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THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS' AUTHORIZATION

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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THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS' AUTHORIZATION

Tuesday, October 4, 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 2:27 p.m., in room 2128, Rayburn House Office Building, Hon. Gary Miller [chairman of the subcommittee] presiding.

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

Ex officio present: Representative Frank.

Also present: Representative Al Green of Texas.

Chairman MILLER OF CALIFORNIA. The committee is called to order.

Today's hearing will be on the World Bank and multilateral development banks' authorization.

We are going to limit each side to 10 minutes, as agreed to with the ranking member previously. At this point, I yield myself as much time as I may consume.

We meet today to examine a discussion draft legislation to authorize general capital increases for the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), and the European Bank of Reconstruction and Development (EBRD).

The Treasury Department has requested authorization for the United States to make capital increase payments in order to maintain American leadership at these multilateral development banks (MDBs), which is important to U.S economic and national security. However, if the United States does not increase its capital stock at the banks, then the United States could lose its leadership position.

This is the fourth hearing in our subcommittee's consideration of these authorization requests. At our first hearing, we looked at the leadership role of the United States at the MDBs. Under Secretary Brainard testified that having a leadership position at the MDBs can influence bank policy decisions and, in some cases, can provide veto power over the 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. We learned about the ways in which MDBs' financing

helped open developing markets, which can spur private-sector economic growth and employment in the United States.

Our third hearing focused on how the World Bank and MDBs' assistance to middle-income and poor countries around the world contributes to U.S. national security. We learned about how MDBs' assistance helped developing countries become stable nations that can counteract the proliferation of terrorism and other threats to the United States.

Today's hearing considers a discussion draft of the Administration's request for authorization for the general capital increases. As we review this discussion draft today, our focus will be on the consequence of any reduction or delay in meeting the U.S. commitment to the MDBs; the impact of U.S. leadership at the MDBs, ensuring that investment help to safeguard national and economic security; and specific policy directives or conditions that should be included or amended in the authorization legislation to ensure U.S. national and economic security.

This hearing process has been an important one so that our subcommittee fully understands the role and impact of the MDBs on U.S. economic and national security. While the hearing leaves little doubt about how critical it is for the United States to move forward on schedule with the capital increases, I know the discussion draft causes some of my colleagues pause, because these authorizations come at a time when we are all focused on getting our own massive debt under control.

These are the first capital increases we have had to consider in almost 2 decades. Our series of hearings on the Administration's request were intended to help Members assess the benefit of the MDBs, given the current fiscal challenges that are facing Congress.

This hearing illustrates that U.S leadership at these institutions is of critical importance. The MDBs are vital to addressing the world's most pressing economic and national security challenges. At a time when we are worried about fiscal constraints, I would argue that the ability of these institutions to leverage limited resources is exactly what we need to do.

Bilateral foreign assistance is under significant strain right now. The MDBs can alleviate this strain by pooling our resources with others to fund the most pressing development and national security needs. For example, every $1 the U.S. contributes to the IBRD as a part of the general capital increase will result in $30 in development lending. At the African Development Bank, every U.S. dollar yields more than $70 in lending.

This approach makes financial sense. And with U.S. leadership at these institutions, we can ensure that their development support is aligned with U.S. interests. So while we are considering a discussion draft that contains authorization for spending, I would argue that this is a fiscally responsible approach to meeting our Nation's economic and national security interests.

This discussion draft contains a funding authorization as requested by the Administration. Prior to the subcommittee markup, we intend to include policy directives for the U.S. executive directors at these banks to ensure that these institutions have strong safety and soundness measures, procurement and anti-corruption safeguards, and transparent processes.

I look forward to working with the subcommittee members as we formulate these directives so that we can ensure that banks are well-managed, effective, and focused on priorities that will lead to security and economic stability around the globe.

If the United States does not make these capital increases, the implications are serious. This is a difficult issue because a critical mission that the MDBs perform—promoting peace and stability—is not at the forefront of our constituents' minds. The MDBs help foster U.S. national and economic security because we have a leadership role at these institutions.

