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THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON NATIONAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on:	
September 21, 2011	1
Appendix:	
September 21, 2011	21

WITNESSES

WEDNESDAY, SEPTEMBER 21, 2011

Lago, Hon. Marisa, Assistant Secretary for International Markets and Development, U.S. Department of the Treasury	7
Howard, Rear Admiral Michelle, Chief of Staff to the Director, Strategic Plans and Policy, J5, The Joint StafF	9

APPENDIX

Prepared statements:	
Lago, Hon. Marisa	22

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Miller, Hon, Gary:	
Written statement of Daniel F. Runde, Center for Strategic and International Studies (CSIS)	26
Written statement of Ambassador Mark Green (Ret.), U.S. Global Leadership Coalition	33
Written statement of Alan Larson, Covington & Burling LLP	40
Joint Treasury/Department of Defense letter dated September 21, 2011	48
Memo to the Secretary of the Treasury from the United States European Command, dated July 25, 2011	50
Memo to the Secretary of the Treasury from the United States Transportation Command, dated May 10, 2010	52

THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON NATIONAL SECURITY

Wednesday, September 21, 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 2:05 p.m., in room 2128, Rayburn House Office Building, Hon. Gary Miller [chairman of the subcommittee] presiding.

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

Ex officio present: Representative Frank.

Chairman MILLER OF CALIFORNIA. Today's hearing is entitled, "The Impact of the World Bank and Multilateral Development Banks on National Security." The hearing will come to order.

Without objection, all members' opening statements will be made a part of the record.

We are going to limit the opening statements to 10 minutes per side as previously agreed to by the ranking member and myself.

I recognize myself for an opening statement.

Today's hearing is focused on the impact of the World Bank and the multilateral development banks (MDBs) on U.S. national security. The Treasury Department has requested authorization for the United States to make a payment for a capital increase at the World Bank, the Inter-American Development Bank, and the African Development Bank. The Administration also requests authorization for callable capital at these institutions and for the European Bank for Reconstruction and Development.

This is the third hearing in our subcommittee's consideration of these authorization requests. Our first hearing looked at the leadership role of the United States at the MDBs. Under Secretary Brainard testified that the leadership position the United States currently has at these institutions brings great influence and, in some cases, veto power over decisions. If we do not authorize and fund these requests, the U.S. share will diminish, impacting our leadership and influence at these institutions. Our second hearing focused on the impact of MDBs on U.S. job creation. The hearing focused on how the MDBs helped open markets and spur private-sector-led economic growth and employment in the United States. The hearing today will focus on how World Bank and MDB assist-

ance to middle-income and poor countries around the world contributes to U.S. national security.

Our hearing comes as we mark the 10th anniversary of the September 11th attack on our Nation. This sober anniversary reminds us of how critical it is to do what we can to guard our national security. Today, we are focused on the effect of lending and grant-providings at MDBs in middle-income and poor countries on the U.S. national security. We want to understand how MDB assistance helps developing countries become stable nations that can counteract the proliferation of terrorism and other threats to the United States.

We hope the hearing will focus on the following: the role of the MDBs and their relevance in today's world, specifically the impact the MDBs have on U.S. national security; how the MDBs' support for vulnerable nations around the world has helped to foster U.S. partnerships in addressing global threats; an example of MDBs creating the conditions for long-term stability and economic development in vulnerable nations that are important to our U.S. national security; how the impact of U.S. leadership in the MDBs is ensuring that projects help to address urgent global threats and safeguard national security; and the consequences for global and U.S. national security of any reduction in the amount requested by the Administration for the MDBs or any delay in meeting the U.S. commitment to the MDBs.

We hope to hear more about MDB support in the Middle East, including Afghanistan and Iraq, and in North Africa, particularly how the MDBs support stability and help prevent emerging threats and conflicts. And we are quite pleased to have the Rear Admiral with us today to discuss how the MDBs complement military operations to promote regional stability, which contributes to U.S. national security.

These funding requests to capitalize the MDBs come at a time when our country is focused on getting our own massive debt under control. While the United States has national security interests in continuing to assist emerging economies implement economic, political, and social reforms, it is important to understand the costs and benefits of doing so. This is the purpose of this hearing.

Our series of hearings on the Administration's request are intended to help us assess the benefit of MDBs, given the current fiscal challenge that we are facing today.

Before we begin, we would like to point out that our hearing was originally scheduled for last week. Unfortunately, a meeting of the full committee caused our hearing to be bumped to today. We had an excellent second panel, who unfortunately are not able to join us today. We really appreciate the time they spent preparing for the hearing and the insight they offered to us in their written remarks. I plan to invite them back at our next hearing on this matter, which we anticipate to be held later this month.

Without objection, I would like to insert their written testimony into the record. First, the Honorable Mark Green, former U.S. Ambassador to Tanzania and a Member of the U.S. House until 2008—he was part of my class. In fact, he served right here on the Financial Services Committee. Mr. Green currently is the senior director of the U.S. Global Leadership Coalition.

Second, Mr. Daniel F. Runde, the chair of global analysis and the co-director of the Project on U.S. Leadership and Development at the Center for Strategic and International Studies. Mr. Runde was the head of the foundation unit at the International Finance Corporation of the World Bank Group. Before that, he served at USAID as the director of the U.S. Office of Global Development Alliances.

And third, Ambassador Alan Larson, senior international policy advisor at Covington & Burling. Ambassador Larson served for 32 years as a career diplomat in the U.S. Foreign Service Office. He was Under Secretary of State for Economic and Business Affairs for 3 different Presidential Administrations: Bush 41, Clinton 42, and Bush 43. He also served as the alternate governor of the United States to the World Bank and to several regional development banks.

I honestly regret that these witnesses are not here today. Their insight was very, very good, and we would love to have had that made a part of the testimony. But we will have them at a future hearing.

And I yield to the ranking member, Mrs. McCarthy.

Mrs. MCCARTHY OF NEW YORK. Thank you, Chairman Miller, for holding this extremely important hearing on the role of the World Bank and the multilateral development banks with respect to the United States' national security.

With the remembrance of the 10th anniversary of the 9/11 attacks still fresh in our minds, it is fitting that we are holding a hearing to learn more about the role of the MDBs as it pertains to our national security agenda. The multilateral development banks play a vital role in combating global poverty and providing basic infrastructure needs for developing countries that are vulnerable to the spread of terrorism.

The President's May 2010 National Security Strategy Report supports renewal of U.S. leadership in the multilateral development banks and the IMF, recognizing that engagement investments in these institutions is a means to strengthen the global economy, lifting people out of poverty and securing fragile states. Creating conditions within developing countries that foster long-term security and economic development will enhance the United States' national security initiatives and renew our commitment to human dignity, enabling people all over the world to access the basic necessities so many of us take for granted.

Maintaining our commitment to the MDBs, as well as coordinating holistic government support, will further our mission to rid fragile nations across the globe of corruption and violence and bring principles of good governance and democracy.

I recognize that we are faced with extremely difficult financial challenges in this country. As we work to address those challenges, we must remain committed to our national security. The United States commitment to the MDBs provides us the tools to promote peace and stability throughout the world and combat conflict through development and diplomatic investments. No doubt, the resources we use to honor our commitment today will bring far greater cost savings in the future and buy American security and economic prosperity.

I thank the witnesses for coming today, and I look forward to your testimony.

Chairman MILLER OF CALIFORNIA. Vice Chairman Dold is recognized for 4 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

Secretary Lago, Rear Admiral Howard, I certainly want to thank you for taking the time to come and speak with us today about a very important topic.

And, Mr. Chairman, I want to thank you for holding this hearing on how multilateral development banks impact our national security interests.

This past summer, Chairman Miller held hearings that focused on the domestic economic benefits of fully funding our MDB commitments and thereby maintaining our leadership in the multilateral development banks. As we learned at those earlier hearings and as our business leaders have repeatedly emphasized, maintaining American MDB leadership is vital to promoting American exports, job growth, and economic prosperity.

I am confident that we have broad bipartisan agreement that fully funding our MDB leadership commitments will cost-effectively promote meaningful domestic job growth and economic expansion. But MDB participation and leadership also promotes our equally important national security interest, which is the focus of today's hearing.

General David Petraeus and Commander Duncan McNabb, as well as Admiral James Stavridis, have previously written letters emphasizing the importance of American MDB leadership to the national security interests of our Nation. I am pleased that Rear Admiral Howard and Assistant Secretary Lago are here in person to elaborate more fully on this topic.

But any time we discuss MDB funding, or any other spending for that matter, we should expressly acknowledge that we are now facing very difficult economic fiscal realities. And especially with this economic and budgetary environment, every dollar counts, and Americans are entitled to understand the economic and national security benefits that they receive for these MDB contributions.

It is very important that we accurately and clearly communicate how much we actually spend on MDB contributions in exchange for these benefits. As I have mentioned before, these actual MDB funding costs are far less than widely believed. A recent poll indicated that Americans believe that the Federal Government spends close to 25 percent of its budget on foreign aid. When asked how much we should actually be spending, they said, maybe about 10 percent. In actuality, we only spend approximately 1 percent of the Federal budget on all foreign aid. And only a small fraction of that 1 percent would fully fund our MDB commitments and maintain the MDB leadership.

All of us—the Administration, Congressional Democrats and Republicans—must more effectively communicate the actual amount that we spend on foreign aid generally and on the MDBs in particular. Fully funding our MDB commitments will actually cost far less than we have led many Americans to believe.

We simply cannot have any meaningful impact on our deficits and national debt by relinquishing American MDB world leader-

ship to China and other emerging nations. But relinquishing that leadership will diminish our economic prosperity and, I would argue, our national security interests as well.

At the same time, for countries that receive MDB funding, we should have some basic standards, like cooperating with national and international security efforts, honoring valid U.S. court judgments and international arbitration orders.

With all of that in mind, I look forward to hearing our witnesses elaborate on how we can effectively utilize our MDB dollars, not only for economic benefits but, more specifically today, for our national security interests.

With that, Mr. Chairman, I yield back.

Chairman MILLER OF CALIFORNIA. I would like to recognize the ranking member and former chairman of the full committee, Mr. Frank, for 3 minutes.

Mr. FRANK. Thank you.

To begin, I want to note that the chairman of this subcommittee and the ranking member of this subcommittee, Mr. Miller and Ms. McCarthy, have worked very constructively together in a bipartisan way, which is why the media has paid no attention, of course, to what they do, because good news is no news.

But these are topics that could be contentious. This subcommittee has jurisdiction over these international financial institutions and has jurisdiction also over the Export-Import Bank. There has been a great deal of constructive work done. And this hearing is an example.

I was pleased to hear the previous member talk about our national security interest here. Frankly, I and some others are critical of some of the money we are spending currently—for instance, in Afghanistan. A very small percentage of that money made available for the multilateral development banks could do more, I think, to protect our security.

And I also want to say that one of the things that is very helpful is that, when I began working on these institutions earlier, there was a great deal of contention because they were seen as having a very rigid ideological view about the countries they dealt with. I congratulate the leaders of the World Bank and the International Monetary Fund and the other banks; they have gotten much more flexible. I think things have worked much better. No more pictures of international financial institutions standing, arms crossed, over a foreign leader, as we saw, although it was with the IMF and not one of these.

