by the Asian Development Bank

1. Mr. Secretary, we write to thank you for continued United States support of the Asian Development Bank (ADB). Both United States Transportation Command (USTRANSCOM) and United States Central Command (USCENTCOM) are eyewitnesses to the valuable contributions that the ADB is making in a region of great importance to the United States. Our meetings with the ADB's President Kuroda and U.S. Ambassador Chin have left us with a sincere appreciation of the great work the ADB team is doing.
2. The ADB is a leading donor in Afghanistan, financing projects such as the Ring Road and the Uzbek-Afghan railway project, which contribute directly to reducing poverty and enhancing opportunities for the development of cross-border and regional commerce. These projects are vital to the success of the U.S. strategy in both Afghanistan and the region. We are very pleased with the progress of the rail line from Hairaton to Mazar-e-Sharif. On trips to the region, we have visited both sides of the Afghanistan/Uzbekistan border and foresee long lasting benefits from this initiative.
3. ADB's \$30M rehabilitation of the road between Dushanbe and the Kyrgyz border has facilitated trade between Tajikistan and its neighbors, thus bolstering the regional economy and cementing relations between these countries. In Kyrgyzstan, a similar positive outcome is foreseen for the ADB's proposed \$50M reconstruction of the Bishkek-Torugart highway.
4. Another country of great interest to both USTRANSCOM and USCENCOM is Pakistan—a key Operation ENDURING FREEDOM logistics partner. ADB is the lead donor in Pakistan in the energy and transportation sectors, contributing to the stability of a country critical to U.S. strategic interests.
5. ADB is an increasingly important player in the Caucasus region and responded rapidly with project financing to Georgia in the aftermath of its conflict with Russia. Integration of the region through better transportation connections is a key element in its assistance plans and will no doubt provide additional opportunities for the flow of commerce throughout the region.
6. ADB plays an important apolitical role in getting countries to work together for common interests. United States engagement at the ADB contributes to our strategic interests in the region. We would like to congratulate you and the ADB on its many successful efforts and welcome continued strong partnership with ADB as part of our overall United States purpose and goals in these areas of critical importance.

Sincerely

DAVID H. PETRAEUS  
Commander  
United States Central Command

DUNCAN J. McABB  
Commander  
United States Transportation Command

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