While we face critical fiscal choices right now, we cannot cede ground to other countries like China who are eager to replace us as leaders in all these institutions. If we do not lead, others will. They will set the agenda and priorities at the MDBs. I know our witnesses today plan to discuss these consequences, and I look forward to the hearing.

At this point, I have 5 minutes to yield, and the ranking member has yielded that to former Chairman Frank.

Mr. FRANK. Thank you, Mr. Chairman. I won't take the whole 5 minutes.

I appreciate the way in which you and the gentlewoman from New York, the ranking member, have worked together here. This should not be—there are matters that are legitimately partisan where the parties and the ideologies legitimately differ. I don't believe this is one of them. This is a matter of clear national interest that has had a strong bipartisan element. The president of the World Bank is, of course, a former high-ranking official of several Republican Administrations, Mr. Zoellick. And it is one of the areas, I think, in which there has been the greatest continuity in American foreign policy, which is very important. You can't do economic development like a yo-yo.

This is about the most cost-effective way we can spend our dollars. CBO does a very good job of pointing out that while we vote what looks like large sums, if you look at the actual budgetary impact on the United States, they are really quite small. It also gives us a way to have, frankly, a lot of influence with a little bit of cover. There is often resentment of America's role in the world—often unfair, generally unfair, in my view. In this case, we get a multilateral set of clothes to wear while we are still able to pursue goals that we would probably have pursued otherwise, and I don't think there is anything illegitimate about that.

Much of what needs to be done here is to tell countries what to do when they might not want to do it. And if the United States were to do that unilaterally, that would be a problem. Doing it in the role of a multilateral institution is helpful.

There was a time when that was being abused. I do think some of the multilateral institutions, 20 years ago and more, had an excessively rigid view, a one-size-fits-all approach to economies. That has been replaced by a great deal of flexibility. I think we now have instruments that are important, that help implement reasonable policies, that show flexibility.

And there is more, I think, of an understanding that you can discredit democracy. In many of these cases over the years, we were trying both to promote economic development and democracy, as

people evolved from non-democratic regimes. And in too many cases, I think people were given the idea in some of these countries that democracy meant pain, it meant paying more for your water, it meant a whole lot of things that they weren't necessarily crazy about, and that didn't do democracy any good. That doesn't mean you retreat from these rational proposals, but you do them in a better way.

So I again say that you, Mr. Chairman, and the ranking member have worked very well on this. I know there have been conversations with our colleagues on the Appropriations Committee. I would hope this committee could go forward. And, as I said, I have been here since 1980. I can't remember a President, a Secretary of State, or a Secretary of the Treasury of any party who was not an enthusiastic supporter of our participation in this. And I would hope that would carry over today.

Thank you.

Chairman MILLER OF CALIFORNIA. I yield the balance of our time to Vice Chairman Dold.

Mr. DOLD. Thank you, Mr. Chairman. I want to thank you for holding this important hearing on authorizing general capital increases for the multilateral development banks as well as for holding our previous hearings on the MDBs. And I certainly echo the ranking member of the full committee's thoughts with regard to a bipartisan approach. I think this is certainly an important task.

The Obama Administration has asked Congress to maintain America's MDB leadership by authorizing the multilateral development banks' general capital increases. And, in response, we have held several hearings to explore MDB funding requirements, necessary MDB improvements, the benefits of America's MDB leadership, and the costs that we would incur if we were to abdicate the MDB leadership to countries like China or other countries that might not share all of our national interests.

Those earlier hearings demonstrated that America's MDB leadership gives the United States meaningful influence over the multilateral development banks' policies and practices while also improving clear domestic economic benefits and national security benefits.

As many of our business leaders have told us, our MDB leadership promotes domestic economic prosperity and domestic job growth by contributing to political and economic stability around the world and by helping to open foreign markets to United States companies. By doing so, the MDBs are contributing to the next generation of consumer market countries, to their benefit and to America's benefit as well. In fact, over the last decade, U.S. businesses and individuals received nearly 2,500 procurement contracts with the World Bank Group, totaling over $1.6 billion.