And I am particularly pleased that we had comments from General Petraeus, and that we have comments today again from people in the military. This does protect our national security in a very, very real way. And it is also something about which we can feel good. It is the most efficient use, I believe, of our dollars to alleviate misery in the world. And if you are going to alleviate misery while at the same time protecting security, advance human progress while making the world more stable, that is a pretty good bargain.

So I close as I began, Mr. Chairman, by thanking you and the ranking member for the very thoughtful and constructive way in which you have worked together.

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Frank.

And expanding on that, I think we probably set a record on the Ex-Im Bank markup, between Mr. Frank and Ms. McCarthy. We worked very well together and turned out a very good bill. I hope we win in the Senate on our version. And I want to thank you for that.

I recognize Mr. Scott for 2 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

Developing countries represent a unique challenge to multilateral development banks due to the fact that they often are severely lagging in several statistical indexes—namely, gross domestic product, life expectancy, and the rate of adult literacy. And each of these factors contributes to the nation's economic development and to its long-term stability. For these reasons, investment in MDBs in developing countries can yield benefits for the nations receiving aid and for those providing the assistance. Progress in these areas better allows for rule of law and for stability in developing countries' economies..

National security is also a consequence of increased aid to these nations when targeted toward a country's specific challenges. One example of this is a $40 million equity participation in the African Agriculture Fund (AAF), approved by the African Development Bank. AAF is designed to respond to the food crisis that severely impacted the continent of Africa in 2008 in the wake of escalating food prices and stable export bans. The increased support to AAF is part of a coordinated reaction in preventing the crisis from reversing decades of progress, of growth, and investment in Africa. This increase of support for the AAF targets one of the most important issues for Africa today, and that is food security.

I believe that MBDs' support for developing countries can be highly effective, and their ability to do so is paramount. So I look forward to finding out how Congress may continue to support the work, particularly in the AAF. Thank you again to the witnesses for your testimony today and for answering our questions.

And thank you, Madam Ranking Member and Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Mr. Carson, you are recognized for 2 minutes.

Mr. CARSON. Thank you, Mr. Chairman.

I want to first thank the chairman again for this hearing. Strategies and tactics employed by the World Bank and multilateral development banks and their approach to implementation of programs are of utmost importance, especially as they relate to national security. I am indeed interested in learning more about the impact the World Bank and MDBs have on national security. I believe it remains in the interest of the United States to continue to promote international peace and democracy.

I agree with many of my colleagues that we need to cut our deficits and carefully examine our budget needs. However, this should not be carried out in an irrational manner, particularly as international aid is often linked closely with our national security. International aid gives the U.S. political and diplomatic leverage, as well as leverage over the formation of democratic institutions. By continuing to provide funding, the United States can continue

to have a major role in increasing democratic ideals abroad and create an environment that strengthens democratic principles.

Although I do agree that investments in MDBs help to advance the national security and economic interests of the United States, I want to ensure the money is actually going to the promotion of national security initiatives, while preventing financial instability.

I applaud the Bank for its work over the years. The World Bank holds an important role over many aspects of the global economy and U.S. relations in general and around the world.

Again, I am pleased the chairman has chosen to hold this hearing, and I look forward to the testimony of the distinguished guests.

Thank you, and I yield back.

Chairman MILLER OF CALIFORNIA. Thank you.

I would like to welcome our witnesses today.

The Honorable Marisa Lago is the U.S. Department of the Treasury's Assistant Secretary for International Markets and Development. Secretary Lago directs Treasury's portfolio on trade and development policy, exercising financial and policy oversight of the multilateral development banks to ensure that U.S. contributions are used effectively to deliver development results and technical assistance.

Welcome. It is good to have you here today.

We are honored to have Rear Admiral Michelle Howard with us today. Rear Admiral Howard is the Chief of Staff for the Director of Strategic Plans and Policy for the Joint Staff. Admiral Howard supports the Director of Strategic Plans and Policy, enabling the Chairman of the Joint Chiefs of Staff to provide military advice to the President, the Secretary of Defense, and the National Security Council.

Admiral Howard is a graduate of the Naval Academy and holds the distinction of being the first African-American woman to command a naval ship.

Congratulations. That is quite a distinction.

I understand it is extremely rare for a senior military officer to appear before this committee. We very much appreciate your willingness to testify today so that we can understand the national security benefits of development assistance. Please know that we will strive to keep the dialogue focused narrowly on the intersection of development assistance and national security.

Rear Admiral Howard, I know you don't have a written statement today.

Without objection, Secretary Lago's written statement will be made a part of the record.

You are recognized for 5 minutes each, but I am going to be very generous in the 5 minutes because we only have two witnesses.

And, Honorable Ms. Lago, you are recognized first.

STATEMENT OF THE HONORABLE MARISA LAGO, ASSISTANT SECRETARY FOR INTERNATIONAL MARKETS AND DEVELOPMENT, U.S. DEPARTMENT OF THE TREASURY

Ms. LAGO. Thank you so much, Chairman Miller, Ranking Member McCarthy, and distinguished members of the committee. It truly is a pleasure to be able to testify here before you today.

As both Chairman Miller and Ranking Member McCarthy mentioned, the 10th anniversary of September 11th reminds us that our safety and security rests on the dual objectives of defeating the dangers that we face today while preventing and deterring the threats of tomorrow.

I will briefly discuss three reasons why the multilateral development banks are fundamentally important for our national security and why we should meet our commitments to these institutions.

First, the multilateral development banks, which we call the MDBs, support stability operations in weak states that are central to American security. Afghanistan is a prominent example. In Afghanistan, the World Bank and the Asian Development Bank are the second- and fourth-largest donors, and they work closely with the United States and other donor nations to build critical infrastructure, like the Ring Road and the Uzbek-Afghanistan railroad.

MDB investments in Afghanistan are rebuilding nearly 2,000 miles of roads so that our security forces can access remote regions of the country. The MDBs are rehabilitating irrigation systems that serve more than 1.6 million acres of land so that staple crops like wheat, maize, and barley can compete against the lucrative lure of crops like opium. And MDBs are expanding the rail transport network so that Afghanis can access routes for national and for international trade.

These investments by the MDBs in Afghanistan's stability and reconstruction have already generated 2 million days of employment for unskilled laborers in Afghanistan. They have markedly increased the crop yields for poor farmers. These actions help us to undermine the recruitment efforts of the opium cartels and of the terrorist organizations.

The MDBs are also supporting the economic transition that we now see unfolding across the Middle East and North Africa. They are also helping to build stronger countries in fragile places, like Haiti and Sudan, which could otherwise spawn terrorism, violence, drug trafficking, and refugee flows were these countries, these fragile states, to collapse.

The second way in which the MDBs contribute to our national security is by providing the most powerful financial leverage of our entire foreign aid portfolio. The multiplier effect of our capital contributions, which take place every 10 to 20 years, is a great example. The last time that the United States contributed capital to the World Bank was a vote by Congress during the Reagan Administration in 1988. That $420 million contribution catalyzed $383 billion in the next 20-plus years. This is an 800-to-1 leverage ratio. And while the number itself is dramatic, we believe that the results on the ground are even more powerful. That 1988 investment helped underwrite the successful transition of the former Eastern bloc countries from communism to open democracies and to open markets.

Finally, our international leadership, which is a key component of national security, is at stake if we don't meet our commitments to the multilateral development banks. At the World Bank, we are at risk of losing our unique veto power over changes to the Articles of Agreement. These Articles of Agreement govern critical issues

such as membership in the bank, the leadership of the bank, and the composition of the board.

Were we to miss our payment deadline at the African Development Bank, we would effectively forfeit our single seat on the board of directors. We would need to be sharing it as part of a constituency with other countries.

At the European Bank for Reconstruction and Development, we would fall from the single largest shareholder to number six. And this would be occurring at the time that this institution, at the urging of the United States, is poised to play a vital role in the Arab Spring.

And across all of these institutions, were the United States to cede its shareholding by not meeting our commitments, we know that China and other emerging donors stand ready to purchase our shares. And they would be strengthening their influence at the same time that ours would be waning.

We believe that these pending requests to recapitalize and replenish the multilateral development banks are of the highest priority and serve as a cornerstone of America's national security strategy.

Thank you.

[The prepared statement of Assistant Secretary Lago can be found on page 22 of the appendix.]

Chairman MILLER OF CALIFORNIA. Rear Admiral Howard, you are recognized for 5 minutes.

STATEMENT OF REAR ADMIRAL MICHELLE HOWARD, CHIEF OF STAFF TO THE DIRECTOR, STRATEGIC PLANS AND POLICY, J5, THE JOINT STAFF

Admiral HOWARD. Thank you, Chairman Miller, Ranking Member McCarthy, and distinguished members of the committee for allowing me the opportunity to appear before you today.

Our combatant Commanders and the Chairman of the Joint Chiefs of Staff have been united in stressing the vital role of the multilateral development banks, the role that they play in the whole-of-government approach to ensuring our Nation's security.

The former Commander of Central Command, General Petraeus, and the Commander of Transportation Command, General McNabb, highlighted the importance of the Asian Development Bank and its efforts in Afghanistan. They stated that their support, the Asian Development Bank's support, to ongoing projects is vital to the success of U.S. strategy in the theater and across the region.

Admiral Stavridis, the current European Command Commander and former Commander of SOUTHCOM, outlined the importance of the role of the Inter-American Development Bank in Latin America, the Caribbean, and across the region during his time at Southern Command. As one example, the Admiral emphasized the IADB's central role in mobilizing international support for proven poverty-alleviation programs that directly contribute to local and regional stability by assisting more than 6 million families in need.

The Department of Defense sees a clear linkage between the four pillars of our national security strategy—security, values, prosperity, and international order—and the assistance provided by the multilateral development banks. The U.S. Government's security

cooperation efforts rest on a stable, prosperous, and coherent partner nation to enable engagement across the elements of our national power.

In our military/security role, we view these instruments as force multipliers for the Department of Defense across the full spectrum of operations, whether it is recovering from humanitarian and foreign disaster relief efforts such as those following last year's earthquake in Haiti or severe flooding in Pakistan, to major combat operations in the stability phases, such as those in Iraq and Afghanistan.

As we carefully shift our major combat engagements toward long-term partnership and cooperation efforts across the whole of government, the multilateral development banks can play an even greater role helping to restore stability, prosperity, rule of law, and good order to these nations.

From my perspective, there are two things that the banks bring, that our whole-of-government effort brings. In the Department of Defense, we are here to fight and win our Nation's wars. I am sure you have heard many leaders say the best war is the one you never fight. And so when you have stable and secure countries, they are less likely to go into conflict. And when you have secure and stable countries, you often don't have to deal with transnational crime. And that allows the Department of Defense to focus on its core mission.

But also, then, when we have to fight and then you want to help rebuild that country, our role is to help set the security so that we can help the country reconstruct. We have great expertise in terms of doing fundamentals like training police and securing the locals. But when it comes to governance, when it comes to infrastructure, it is not the Department of Defense that is going to put power grids in place or build roads. And it is that permanent infrastructure that allows a country to become stable, that facilitates the economy, that facilitates trade, that facilitates education of the people. And it is that infrastructure that allows for the people to have a decent life, to feel secure, and to have good governance. And so there is this complementary effort, working with our interagency partners, that has to go on in order for us to come out of that security role and return home.

I hope my participation today will provide the information and insight that the committee seeks, and I hope it will be helpful in determining its course of action regarding these institutions. So thank you again for allowing me this opportunity to appear.

Chairman MILLER OF CALIFORNIA. Thank you, Rear Admiral Howard.

There is a lot of debate around Congress about downsizing government and avoiding spending dollars in areas we don't really need to spend them. And one question that is asked of me is, since we are in tough economic times, why is it important for the United States to remain in a leadership role in the MDBs; why can't we just be another member country? I would like to hear your opinion on that question.

Ms. LAGO. Gladly.

Obviously, we are very aware of the challenge of these economic times. And we actually think that needing to stretch every dollar

further argues in favor of supporting the multilateral development banks.

As I mentioned, they leverage our dollars in two different ways. One is that each dollar that we contribute brings in dollars from other donor nations, so our dollars are combined with those from the other major donors. In addition, these are banks, and so they lend out funds for development-oriented projects, but, as the funds are repaid, they are then available to be lent out again.

And so we think that, as an economic proposition, the MDBs are the most highly leveraged form, the most cost-effective form of foreign financial assistance that we can provide.

Chairman MILLER OF CALIFORNIA. We have seen a lot of unrest in Libya, for example. Other countries, such as China, would like to take our position in many areas.

Rear Admiral, have you seen much of an influence of China in Libya, for an example?

Admiral HOWARD. Particularly in this job, where I have had a global perspective, it has become clear to me that just as we are globally dispersed, China is globally dispersed. And I have come to believe that where we are, there is China; where we are not, there is China. And as we were monitoring the collapse of Libya, it was striking to discover that the Chinese had to evacuate 30,000 citizens, because they are ubiquitous throughout particularly Africa.

They will go in and provide projects on their own terms, where they—for example, we visited the African Union. They were building the African Union a new headquarters. But when they come in, they bring in their own labor, they bring in their own materials, and they completely control all the construction, which means there is no benefit to the local economy when they do something like that.

And then, often, when they come in to do something like mining in a country, they will make sure that it is on terms where they are able to extract the natural resources, and the country no longer has the benefit of those natural resources.

So they come in and use their influence differently, and not necessarily always to the benefit of the country.

Chairman MILLER OF CALIFORNIA. If we decided not to contribute our full share, and Russia and China decided to, how would you think that would impact our long-term national security?

That is a tough question, I know, but it is a real—

Admiral HOWARD. It is a fair question, yes.

Chairman MILLER OF CALIFORNIA. —issue that could occur.

Admiral HOWARD. As our interagency partner, whatever DOD needs to do, wherever we are, and if we are in an area like Afghanistan or Iraq and we need to help stabilize, as our interagency partner, we in that agency can go to Treasury. Then there is this voice in the multilateral banks that says, "We need to help bring roads and infrastructure, and we need focus on this country." So their ability to support us is there.

If there is no U.S. voice, I don't know, as a member of DOD, that their ability to support us is there. They have the ability to say, "This is important, this country is in need, and it aligns with the work that DOD does." If Russia or China have a greater say, as I have watched even in the last year in this job, how U.N. voting

goes, it is clear we have different desires and outcomes for what goes on in a country.

Chairman MILLER OF CALIFORNIA. Thank you.

Ms. Lago, would you like to expand on that?

Ms. LAGO. Yes. If I could build on the Admiral's comments, it is impossible to travel in Africa without seeing the presence of China. During my travels to Ethiopia, to Tanzania, to Ghana, one sees the Chinese road projects with Chinese labor on them.

And, as the Admiral mentioned, the approach to development is different. In many of the countries in which the MDBs—and I will focus particularly now on the African Development Bank—in many of the countries in which it operates, the African Development Bank's projects are the high-water mark of transparency, of good governance, of accountability, of anti-corruption measures. This is important for the projects themselves, but also for the countries themselves, that they see this example of how development should occur.

I will use a very, very current example of South Sudan. One looks at this new country that has its entire development future ahead of it. It is a country that is rich in a natural resource. And as we, as the African Development Bank, as the World Bank looks at how we would assist this nation, there will be a focus on public financial management, on transparent accounting for the oil revenues.

And so, were we to cede our voice in the MDBs, we would lose our ability to influence the direction of development in countries that are so important to our national security, both for the promise that they hold going forward, but also, as the Admiral mentioned, if these countries decay, it then becomes a problem for the United States and, in particular, for our military.

Chairman MILLER OF CALIFORNIA. Thank you.

Ranking Member McCarthy, you are recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman.

And I thank the witnesses for your testimony.

Listening to you—I was going to ask Admiral Howard to follow up on—but I think now this question that I am formulating actually would go to both of you.

As we are withdrawing our troops in Afghanistan—I have been to Afghanistan several times. And from what I saw on my first trip, which was many years ago, up to more recent trips, the infrastructure of the country, in my opinion, was amazing, but we still have a long way to go.

I guess the question I am asking is, if we do not get the money that is needed for the World Bank, and if we cannot do the work that the security and the Department of Defense needs to do, where do you think this country will go in the future?

Because I have been following it, and you are absolutely right that people don't understand that China is sometimes right behind us, and sometimes they are in front of us. And they have a strategy to go in, take the minerals, take the resources, and the country will be left with nothing.

So please go into a little bit more detail on why, with our leadership, we need to pay our dues and why it is so important that the American people understand that this is something that we can't

really fool around with. This is about our values, this is about our leadership, and it is at stake. And it is something that we need to do.

Admiral HOWARD. Thank you, ma'am.

Both of you—Chairman Miller and you—both talked about 9/11. And you have to think about Afghanistan and the way the country was in order for al Qaeda to go in there and have a safe haven. So when you don't have good governance, when you don't have respect for rule of law, when you have ungoverned territories, those areas have a tendency to become safe havens for people who would do ill against this country.

My job is to protect this homeland. During my career time, many of the threats for this homeland come from far away. And now we live in an era where people are willing to travel and do many amazing things to attack this country. And so, every time you have a country that is not stable, it is going to be a breeding ground. The worst case is terrorists, but what about transnational crime?

And when you have a country where criminality forms because there is not good governance, that, too, ends up drawing in DOD, even when we are not pulled into conflict. In 2009, I was the counter-piracy task force commander. Somalia is a failed state. This is not about—we are not fighting a war in Somalia, but we sure are off the shores fighting crime. And we have to be there. I was the task force commander during Maersk Alabama. That is an American citizen that we rescued.

But think about it. We are now committing ships to fight pirates because of a failed state and because the piracy is a criminal endeavor. How much better, then, if we didn't have to commit those ships and they could be doing other missions—ballistic missile defense?

So, in either case, whether that area becomes a haven for terrorists or a breeding ground for criminals, in many ways it either becomes a threat to this country or it pulls DOD away from a more focused area in protecting this country.

Thank you.

Ms. LAGO. If I could build on the Admiral's comments by focusing specifically on Afghanistan, in my opening remarks, I mentioned the Ring Road and the Afghan-Uzbek railroad. Those are two connections that are critically important for military purposes and also for the civilian population to have an alternative to the opium trade.

But there are other initiatives that are under way that go toward this longer-term building of a state. One that I would highlight is the power rehabilitation project. People in Kabul can now take for granted that they have reliable electrical power—something that we just take for granted in the United States, that we take for granted in developed nations.

A second project is focusing on the rural areas of Afghanistan, which is the largest part of the country, and it is called the National Solidarity Project. This touches 70 percent of the rural communities and sets up local community councils, which then focus on very small-scale, very local infrastructure projects, many of them having to do with access to drinking water. Through this National Solidarity Project, we are putting in place the roots of a govern-

ment in a country that didn't have just this basic system of community organizing.

So those are two examples in which we are preparing the country, in which the MDBs are preparing the country for life after military engagement.

And, again, as I had mentioned in my opening statement, the World Bank is the second-largest donor in Afghanistan after the United States. The Asian Development Bank is the fourth-largest. And we are able, the United States is able, because of our large ownership share, because of our influence in these organizations, to direct their resources to Afghanistan and also to Pakistan—areas that are of key importance to us from a national security perspective.

Mrs. MCCARTHY OF NEW YORK. Thank you.

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

Mr. DOLD. Thank you, Mr. Chairman.

Secretary Lago, I would like to, if I could, spend some time on Argentina. I know that certainly some of my colleagues—Mr. Manzullo, Mr. Carnahan, Mr. Mack, and many other Members—as well as many Americans across the land share my concerns about Argentina and any similarly situated countries receiving MDB funding.

Many of us believe that MDB funding recipients should have some respect for the rule of law—Admiral, you talked about that a little built earlier in some other testimony—and should be cooperating in our national and international security efforts.

My understanding is that the Financial Action Task Force has routinely given Argentina very poor operations for any anti-money-laundering controls and terrorism-financing controls, to the point that task-force member governments have argued that Argentina should be blacklisted, along the lines of Iran and North Korea.

And after intentionally defaulting on its sovereign debt, my understanding is that Argentina is now contesting roughly 170 related lawsuits and refuses to honor over 100 related U.S. court judgments. Finally, I understand that Argentina has ignored valid international arbitration awards that were rendered by the World Bank's dispute resolution panel, even though Argentina had previously agreed to comply with those arbitration orders.

Meanwhile, Argentina holds well over $50 billion in reserves and has also received many billions in MDB funding. Clearly, this Argentina situation just doesn't make sense to many Members of Congress and, I would argue, doesn't make sense to many Americans who understand what is going on.

So could you please let us know what the Administration is doing to help prevent MDB funding for countries like Argentina who repeatedly ignore the security obligations, who have defaulted on sovereign debt, even though they have the ability to pay, or who have refused to honor U.S. court judgments and valid arbitration awards?

Ms. LAGO. Thank you, Congressman, for raising the issue of Argentina. We share the very serious concerns that you raised about Argentina's actions in a variety of areas, including its failure to honor its ICSID awards—that is, the World Bank arbitration proc-

ess that you had mentioned. But we also share concerns about the country's unwillingness to engage with its creditors, its unwillingness to engage with international institutions. We find Argentina's approach particularly troubling because, if you look at Argentina's per capita income, it falls squarely within the ranks of middle-income countries.

In light of these concerns, the United States will oppose lending to Argentina in the two MDBs in which Argentina participates—that is, the World Bank and the Inter-American Development Bank. We will make exceptions in those rare circumstances when the proposed loan would be targeted very effectively and very narrowly on very poor and vulnerable populations, because we don't believe that they should be suffering because of their country's activities.

We already put this policy into practice. On the 14th of September, a proposal came before the Inter-American Development Bank. It was a proposal for a $230 million loan. It was called the Provincial Agricultural Services Program, a pretty traditional type of loan program for the IDB. It would have been focused on boosting productivity in the agricultural sector. We voted "no" to send a message of our concerns about this.

We will continue to vote "no" for loans to Argentina in the MDBs. And we will look forward to engaging with other donors who may share our concerns to send a message that we value ICSID, and we believe that countries need to live up to their international obligations.

Mr. DOLD. I thank you, Madam Secretary. And I certainly hope that message is getting through loud and clear to Argentina and other nations that are not standing up to their obligations.