In addition to our business leaders explaining the domestic economic benefits, many of our military and national security leaders have testified or written in support of fully funding our MDB contributions. According to those leaders, the MDBs are a critical component of our national security strategies. By helping stabilize vulnerable nations, our MDBs help them to counteract terrorism and weapons proliferation and other threats to the United States, while

also influencing their policies in ways that have a positive impact on our own national security interest.

And we receive all of these economic and national security benefits at a very small contribution, while also leveraging multiples of that cost in the form of contributions from other countries, private-sector investments, and loan repayments.

As I have said many times before, all of us can do a better job of communicating how little we are actually paying for these substantial economic and national security benefits. The reality is that we cannot have meaningful impact on our deficits or national debt by abdicating our MDB leadership to China and other nations that don't necessarily share our national interest.

While I support maintaining our MDB leadership, we all understand that the MDBs aren't always perfect and that there are always opportunities for improvement. I am pleased that the appropriate Administration officials have been responsive to improvement suggestions. For example, I was pleased to hear that Assistant Treasury Secretary Lago announced at our last hearing that the United States would generally vote against Argentina projects until Argentina begins to comply with its international agreements and obligations.

I know I have gone over my time, Mr. Chairman, so I yield back.

Chairman MILLER OF CALIFORNIA. No, you actually have—you had 2 minutes that wasn't recognized on the clock. There was a mistake. You have time.

Mr. DOLD. Oh, fantastic. Thank you. I am going to continue then, if I may.

I believe that we also must ensure that we have strong anti-corruption policies and systems, sound financing practices, strong procurement safeguards, thoughtful environmental considerations, and general transparency.

So I look forward to hearing from our witnesses today about all of these topics and about the discussion draft that has resulted from our previous hearings. I do believe that this is an important topic. It is of vital national security interest as well as economic interest for our country. It is one of those things that, I am pleased to say, has broad bipartisan support, and I certainly look forward to working with my colleagues on the other side of the aisle to move this forward swiftly.

And with that, Mr. Chairman, I yield back.

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Carson is recognized for 2 minutes.

Mr. CARSON. Thank you, Mr. Chairman, for holding this very important hearing.

Multilateral development banks provide the assistance needed in developing countries that helps sustain and further promote economic and social development. This hearing is timely. We will be discussing the authorization and appropriation of measures for capital increases for MDBs, including the World Bank, at a time when our Nation is facing huge economic challenges. And as we make difficult funding choices, it is very critical that we not forgot how international aid is closely linked to our own economic development. This funding shores up export markets, promotes economic

development and good governance, and it is a critical tool in our national security.

I agree, it is important to examine the effects of total foreign aid provided to developing countries, including both bilateral aid and multilateral aid. We should continue to change our focus from getting money out the door to developing countries to delivering services to developing countries. We also need to engage in long-term activities, like the evaluation of projects after they are completed. We should continue to focus on building transparency of operating costs and how aid money is spent.

This aid does serve vital economic and political functions. With one in four people in the developing world living on less than $1.25 a day, rescinding assistance is simply not an option.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Scott, you are recognized for 3 minutes.

Mr. SCOTT. Thank you very much, Mr. Chairman.

This is indeed a very, very important hearing, and I am delighted that our chairman has chosen to hold it.

I think a fundamental question we have to ask ourselves up front, though, is, how effective would this debt relief be in helping to alleviate poverty and promoting growth long-term in the developing countries where ruling governments are believed to be suffering from rampant corruption and nepotism, which is very real? So I think as we approach this, we have to examine, what impact does this corruption, does all of this have? And, in those cases, what would be an effective solution as we go forward?

And as we continue to discuss the importance of multilateral development banks, we have to ensure that the critical needs of certain nations are met in order to better guarantee economic development and, thus, to give some stability to these societies and their communities. Greater access to capital will certainly allow certain countries to improve the quality of life of its citizens by means of improvement or even the initial establishment of some very, very simple cases—in infrastructure systems, like electricity, running water, things we basically take for granted in our country.