I would like to, if possible, kind of change the direction to just a different region of the world right now. My understanding is that the MDBs are poised to approve about $2 billion in new infrastructure lending to Egypt in the next year.

Obviously, with what has been going on in Egypt as of late, the situation in the Middle East, certainly with one of our—I would say our one true ally in the Middle East, with the State of Israel, and the idea that Egypt potentially is rattling its saber, saying it might not hold the treaties that it has held for the last 3 decades with the State of Israel, what role can the MDBs play and the United States influence in the ability for infrastructure lending to make sure that they are obligated to or encouraged to hold their end of the bargain on those treaties and help, I believe, keep peace in the Middle East?

Ms. LAGO. As you mentioned, both the United States and the MDBs are very focused on the emerging Arab Spring, with Egypt and Tunisia obviously being the first two of the countries.

The MDBs have pledged significant amounts, far in excess of what the United States bilaterally could, to these countries. But we are working very closely to assure that the funds are part of a transition within these countries, that the funds will lead to growth, sustainable growth, and economic opportunity across the spectrum. The funds are not going out all at once. We recognize that in both countries we are currently dealing with transitional

governments. And so the MDBs will continue to engage, as the United States is bilaterally.

A key part of what the MDBs bring to a region like the Middle East, like Egypt in particular, is expertise. It is not just the dollars, it is the know-how—the know-how with respect to governance, the know-how with respect to public financial management. And they also bring an approach to development that relies on, or is based on, anti-corruption measures, transparency in how funds are spent, accountability for development impact. And I believe that all of these will be sending the right message to the Egyptian authorities and, ultimately, to the elected Egyptian Government.

Mr. DOLD. Thank you.

My time has expired, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. It looks like we have a vote coming up, but we have a little more time. I will give myself a few minutes, and we will try to give each of us a couple of minutes and see if we can get another round of questions in.

Country-specific questions: If we, let's say Egypt, we are dealing with infrastructure lending in the next year. Tunisia, fast disbursing budget support to assist the government reform. In Libya, the World Bank recognized the Transitional National Council, Libya's interim anti-Qadhafi government, as the Libyan Government authority under the World Bank's de facto government policy. In Haiti, we are promoting development of an international relationship based on the natural disaster they have incurred. And in Africa, humanitarian aid in Africa that is going on.

How, specifically, do you believe in the long run that benefits this country? And you can hit lightly, if you want to, on each. But those are five different areas; I don't have time to take 2 minutes on each.

Admiral HOWARD. This gets back to my earlier statement that when countries develop down a path where they become secure and stable, it prevents them from becoming havens for criminals or for terrorists. And you have hit every part of the world where we see some countries that aren't doing as well that are dealing with transnational crime or with terrorists.

So our ability—for example, in Africa, the Department of Defense has been focusing on providing security assistance but training, for example, in West African nations like Nigeria. Our role, then, would be to help them develop something like their coast guard and do training, and then go visit them and reinforce that military relationship.

In the same area, the multinational banks' role would be to help build up the port systems so that commerce can thrive, so that those countries develop revenue and people have jobs, and so that the country is on a firm standing and people have other choices than turning to crime.

So those types of efforts can be very complementary to what we do in DOD in making sure that nations are secure.

Chairman MILLER OF CALIFORNIA. Ms. Lago, would you like to respond?

Ms. LAGO. I would focus on two very different countries that you had mentioned—the first being Libya.

In Libya, we are confronting a country that has no government mechanisms and also has tremendous wealth in its oil wealth. And so the way the MDBs are approaching Libya is, how can we send the technical assistance that is needed to create the basics of government, to create a public financial management system that will allow the Government of Libya to operate in a transparent way so that the country, with its wealth, will not need to be dependent over the long term on development assistance.

Libya is also another example of what the Admiral had mentioned, that instability in one country can lead to regional instability. So, the importance of quickly putting in place government structures, allowing the people to have respect for their government and the expectation that their government will provide them water, sewage treatment, electricity. And that is where the MDBs, with their expertise both in public financial management and governance and in infrastructure development, can be invaluable.

Haiti: In Haiti, what the IDB, in particular, has done is remarkable. The IDB was able to cancel all of its debt to Haiti. It was the single largest creditor of the nation. It also agreed that, through the fees that are generated by the countries borrowing from the IDB, they would direct $200 million a year for 10 years, a total of $2 billion, to Haiti. This was a remarkable internal redirection of resources, which was driven by the United States. As the largest shareholder, we were instrumental in developing this mechanism and in gaining the support of the board of directors. Without funding for the GCI, this is what would be put at risk.

With respect to what would happen on the ground were resources not to continue to float to Haiti, we would see the risk of significant displaced populations. The original place, or the initial place, that the displaced population could be expected to go is the Dominican Republic, which shares the same land mass. But we would run the risk of large waves of refugees looking to resettle within the Caribbean to the United States, creating a humanitarian crisis and also the possibility of a national security crisis.

Chairman MILLER OF CALIFORNIA. Thank you.

Ranking Member McCarthy, you are recognized for 2 minutes and however long the response takes.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Number one, before we end this hearing, I want to just say thank you to both of you. I happen to think that the answers were very concise and very easy for the American people. Believe it or not, sometime around 2 o'clock this morning, this will be on TV, and there are actually people who do watch it, besides Members of Congress.

Chairman MILLER OF CALIFORNIA. We are sleeping.

Mrs. MCCARTHY OF NEW YORK. Right, we are sleeping.

But anyway, Secretary Lago, we talked about—again, I am going to go back to one of the things that I feel is so important—why we need to continue to take the lead. If you could talk about some of the reforms that we have been able to integrate into the Multilateral Development International Bank and what a difference that has made, or if we weren't there, if you can answer that, if we weren't there, which way it might have gone.

Ms. LAGO. Thank you, Congresswoman, for raising that, because in dealing with the multilateral development banks, obviously the focus is on the development that occurs on the ground. But the United States is extremely active in working with the banks in making sure that how the development occurs, in the "how" of the development. Because we believe that to be sustainable, development has to take place in an accountable way and a transparent way.

We knew that these institutions needed more capital, and we took advantage of the negotiation process for the general capital increase to drive through a series of reforms. Many of these reforms came about as a result of our discussions with Members of Congress who had taken a long-term interest in the institutions. We also consulted extensively with civil society, with the national organizations, the nonprofits that have an interest in development to hear what concerns they saw.

There are a couple of key changes that have come to the institutions. The first one that I would highlight is transparency about what the banks do. It used to be that, at the World Bank, they had a positive list: "We will post on our Web site only those documents that appear on this list." They have now changed the presumption, and this is an instance where a negative list is better. The World Bank and the other regional development banks now say, "We will post on our Web site every document except for a narrow list"—sensitive personnel items, things that are not appropriate to be posted. This is a revolutionary approach to transparency in how the banks operate.

We also put in place stronger financial accountability. We wanted to be sure that the loans that were being made to the middle-income countries were properly priced so that the bank, when it got repaid, would have resources to be able to make more loans but also to redirect funds to the poorest countries. The example that I just gave of Haiti is one such example.

Another reform that we put through was cross-debarment. If one of the banks has had problems with a contractor and has debarred the contractor, that information is shared across all of the multilateral development banks, and that contractor is debarred for all, so a bad actor can't move from one bank to the other.

Perhaps the most important is impact evaluation. Banks now have mechanisms to be able—are required to evaluate the impact on the ground of their projects. That is coupled with, in the banks, a complaint mechanism. If a community believes that they are seeing fraud, if they believe that the bank's environmental and social safeguards aren't being followed, there are independent complaint mechanisms.

All of these are, for us Americans, the way we expect business to be done, but these banks in the countries in which they operate are beacons, because of the fact that we have been able—because of the fact that they operate so well. And through this GCI, we have been able to implement these even more recent reforms.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Chairman MILLER OF CALIFORNIA. Vice Chair Dold, you are recognized for 2 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

Secretary Lago, going back to you, there is this sudden instability in the countries like Libya or Egypt, which have seen, obviously, with the Arab Spring and what has been going on. What mechanisms do the MDBs employ to reduce that instability? And on a follow-up right there, how quickly do the MDBs respond to sudden regional or national volatility?

Ms. LAGO. If I could take the second question first—

Mr. DOLD. Of course.

Ms. LAGO. Thank you. The MDBs are not the humanitarian agencies, which go in as the initial relief workers, but there was a recognition that the MDBs needed a rapid response mechanism. And so, the World Bank and the African Development Bank have set up rapid response mechanisms.

The strong suit of the MDBs, their comparative advantage, is on the governance building, the building up of the systems of government, and also on infrastructure. And infrastructure, by its very nature, is a longer-term proposition.

How do the banks do it? They have a toolkit. One is, it is important to emphasize the staff of these institutions. They are the world's leading experts on agricultural development, on building wastewater-treatment facilities in rural areas, on water projects, on basic transportation. And, frequently, countries are looking in the very short term for that type of expertise. The other things that the banks bring, as is evident in the fact that they are banks, is the financing, is the ability to finance these large projects, projects at a scale that no individual country, including the United States, would be able to finance. And so those are the tools that they bring to bear.

The MDBs work very closely with the United States' bilateral assistance efforts and with the humanitarian agencies. We will use Haiti as an example, where the MDBs were very quickly there, working on rubble removal, working on rebuilding schools, working on rural water systems—areas that have been their traditional areas of expertise.

Mr. DOLD. I want to thank you both for taking the time to come. I have other questions, but we are out of time, so I am going to yield back.

Thank you, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. I would like to thank the Honorable Marisa Lago for your testimony and Rear Admiral Michelle Howard for your time, talent, and your service to this great country. We really appreciate it. The testimony was invaluable and will go a long way to reauthorizing our efforts with the World Bank.

I would like to submit three items for the record, without objection: first, a letter from Treasury Secretary Geithner and Secretary of Defense Panetta about the vital role the MDBs play in promoting U.S. national security, including deterring emerging threats, supporting foreign and national security goals, and fostering global economic growth.

Second, a memorandum to the Secretary of the Treasury from General Petraeus when he was Commander of the United States Central Command and General McNabb, Commander of the United States Transportation Command. The memo states that, "The Asian Development Bank plays an important apolitical role in get-

ting countries to work together for common interests. United States engagement in the Asian Development Bank contributes to our strategic interest in the region."

And third, a memorandum to the Secretary of the Treasury from Admiral James Stavridis, Commander of the United States European Command. The memo states, "The Inter-American Development Bank plays an important role in the region, contributing directly to the U.S. strategic interest."

The Chair notes that some members may have additional questions for the panel 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 these witnesses and to place their response in the record.

This hearing is officially over.

[Whereupon, at 3:10 p.m., the subcommittee was adjourned.]

A P P E N D I X

September 21, 2011

Assistant Secretary of the Treasury Marisa Lago
Written Testimony before the House Financial Services Committee
Subcommittee on International Monetary Policy and Trade

"The Impact of the World Bank and Multilateral Development Banks on National Security"
September 21, 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 critical importance of the multilateral development banks (MDBs) in safeguarding U.S. national security interests.

The Administration's pending requests—to recapitalize the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), and the European Bank for Reconstruction and Development (EBRD); and to replenish the International Development Association (IDA) and the African Development Fund (AfDF)—are fundamentally important for our national security. At the tenth anniversary of 9/11, we are once again reminded that our enduring safety and security rests on the dual pillars of defeating the imminent dangers that confront us today, and preventing and deterring threats that may emerge tomorrow. In this, the MDBs play a vital role.

Under our leadership, the MDBs are supporting stability operations in weak states like Afghanistan and Iraq—so we can deny our enemies safe haven, and counter bankrupt agendas of extremism and hate. They are underwriting the transitions now unfolding in the Middle East and North Africa, a region where the United States has deep strategic interests. And they are building resilient societies in fragile states like Haiti and Sudan, which could otherwise spawn transnational threats when they collapse.

No one nation, no matter how powerful, can meet all these challenges alone. Through the burden-sharing arrangements we negotiate in the MDBs, the many other countries that also have strong interests in these goals pay their fair share thereby greatly multiplying each dollar we invest.

If we do not recapitalize and replenish these multilateral institutions, U.S. leadership, and our ability to steer these institutions, will wane. At the World Bank, we would lose our leadership and our unique veto power over changes to the Articles of Agreement, which govern critical issues such as membership, leadership, and the Board of Executive Directors. Missing our payment deadline at the African Development Bank would effectively forfeit our single seat on the Board of Directors. And at the European Bank for Reconstruction and Development, we will fall from the single largest shareholder to number six, behind France, the UK, Germany, Japan, and Italy—marking a profound and deliberate retreat from an institution positioned to play a vital role in sustaining the Arab Spring. And across all these institutions, if we cede shares, China and other emerging donors stand ready to strengthen their engagement as ours wanes.

Unrivalled Leverage, Expertise and Reach

Our investments through the multilateral development banks underwrite our global leadership, leveraging America's scarce resources to protect our security and prevent future threats. The MDBs bring unrivalled leverage in protecting America's security interests.

Leverage

Each dollar that the U.S. contributes to the MDBs generates $25 of investments. And capital increases are rare events: they occur once every 10 or 20 years to provide long-term funding streams. Our last contribution to the World Bank, made by President Reagan in 1988, underwrote the successful transitions of former Eastern bloc countries to open democracies and market economies. Reagan's one-time capital increase contribution of $420 million for the World Bank enabled $383 billion in investments over the last two decades. Once again, long after today's capital contribution is fulfilled and our annual appropriation returns to zero, American taxpayer money will continue delivering results for decades—supporting post-conflict stabilization efforts, building free societies, underwriting transitions in strategically important countries, creating new markets and economic opportunity for American businesses, averting transnational threats, and protecting American troops by preventing conflict wherever possible.

Global Reach and Expertise

In the aftermath of World War II, the U.S. led the international effort to renew international cooperation and helped found the Bretton Woods institutions, including the World Bank. We are proud to have remained leaders at these institutions for more than 60 years because these institutions are bulwarks for our most vital interests—advancing prosperity and stability, creating free markets, and thwarting threats to our national security. They are a key line of defense, working to prevent troubles beyond our borders from metastasizing into threats to our security.

Operating in difficult environments, the MDBs have the most rigorous standards for transparency, accountability, and results, and strong safeguards against corruption. Disclosure of significant policy documents are now the norm. Thanks to our leadership, the MDBs are continuously improving internal audits to prevent and deter corruption. And we have recently achieved higher 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. These processes ensure that when the MDBs work in fragile and war-torn environments, they are helping those nations develop robust standards of their own—averting future corruption, instability, and conflict.

Vital Partners in Prevention and Deterrence

In Afghanistan, a key frontline state vital to U.S. national security, the World Bank and the Asian Development Bank (ADB) are the second and fourth largest donors—working closely with the U.S. and other bilateral donors to build critical infrastructure like the Ring Road and the Uzbek-Afghan railroad. MDB investments are rebuilding nearly 2,000 miles of roads, so security forces can access remote regions; rehabilitating irrigation systems serving more than 1.6 million acres of land, so staple crops like wheat, maize, and barley can compete against the lucrative lure of

opium; and expanding the rail transport network, so Afghans can access routes for national and international trade. These investments in Afghanistan's stability and reconstruction have generated two million days of employment for unskilled laborers throughout the country and significantly improved crop yields for poor farmers—undermining the recruitment efforts of opium cartels and violent extremists.

Terrorism and political violence, piracy and drug trafficking, and refugee flows cascade across the borders of fragile states to hurt our interests here at home. Armed conflicts often fuel regional instability, requiring costly military intervention by outside powers. The MDBs are on the frontlines in fragile states around the world, from Sudan to Liberia to Cambodia to Haiti, investing significant resources and leveraging substantial technical expertise to prevent transnational threats and build resilient societies that can be our long-term partners in safeguarding global security.

In Haiti, for example, the IDB and the World Bank are working together to help the country rebuild after the devastating earthquake last January. The IDB recently cancelled all of Haiti's outstanding debt, and pledged to provide Haiti more than $2 billion in grants over the next decade. The World Bank delivered $340 million in assistance over the last 18 months alone—for emergency aid to the vulnerable, reconstruction of transport infrastructure and rural water systems, and long-term investments in education, agriculture, and governance. MDB assistance is a critical bulwark against a downward spiral of instability in a country just 700 miles off our southeastern coast—where a humanitarian crisis could potentially threaten a wave of refugees upon our shores, and state weakness could potentially allow fertile ground for violent transnational criminal activities.

In South Sudan, the World Bank and the African Development Bank are providing critical support to break the cycle of conflict and insecurity, which will prevent extremism and terrorism from finding safe harbor. The AfDB's deep knowledge and longstanding presence in the region makes it uniquely positioned to help rebuild this new nation, which is at a historic crossroads of trade and cultures in Sub-Saharan Africa. The Bank is providing technical and advisory support on debt and cross-border trade, financial and economic planning, governance capacity building, and implementation of the South Sudan Development Plan. All of these efforts will make South Sudan stronger and more resilient to the scourges of violence and terror.

In Egypt and Tunisia, and now Libya, nascent governments face the extraordinary challenge of building stable and free societies as they emerge from repressive regimes. In a region where the United States has deep strategic interests, this is a crisis and an opportunity we must address. By investing in freedom and opportunity in these countries today, we will help advance security and cement alliances that will open markets and foster peace dividends tomorrow and for generations to come. While it is unwise for the United States to invest alone at the size and scale needed for this region, together with other donor nations we can leverage scarce resources to support these countries. The MDBs will be central to this effort. They have committed to provide $20 billion to aid the transitions now unfolding in the Middle East and North Africa, and will continue to be a source of resources and technical support.

Conclusion

The Administration's pending requests to recapitalize and replenish the MDBs are an important priority and are fundamentally important for our national security.

In an increasingly interconnected world, our interests are inextricably bound to the interests of those beyond our borders. Our leadership as the foremost shareholder of the world's MDBs guarantees that their sizable investments will continue to secure America's interests and safeguard our national security: defeating the imminent dangers that confront us today, and preventing and deterring threats that may emerge tomorrow.

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Statement before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade

"THE IMPACT OF THE WORLD BANK AND MULTI-LATERAL DEVELOPMENT BANKS ON NATIONAL SECURITY"

A Statement by

Daniel F. Runde
Schreyer Chair in Global Analysis and
Co-Director of the Project on U.S. Leadership in Development,
Center for Strategic and International Studies (CSIS)

September 15, 2011

2128 Rayburn House Office Building

Multi-Lateral Development Banks and US National Security

Testimony Submitted by Daniel F. Runde, Schreyer Chair in Global Analysis and Co-Director of the Project on U.S. Leadership in Development, Center for Strategic and International Studies.

Thank you Chairman Miller, Ranking Member McCarthy, and members of the Subcommittee. I am honored to appear here today and to have the opportunity to testify on the link between the General Capital Increase for the Multilateral Development Banks and our National Security.

The Obama Administration has made a request to Congress for an extraordinary contribution to a number of the Multilateral Development Banks (MDBs). It is critical that Congress acts on this request so that the United States can maintain its overwhelming influence over these institutions, ensure that we have a strong multilateral funding partner for the many challenges we face and invest in our national security. I recognize that making this request for the so-called "General Capital Increase" comes at a very difficult time. Maintaining our *de facto* control over the MDBs through this contribution is a critical investment in America's national security because these institutions provide money and advice that in fundamental ways support our allies, and US foreign, economic and national security policy objectives in places such as: Afghanistan, Libya, Iraq, Haiti, Colombia, Tunisia, and Southern Sudan. In reference to Afghanistan, General Petraeus said in his testimony to the Senate Armed Services Committee referring to the MDBs that "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." A strong set of MDBs under US leadership will be critical instruments for achieving victory in the Long War.

During a period of nine years, I served in various senior roles at the US Agency for International Development (USAID) and the World Bank Group. Since leaving those roles, I have been at the Center for Strategic and International Studies, a Washington think tank, where I lead an initiative on international development. These experiences have given me a strong understanding of the important contributions of the MDBs and why they are an important investment in America's national security.

It may be useful to recall why these institutions were established. The World Bank (the International Bank for Reconstruction and Development) was set up to help rebuild Western Europe after World War II and counter understandable concerns about Soviet aggression. Cold War concerns spurred the development of the Inter-American Development Bank under President Kennedy.

The MDBs continue to offer an American "operating system" for countries who want to plug into the positive aspects of globalization including free market principles, a more open trade regime and the rule of law. In addition, the MDBs equip partner governments with the ability to

combat the negative sides of globalization by building their capacity and abilities to confront transnational threats such as Avian Flu.

MDBs AS EXPORTERS OF AMERICAN VALUES AND INFLUENCE –AT RISK

In order to maintain our current level of leadership and influence in these MDBs, the United States will need to continue to retain its ownership stake. We are going to have to "pay to play." If not, other countries will fill the void and step in to take these institutions in directions that we will not like.

The MDBs export an American operating system of globalization. These institutions are heavily influenced by the United States. First, all or most of the business is conducted in English, and almost all the senior leadership and leading technical experts have studied, worked or lived here in the United States. The MDBs almost always conduct agreements under US or UK law. They export performance standards and practices perfected or used in the United States. The MDBs offer developing countries economic and policy advice that is within a range of policy options acceptable to American policy makers. Also, it is in our interest to have platforms such as the MDBs that provide American style financial advice from a non American source. Washington policymakers often overlook the fact that the MDBs enjoy a level of credibility in many country contexts that the United States simply does not enjoy. If the MDBs are recommending the same course of action that we are recommending, in some contexts, it is more palatable and the policymaker is more willing to accept the advice from an MDB. They are an instrument of our economic and national security interests worldwide.

If we do not authorize the recapitalization and replenishment of the MDBs a number of very negative consequences will likely occur. At the World Bank, we risk losing our unique veto power. At the African Development bank, we risk decreasing our shareholding by two-thirds, which would jeopardize our only seat on the Board of Directors.

Of particular concern is the Inter-American Development Bank (IDB). At the IDB, all funding from other states is contingent on whether the US pays its contribution. If the US does not authorize recapitalization of the IDB, all other donors would cut back sending an incredibly negative signal to Latin America and creating a far less effective IDB. Specifically, IDB lending will likely shrink from its current and target levels of approximately $10-12 billion a year to pre-crisis levels of $6-7 billion a year. Recovery and reconstruction efforts in Haiti would be impacted with the real potential to destabilize a very fragile democracy with significant national security implications for the United States. Approximately $2 billion of development funding for Haiti is at risk because the IDB agreed to utilize $2 billion of its income for Haiti over the next decade.

Shareholding in the various MDBs is distributed to reflect country contributions over many years. Shares that the US does not pay for will ultimately be made available for other

countries and there is little doubt that they will be eaten up by countries with a different world view than us.

In addition, because of our financial contributions in the past, we have enjoyed a preponderant role in these institutions by maintaining critical leadership posts —the World Bank Presidency and other pivotal Vice President posts at these other institutions. In recent years, US control of these roles has come under increased attack. By not participating fully in the General Capital Increase, we would strengthen those who would like to the see the US lose these critical personnel posts.

CRISIS RESPONSE AND THEIR FUTURE VALUE TO THE UNITED STATES

During the 2008 and 2009 financial crisis the MDBs were asked by their shareholders including the United States to "fire all their bullets" as part of the crisis response. As a result, the MDBs softened the effects of the economic crisis and helped clear a path for the global economic recovery in developing countries. Consequentially, many of these developing countries have returned to rapid growth. The economic crisis saw a sharp decline in capital flows and trade finance to emerging and developing nations and the MDB's increased their lending to fill in the gap. It was the MDBs that covered for the U.S. and other developed nations when we were understandably focused on stabilizing our own economies.

The way these institutions work is that they have a certain amount of shareholder capital from governments, including the United States, and the MDBs lend money against that shareholder capital. As you have heard from others, for every dollar provided by the US, the World Bank lends $25 to developing countries. Since 1988 the US has contributed $420 million to the World Bank. This contribution has translated to supporting $325 *billion* in development investments. That is a factor of over 800-fold. However, as a result of the financial crisis, most of the current shareholder capital is already "spoken for" through the loans that these institutions have made. If we want these institutions to continue to play a very significant role in shaping the world around us in ways favorable to us, we need to ensure that they are able to lend at current levels.

At the same time, U.S. foreign assistance, as well as that delivered by other donor countries, is going to come under significant strain. As a consequence of inevitable cuts in our bilateral foreign assistance budget, it is likely that the United States will stop providing traditional foreign assistance bilaterally (primarily through USAID) to a large number of middle income and lower middle income countries as we focus or limited dollars on the most pressing development and national security focus countries. Well-financed MDBs under US leadership need to be a part of a US graduation strategy filling in the gaps for the United States in middle income countries.

NATIONAL SECURITY IMPLICATIONS

From a strictly national security perspective, the United States is safer with strong MDBs for the following reasons:

First, in situations where there is a conflict such as Libya and Afghanistan, the United States needs to build up and support local institutions as quickly as possible and do so in a way where we burden share with other donors. One of the most effective ways is through the MDBs. Examples of MDBs support in zones of conflict include the World Bank managed Afghanistan Reconstruction Trust Fund. The Asian Development Bank is a key player in the New Silk Road regional integration project which is seen as a lynchpin of our stabilization strategy in Afghanistan.

Second, in situations where we are supporting newly formed governments, policy makers need expert advice to manage public money, set up health systems, ensure that children get to school, regulate banking systems and set up the rules of the game for basic services like electricity and water. The MDBs often house the best technical experts in the world on a wide range of issues for ensuring that a government actually functions. The MDBs also lay the groundwork of good governance and establish greater accountability with the governed. The MDBs are moving to improve their abilities to provide funding and advice that ensures the effective use of public funds and the establishment of the rule of law, along with anti-corruption programs. In many country contexts where we are fighting insurgents, we need our host country partners to demonstrate to their people that they can provide these public goods and services. The delivery of basic services is a critical part of victory in places like Iraq and Afghanistan and the MDBs play crucial role in that. Also the MDBs stick around after we leave, and they are in it for long haul as they have been there before a conflict and want to be there after the conflict. America has a history of going in massively and then leaving precipitously, often before the job is done, which has been a great weakness of our foreign policy. The MDBs can mitigate that unfortunate tendency in US foreign policy.

Third, these institutions help us equip societies with mindsets that counter competing ideologies when they fund programs such as girls education, provide training for entrepreneurs, develop modern infrastructure and provide access to telecommunications and information technology. Greater access to technology and communications can reduce isolation in societies -- with isolation being a factor that makes it difficult to combat extremism.

Fourth, we will need to have development partners ready a number of possible contingencies in the near to midterm future. In the next five years there may be significant changes in the governments of countries hostile to US interests, and we are going to want strong flexible multilateral instruments under strong US leadership to be ready for such contingencies.

NEED IMPROVEMENT? OF COURSE BUT UNDER OUR GUIDANCE

These institutions are far from perfect. In zones of conflict, they need to improve their flexibility, and they need to be willing to develop specialized cadres who can be deployed in

some of the world's worst contexts. These institutions can be very slow. These institutions need to change but we minimize the chances that these institutions will improve the right way if we do not have a leading seat at the table.

I thank you for the opportunity to testify before you today, and I welcome any questions you may have.

Daniel Runde's Biography

Mr. Runde holds the William A. Schreyer Chair in Global Analysis and is the Co-Director of the Project on US Leadership in Development at the Center for Strategic and International Studies. Mr. Runde's work is directed to ensuring that the United States possesses the tools necessary to remain the preeminent player in global development in the 21st century and, by extension, is better positioned to achieve its foreign policy and national security goals.

Mr. Runde is also President of the leading industry association, the Society for International Development's Washington DC Chapter and Chaired the most recent World Congress Organizing Committee.

Previously, Mr. Runde was Head of the Foundations Unit for the Department of Partnerships & Advisory Service Operations at the International Finance Corporation (IFC), the private sector arm of the World Bank Group. He successfully positioned IFC as a partner of choice for private and corporate philanthropy. He was also responsible for leading and growing IFC's relations with senior policy makers throughout the U.S. government.

From 2005-2007, Mr. Runde was the Director of the Office of Global Development Alliances (GDA) at the U.S. Agency for International Development (USAID). Mr. Runde led the GDA partnership initiative by providing training, networks, staff, funds and advice to establish and strengthen alliances. His efforts leveraged $4.8B through 100 direct alliances and 300 others through training and technical assistance. Earlier in his career, Mr. Runde worked for both CitiBank and BankBoston in Buenos Aires, Argentina and started his career with Alex. Brown & Sons, Inc. in Baltimore.

Well known in the global development community, Mr. Runde was named in September 2010 as one of 40 under 40 in International Development in Washington, DC by the Devex Group. Mr. Runde has written and spoken extensively on public-private partnership issues at global conferences and symposia.

Mr. Runde has been involved in the philanthropic sector as a member of committees for the Global Philanthropy Forum and the Committee Encouraging Corporate Philanthropy. He is a board member of the Peter C. Alderman Foundation, the Alliance for the Family, and has served on the Advisory Board of the United Nations Development Program's Growing Inclusive Markets Initiative.

Mr. Runde received a Masters in Public Policy from the Kennedy School of Government at Harvard University and holds a B.A., *cum laude*, from Dartmouth College.

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TESTIMONY ON THE IMPACT OF THE WORLD BANK AND MULTI-LATERAL DEVELOPMENT BANKS ON NATIONAL SECURITY

September 15, 2011

Testimony of Amb. Mark Green (Ret.)

Introduction

Chairman Miller, Ranking Member McCarthy, and members of the Subcommittee, it is an honor to appear before you today to discuss the importance of the multilateral development banks and America's International Affairs Programs from a national security perspective. I am here today in my capacity as a former Ambassador to Tanzania and as Senior Director with the U.S. Global Leadership Coalition (USGLC). The USGLC is often called the "strange bedfellows" coalition because it is comprised of both American businesses like Boeing, Caterpillar, Microsoft, Wal-Mart, Land O' Lakes and the U.S. Chamber of Commerce, and leading humanitarian NGOs like CARE, World Vision, Catholic Relief Services and Bread for the World. USGLC brings together bipartisan military, business, faith-based and community leaders from all across the country who are united in the belief that, even though they only constitute about 1% of our overall federal budget, International Affairs programs are vitally important for America's national security, our economic growth and our values.

It goes without saying that our nation is facing huge fiscal challenges. As a former lawmaker, and former member of this Committee, I know very well that you have difficult funding choices to make in the coming months. Every agency will need to tighten its belt and scrutinize each program for cost savings. I also know that most Americans aren't fully aware of the critical mission that the World Bank and other multilateral development banks perform, and that this puts extra political pressure on the funding requests before you for these institutions. My view, respectfully, is that support for these institutions is simply part of our nation's leadership obligations. These obligations help so many of our friends and allies in need, and as I hope this hearing will show, they also help us—the United States—and the American people.

I know that the Subcommittee previously conducted a hearing on the many economic benefits that these institutions provide for the American people, as well as the economic development of developing nations. I also know you've already received testimony today on the specific costs and consequences of deep cuts to the U.S. contributions to these institutions. Therefore, I will focus my

remarks on the broad national security implications of these and other programs funded by the International Affairs Budget—our nation's civilian tools of development and diplomacy.

International Affairs Budget is a Critical Tool to Our National Security

As this Subcommittee knows well, the world has changed dramatically over the past two decades with Cold War threats being replaced by terrorism, pandemics, weak and failing states, and a growing number of strategic competitors to America in the global arena. America's national security today is dependent not only on the deterrence of a strong military force, but on increased investments in the full range of diplomatic, development and humanitarian tools. In addition to the important programs that the U.S. oversees through agencies like USAID and the Millennium Challenge Corporation, the MDBs provide a source of funding that aids in economic growth, which in turn leads to greater peace and stability.

The kind of long-term, large scale growth that the MDBs invest in helps foster a more stable and peaceful world. Investing in development enhances our national security by preventing conflicts before they require costly military action. As former-Secretary of State Condoleezza Rice has said, *"we must now use our foreign assistance to help prevent future Afghanistans—and to make America and the world safer."* Former Secretary of Defense Robert Gates commented last year, *"development contributes to stability. It contributes to better governance. And if you are able to do those things and you're able to do them in a focused and sustainable way, then it may be unnecessary for us to send soldiers."* He also summed it up best when he said, simply, "*Development is a lot cheaper than sending soldiers.*"

My personal view as a former congressman and ambassador, and the view of USGLC's membership, is that modern "national security" means that our leaders must have a wide-ranging and well-resourced set of leadership tools -- military and civilian, hard power and soft -- if we are going to be truly secure and truly strong in this challenging, ever-changing world. The programs of the World Bank and the MDBs are an important part of those tools.

Thus, the withholding of U.S. contributions to these institutions would not only limit the amount of capital available for them to carry out their important missions, but risk diminishing U.S. influence abroad. It also risks ceding ground to other countries, including rising powers such as China, that offer alternative sources of funding in the developing world. Failure to make U.S. contributions to the World Bank could risk losing the presidency of World Bank, which has traditionally been held by an American, in the next term and could lead to the loss of our ability to veto changes to its governing articles of agreement. We also risk losing the U.S. board chair at the African Development Bank, allowing others to set the agenda. As we know, if the United States doesn't lead, other countries will.

Economic Growth as a Means of Promoting Stability and Democracy

As countries develop, they often grow to reflect the values and principles of those that assisted them along the way. For example, in addition to an array of educational and health programs, the MDBs support programs that promote good governance, reduce corruption, and invest in much-needed infrastructure. These loans come with important conditions, such as strengthening transparency and improving the investment climate, which ultimately help these countries transform into more reliable trading partners. In this way, our contributions to the MDBs help reinforce our democratic, free-market values. When countries embrace democratic ideals, a commitment to open markets, and the free exchange of ideas, they become more stable and secure. And the more democratic, stable governments that exist in the world, the safer we are at home, and the less chance we will need to send our military into conflicts into other countries to keep or restore peace.

Let me give you one example of a country that it isn't hard to imagine taking a different path to prosperity—South Korea. Development assistance to South Korea helped to transform the country into a strong U.S. ally in a volatile region, and a trading partner and market for U.S. goods. South Korea relied heavily on foreign assistance to recover from the devastation of World War II and the Korean War, borrowing over $15 billion from the World Bank. But by 1995, South Korea had "graduated" from the

World Bank's lending list as a recipient country and has repaid all but about a half a billion dollars of its obligations.

Today South Korea is one of our strongest military and economic allies in North East Asia, a region where China is asserting its influence and North Korea is a tinder box for instability and aggression. For example, in August, South Korea hosted the U.S. –led United Nations Command in a joint military exercise to enhance military interoperability and to keep the partnership strong and effective in maintaining security. Through such training efforts, the United States has begun to transition from a leading to supporting role in Korea, lessening our military burden, while being able to rely on a strong ally and partner. Economically South Korea has become a strong and strategic partner as well. South Korea has the world's 13th largest economy and is the 7th largest trading partner for the United States. U.S. exports to South Korea have doubled since 1990 to nearly $39 billion in 2010, more in one year than all the U.S. foreign assistance we provided to Korea between 1946 and 1976.

The MDBs are also an important factor in creating stability because of how they distribute assistance, doing so at the government level. When national governments are meeting the basic needs of their people, or at least are on the road to doing so, we know those societies are more stable and resistant to conflict. On the other hand, where access to basic services is poor, non-state actors and extremists have an opening to stir up instability, strife and violence.

Those who serve on the front lines of our national defense understand this all too well. They understand that in some troubled lands where American forces have a presence, the legitimacy and credibility of the central government affects the size of American forces, their mission and how long they'll need to stay.

Allow me to give you an example of how U.S. assistance can help transform a country like Tanzania, where I was Ambassador, into a safer, more secure ally for the United States. When I served as

Ambassador to Tanzania, I was once confronted by a young activist who asked, "Why does America abuse its power in the world?"

I answered with a question of my own: "What is the No. 1 killer of your children?" After a pregnant pause, I answered my own question. "Malaria. Now who is doing more to fight malaria here than we are?" There was another pregnant pause. The ensuing murmurs amongst those gathered suggested that my response had momentarily shaken the perception of America that some had given them. If America is unmistakably visible on the side of those who are trying to sow seeds of hope and optimism, then it becomes harder for extremists to paint America as the "great Satan."

It's hard to foresee a time when we won't have to invest heavily in our military and security capabilities. But my experience has taught me that our military tools are insufficient on their own to protect our country from the types of asymmetrical and unorthodox threats that confront us. Our nation's military leaders – from former Defense Secretary Gates, to Admiral Mullen and General Petraeus – have likewise been unequivocal on this point. Programs that combat diseases like malaria, help more girls attend school on a regular basis, and ensure new mothers have access to better nutrition not only demonstrate the essential humanitarian values we hold as a nation, they also help to replace struggle and strife with stability and security—abroad, and for us.

Conclusion

As a former member of this body, I know that Americans often seem misinformed about the amount we spend on our international programs, and they may understand even less about the role of the multilateral development banks. But I know that if they were better informed about the benefits these institutions provide to our national security, they would agree that our contributions to the MDBs are a cost-effective – and needed -- investment in America's security and economic prosperity.

There is not a doubt in my mind that support for the Multilateral Development Banks is profoundly in the best interests of our nation. It advances our security, prosperity and open hearts and minds to America's message of liberty, fairness, and free markets. For all of the foregoing reasons, Mr. Chairman, I urge the Subcommittee to meet our obligations to replenish the Multilateral Development Banks.

Multilateral Development Banks Support U.S. National Security Objectives

Statement by Alan Larson
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Before the House Subcommittee on International Monetary Policy and Trade
Of the House Financial Services Committee

September 15, 2011

Chairman Miller, Ranking Member McCarthy and distinguished members of the committee, my name is Alan Larson. I am Senior International Policy Advisor at Covington & Burling LLP. Before joining Covington six years ago, I served for thirty-two years as career diplomat in the U.S. Foreign Service Office.

During my State Department career, I was fortunate to serve in three different Senate-confirmed positions in the administrations of three different Presidents. I concluded my career as with six years of service as Under Secretary of State for Economic Affairs, two years during the last the Administration of William Clinton and four years during the Administration of the George W. Bush. As Under Secretary, I also served as the Alternate Governor of the United States to the World Bank and to several regional development banks, working closely with the U.S. Department of the Treasury.

It is worth recalling that from earliest days of the World Bank's existence, the United States conceived of the World Bank as a contributor to U.S. national security and foreign policy aims. In fact, the World Bank was founded at the end of World War II, when the United State was seeking to safeguard the vital national security gains achieved during World War II by promoting economic reconstruction and development. . In 1944 at Bretton Woods, Dean Acheson played a leading role in writing the charter of the Bank for International Reconstruction and Development, or the World Bank. Acheson, who later became Secretary of State during the Truman Administration, understood the national security importance of a multilateral institution that would help build strong

economies out of the wreckage of World War II. (Forgive me for adding that Secretary Acheson also had been a partner a Covington & Burling before and after his service as Secretary of State.)

To be sure, the World Bank and the regional economic development banks usually are thought of first in the context of efforts to promote the economic development of poorer developing countries. They play a vital role in that sphere. As a former diplomat who spent a large part of my career in the developing countries, I believe this role of promoting growth and development and alleviating poverty is an important mission. Indeed, the World Bank has learned a great deal about the policies that foster inclusive and broadly shared economic growth, with strong job formation. Such growth strategies not only are an important priority in the lowest income developing countries, but they also turn out to be important in transition countries emerging from conflict that are central national security concerns for the United States.

Even when the Bank is supporting broadly based development in poorer countries that are not central national security concerns of the United States, I also believe that this mission contributes significantly to the security of the United States. During my early assignments in Africa and the Caribbean, I saw firsthand how poverty was a Petri dish that provided an environment in which a variety of social vices--political instability, human trafficking, communicable diseases and narcotics trafficking to name a few—could multiply. These vices threaten U.S. security and the World Bank, through its work on the front lines in combating poverty and economic development, helps combat these threats to U.S. national security and foreign policy.

During the second half of my career I saw a close range multiple ways in which the multilateral development banks (the MDBs) serve U.S. national security interests. The Presidents and the Secretaries of State I served, Republicans and Democrats alike, used the MDBs as valuable, indeed indispensible, tools for addressing key national security problems. In my testimony today, I would like to provide some concrete examples to illustrate how this worked in practice.

Consider Panama. President George Herbert Walker Bush sent troops into Panama to protect the threat for Panamanian strongman Manuel Noriega. While the military action was still underway, I traveled to Panama with Larry Eagleburger and Treasury officials to consider the steps the United States could take to restore the economy. Noriega was captured during our visit. The plan we formulated during that visit relied significantly on the MDBs –the World Bank and the Inter-American Development Bank—to restore the Panamanian economy

Later during the same Administration, the Cold War ended and the geopolitical environment in Europe shifted importantly in the direction of the United States. When the countries of Central Europe broke away from the grip of Communism, the United States and its Western allies had a historic opportunity and obligation to ensure that there would be no slide into economic stagnation and political instability. We wanted to support valiant peoples--in Poland, Hungary, the Czech Republic and other countries of the region--restructure and reinvigorate their economies. In that way, we could to solidify their new political and economic freedom.

The World Bank and the newly created European Bank for Economic Reconstruction and Development (EBRD) made historic contributions to this process of economic restructuring and reinvigoration. The United States had played a strong role during the Reagan and Bush Administrations in ensuring that the EBRD would be structured in such a way as to make it able to support the private sector, as well as making more traditional development loans to governments.

Bob Zoellick was serving as Under Secretary of State for Economic at that time. Bob played a crucial role in helping President Bush and Secretary of State Baker respond to the opportunity to use multilateral institutions such as the World Bank and the EBRD to solidify the independence, prosperity and freedom of Central Europe. I had the opportunity to work with Bob on elements of this economic response as I prepared for my assignment as Ambassador to the Organization for Economic Cooperation and

Development (OECD). We devised a special new initiative to bring, in cooperation with the World Bank and the EBRD, the know-how of the OECD to bear on the economic challenges of these countries. We also created a pathway to membership for these countries in the OECD.

As Under Secretary of State, as Deputy Secretary of State and as U.S. Trade Representative, Bob creatively brought economic tools to the service of U.S. foreign policy and national security objectives. He is the sort of person we have recruited to leadership positions in the MDBs. In my experience, the leaders of the MDBs have had a deep appreciation of the ways in which economic development contributes to global security.

We faced different security challenges during the Clinton Administration. For example, a series of financial crises posed a serious threat to key Asian partners and allies of the United States including Korea, Thailand and Indonesia. The financial crises of these countries, had they not been checked, would have had seriously negative implications for the security and foreign policy interests of the United States in Asia. Secretary of State Albright therefore sent me to Asia with Larry Summers, then the Deputy Secretary of the Treasury, at the beginning of the crisis. We stopped in eight capitals in five days. The United States persuaded the countries affected by the financial crisis to take the necessary strong economic policy actions. Substantial assistance was required to help these countries implement their reform programs. While the United States provided various forms of assistance, the most substantial amounts of assistance came from the MDBs. The World Bank and the Asian Development Bank played essential roles in this effort.

Earlier during the Clinton Administration, I saw a need for additional actions and, I felt, a new institution to promote economic integration and provide a sounder foundation for peace among Israel, Egypt, Jordan and the Palestinians. The Administration came to the view that a new MDB could make a major contribution to the economic and security interests of the United States in the Middle East. For two years, the Clinton Administration pushed hard for a Middle East Development Bank that would support

private sector development, promote economic integration finance economic infrastructure and use the prospect of economic development to soften the political tensions that buffeted the region.

For various reasons, the two year effort to create a Middle East Development Bank did not succeed. As I will discuss in more detail later, I now believe the United States would be better placed to defeat terrorism and to overcome the security and economic challenges we now face in the Middle East if a Middle East Development Bank had been in place then. .

Last weekend we commemorated the tenth anniversary of security challenge that struck the United States on 9/11/2001. Ten years ago the United States moved quickly in response to this threat to our homeland. The strong response of the men and women of our armed forces, and the efforts of our allies, deserve our admiration and praise.

At the same time, we must not overlook the important contributions that economic assistance in general, and the MDBs in particular, have made to our improved security today. During the autumn of 2001, the Bush Administration began serious thinking about how we could mobilize an effective international coalition to support the economic development and restructuring, and in that way the independence, of a new Afghan Government. The World Bank played an indispensible role in supporting the donors conference that we held in Tokyo to mobilize support, but more importantly it played a critically important and ongoing role in the economic development programs that followed.

The witnesses in the government panel that immediately preceded ours have described in more detail than can I the ways in which the MDBs are assisting economic development in Afghanistan and Iraq. I know that in 2003 and 2004 during my last two years at the State Department, I worked very closely with World Bank officials. I was convinced that the World Bank would be absolutely essential to any successful effort to help build the successful economies. I know that without a successful economy that produced jobs and

growth; we would not achieve the results that would justify the huge investment of money and blood that the United States was making and would continue to make in the future.

My statement has focused on the contributions the World Bank has made to U.S. security and foreign policy objectives, with some emphasis the Bank's role in conflict zones. It is worthwhile also to comment briefly on the geopolitical significance of the Bank's role in supporting the development of the emerging nations that play a growing role in the international economic and political systems.

The World Bank and the regional development banks have played an indispensible role in the emergence of new economic powers, notably China and India. Today many of us, myself included, often think of these countries, especially China, as economic competitors of the United States. The deeper truth, in my opinion, is that the United States is a safer and more secure country today than we would be had these two giants remained economic backwaters.

An economically stronger India is becoming a responsible stakeholder in the international community. It is a stabilizing force in South Asia and around the world. India's strong economic growth undergirds its more constructive foreign policy and security policy.

China's decision to prioritize economic development through greater reliance on market forces was a very consequential decision. In my opinion, from the standpoint of the security interests of the United States, it is far preferable to have a China focused on the economic development of its people through cooperation with the United States than it would have been to have a China that chases a Maoist dream. In my view, U.S. interests have been served by the fact that Western economists at the World Bank provided significant know-how in support China's economic reform process and that China's ascent has been based on greater reliance on market forces and integration into the global economy. To be sure, China will be a foreign policy challenge for the United States for the foreseeable future. For my part, I would prefer to have the challenges of today than

to have the security and foreign policy challenges that we would have with an insular China that was still in the grip of Maoist thinking.

Finally, let me return to the current challenges we face in the Middle East. Arab Spring has demonstrated anew the importance of economic growth and economic integration of this region with the rest of the global economy. The continuing threat of terrorism from this part of the world further underscored the need for economic growth, job creation and stronger regional institutions.

I would go further and say that the security interests of the United States are challenged by the absence of regional institutions capable of promoting economic development and economic integration in the Middle East. The Obama Administration is striving creatively to work with the European Union and the countries of the Middle East to build ad hoc structures to overcome the disillusionment and hopelessness and which foster disaffection and provide fuel for terrorist ideologies. The leaders of the Middle East region, however, must take the lead in shaping any new regional institutions.

I would offer one idea for consideration. It could be that the countries of the region, especially the most financially well-endowed countries of the region, could join together with Europe and the United States to create new regional institutions and new approaches to promote the development of the region. It may be time for the leaders of the region to revisit the idea of creating a new Middle East Development Bank. Such a Bank could be designed to support the formation of new business, finance regional economic infrastructure and foster regional economic integration. Such an institution might be the most cost-effective way of promoting regional security. U.S. support of such a regional initiative could be a cost effective way of safeguarding the investments the United States has made in the Middle East during the last ten years.

In an era of budget stringency, taxpayers' dollars need to be treated like sacred trusts. When it comes to advancing the national security and foreign policy interests of the United States, economic development and restructuring are essential elements and for the

United States the World Bank and the other MDBs have been good investments. We can and should ensure the MDBs function efficiently and that other nations bear a larger share of the financial cost of supporting them where that is appropriate.

At the same time, however, we also should examine closely the many ways in which timely investments in the MDBs can promote burden sharing and achieve U.S. national security and foreign policy objectives more economically than other policy instruments can do. In the national security space, the United States rightly is concerned about burden-sharing. Frankly, when it comes to defense expenditures and military preparedness, most of our friends don't fully shoulder their share of the burden. In the case of the MDBs, however, burden sharing is built into the very structure of the organizations. When MDBs address issues central to international security, they often can do so in a way that not is efficient but also one in which the burdens are fairly shared.

Thank you.

September 21, 2011

Dear Congressional Leaders:

The Multilateral Development Banks (MDBs) are well known for being on the front lines in the fight against global poverty. Equally important is their vital role in strengthening U.S. national security by preventing threats and stabilizing fragile countries even after our forces have returned home.

We are writing to seek your support for sustained U.S. leadership and commitment to the MDBs as part of the Fiscal Year 2012 budget. This year's budget request includes general capital increases for the MDBs. The provision of additional capital is a rare step for the United States. The last increase occurred two decades ago for the World Bank and more than 10 years ago for the regional development banks.

Through these previous capital investments, the MDBs have been our partners in promoting security around the globe. In key frontline States vital to U.S. national security, such as Afghanistan, the combined contributions of the World Bank and the Asian Development Bank rank among the top four donors, after the United States. When disasters leave countries vulnerable, the MDBs are among the first to arrive; the World Bank and Inter-American Development Bank responded within 36 hours after an earthquake hit Haiti in 2010. Recognizing that the transition from conflict to peace is long MDBs provide sustained assistance. Since the conflict in Bosnia ended in 1996, World Bank assistance had a significant impact on restoring basic infrastructure and creating conditions for economic growth and stability.

As U.S. Forces leave Iraq and Afghanistan, we need international institutions to provide front-line States with sufficient support for lasting economic development. In fact, one of the most important lessons of the wars in Iraq and Afghanistan is that military success is not sufficient to win peace. Broad-based economic development, institution-building, and provision of basic services to the people are essential for long-term success.

The World Bank and the Asian Development Bank are two of the largest donors in Afghanistan. Their investments are rebuilding nearly 2,000 miles of roads and rehabilitating irrigation systems serving more than 1.6 million acres of land, so that staple crops like wheat, maize, and barley, can compete against the lucrative lure of opium. This is the best way to help ensure that the villages freed from the Taliban by Coalition Forces remain free in the years ahead.

The success of emerging democracies in Egypt, Tunisia, and Libya will hinge on building strong and inclusive economies that improve people's lives, especially the lives of young people. Our investments in international institutions have helped to mobilize nearly $20 billion to help Arab countries stabilize their economies, create jobs, and improve the rule of law. Indeed, having strong international institutions makes it less likely that military force will be needed in the first place, as local threats are addressed before they become global crises.

In addition, the MDBs are essential partners with the United States as we confront and contain emerging threats. Our strategic national security and defense assessments in recent years have identified a few of these potential threats, including population growth and urbanization that will contribute to increased water scarcity, rising demand for resources, and global food security. With their focus on economic growth and ensuring that the benefits of growth are shared across societies, the MDBs play an important role in mitigating the drivers of conflict. In 2010, the World Bank alone funded $4.1 billion in water, sanitation, and flood protection projects; provided $10.8 billion for public administration, law, and justice projects; and lent $4.9 billion for education initiatives.

Without the MDBs, the United States likely would have to channel considerably more resources to safeguard our country against national security threats. Instead, the MDBs provide unrivalled financial leverage: each dollar invested by the United States today in these institutions provides $28 in developmental aid. A one-time capital increase of $420 million for the World Bank in 1988 enabled $325 billion in development investments over two decades. This leverage allows the United States to retain its leadership in these vital institutions, and to continue to address the causes of instability through economic growth and opportunity.

The consequences are great if we fail to act to provide capital increases. The United States could lose its veto over amendments to the World Bank's Articles of Agreement, which govern critical issues such as membership, leadership, and the Board of Executive Directors. The United States could lose its joint leadership position with Japan at the Asian Development Bank, and lose the U.S. board of directors chair at the African Development Bank, which would effectively cede more influence to China in both regions. Additionally, we would jeopardize $200 million in annual Inter-American Development Bank grants to Haiti over the next 10 years. Finally, at the European Bank for Reconstruction and Development, the United States could cede its leadership position at the very time that this bank's democracy mandate is supporting the Arab Spring.

Although the United States faces immense challenges for the future, the imperative to leverage the power and resources of the MDBs is great. The MDBs play a vital role in promoting the security and prosperity of the United States. We hope that you will join us in supporting the MDBs for their ability to deter emerging threats, support our foreign and national security goals, and foster global economic growth.

Sincerely,

Timothy F. Geithner
Secretary of the Treasury

Leon E. Panetta
Secretary of Defense

COMMANDER
UNITED STATES EUROPEAN COMMAND

July 25, 2011

Mr. Secretary,

MEMORANDUM FOR SECRETARY OF THE TREASURY

FROM: Admiral James Stavridis

SUBJECT: Support for Work Accomplished by the Inter-American Development Bank

1. Mr. Secretary, I write to thank you for continued United States support of the Inter-American Development Bank (IDB). During my time as the Commander of US Southern Command, I witnessed first-hand many of the valuable contributions and tremendously positive influence the IDB has had on Latin America, the Caribbean, and across the region. I would like to outline a few of these accomplishments for your consideration.

2. The IDB has played a catalytic role in mobilizing international support around bold agendas that include innovative and proven poverty alleviation programs throughout the region. An example is the conditional cash transfer programs (CCT). These programs have proven, time and again, to reduce short-term poverty and contribute to important reductions in overall inequality. A great example, and one in which the IDB took a leadership role is Mexico's groundbreaking conditional cash transfer program, called Oportunidades. Oportunidades now serves nearly six poor families nationwide after receiving two loans from the IDB for $2.2 billion. In the following years, the IDB approved a total of $5 billion for the development of similar programs in countries such as Colombia, Guatemala, Honduras and Peru. At the moment, there are 16 CCT programs in Latin America and the Caribbean.

3. In 2009 the Bank developed a new framework for its support to countries in the area of citizen security, a major factor affecting social cohesion and economic development and an area in which the Bank expects to invest considerably in the years to come. This framework is the basis of the Regional Security Strategy that was recently discussed by the IDB with the US Department of State, the international community and the Central American Integration System (SICA) and that will be presented in June this year at the International Conference for Central American Security.

5. The IDB´s Multilateral Investment Fund has played a key role in raising international awareness of the importance of remittances. The MIF research, projects, and knowledge generation have spurred innovation and competition in the sector, resulting in a systemic impact on the Latin American and Caribbean (LAC) remittance market and beyond. Over 80 million LAC remittance senders and recipients have benefitted from the 75% drop in transfer prices since 2000, making LAC remittance costs among the

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SUBJECT: Support for Work Accomplished by the Inter-American Development Bank

lowest in the world. Based on the $60 billion transferred to LAC in 2009, this amounts to savings for these 80 million people of $6 billion.

6. Clearly, the IDB plays an important role in the region contributing directly to US strategic interests. I congratulate you and the IDB on this success and am convinced we will see more fantastic progress in the years to come.

Sincerely,

J. STAVRIDIS
Admiral, U.S. Navy

My time as Commander of US SOUTHERN Command 2006-2009 made me a true believer!

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 USCENTCOM

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 Kyrgz 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 USCENTCOM 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. McNABB
Commander
United States Transportation Command