The general capital increases as proposed in the discussion draft before this subcommittee today are certainly a good start. And since the MDBs significantly increased their lending following the 2008 financial crisis, many of these organizations are in need of new funding. The discussion draft would satisfy this requirement to fill emptied accounts and would enable developing countries to take full advantage of the opportunities provided them.

However, we should view the authorization and appropriation of the MDBs as an opportunity to promote reform for these institutions and have some understanding of the depth of the corruption and the nepotism that is rampant in many of these countries. Many developing countries have accumulated debt as a result of irresponsible borrowing and lending practices and, at times, caused by leaders' pursuit of political influence, often—very often—at the expense of the nation's very own citizens.

To avoid such consequences, guidelines are very much needed to ensure the approval of responsible loans, namely accountability and transparency and appropriate evaluations of financial impact.

But this type of oversight would resemble very much what our full committee passed in the form of the Dodd-Frank financial reform last year. And it is needed to ensure that nations actually benefit from any degree of debt relief. That is critical and should be the bottom line.

So I look forward to our discussion, Mr. Chairman. Thank you very much.

Chairman MILLER OF CALIFORNIA. Thank you.

I would like to welcome our panel today. We are going to introduce you a little out of order. Ms. Moore would like to introduce Mr. Mark Green.

First, the Honorable Eli Whitney Debevoise was the U.S. executive director of the World Bank Group from 2007 to 2009 and is currently a partner at the law firm Arnold & Porter. While serving as the U.S. executive director, Mr. Debevoise had a leading role in capital increases and share realignment negotiations and participated in preparation for G8 and G20 summits. He is also the great grandson of Eli Whitney, the inventor of the cotton gin.

Welcome.

Mr. Daniel F. Runde holds the William A. Schreyer Chair in Global Analysis and is co-director of the Project on Prosperity and Development at the Center for Strategic and International Studies, CSIS. Prior to joining CSIS, 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 Office of Global Development Alliance. In September 2010, Mr. Runde was named as one of 40 under 40 in international development in Washington, D.C., by Devex Group.

Mr. John Murphy is the vice president of the International Division of the U.S. Chamber of Commerce. Mr. Murphy played a key role in the Chamber's work relating to protection of intellectual property, global regulatory cooperation, trade facilitation, and the World Trade Organization's Doha development agenda negotiations.

Mr. Murphy, we are glad you are here today to represent the Chamber.

At this point, I will turn it over to Ms. Moore.

Ms. MOORE. Thank you so much, Mr. Chairman. And I want to join my other colleagues in thanking you for calling this hearing today on this very important subject.

It is really my pleasure to introduce our former colleague, Ambassador Mark Green, who served in the House of Representatives from 1999 to 2007. But I also served with him in the Wisconsin State legislature. He served in the House, and I had moved on to the Senate. And he had a very keen, sterling understanding of economics at that time. So, at a time when we were making strategic investments in Wisconsin, I would offer legislation in the State Senate and call him up and beg him to, please, don't let the Democrats mess up my legislation and to baby-sit it for me. So I really, really appreciated working with him on a bipartisan basis back then.

He came along to Congress and served from 1999 to 2007. And he served on the Judiciary Committee and the International Rela-

tions Committee. He does have a J.D. from the University of Wisconsin-Madison, so he is a well-educated lawyer.

At that time, he really, Mr. Chairman, I am reflecting on your opening comments where you talked about the security component in this legislation, the economic stability and promoting peace and stability and not being preempted by other countries. And he certainly developed an expertise in international affairs during his tenure here in the House of Representatives. He put together innovative foreign policy initiatives, helped craft the Millennium Challenge Act; the Global Access to HIV–AIDS Prevention, Awareness, and Treatment Act of 2001; and the U.S. Leadership Against HIV–AIDS, Tuberculosis, and Malaria Act.

After his service here, he became the Ambassador to Tanzania, overseeing the largest Millennium Challenge compact that we have had and significant PEPFAR programs. He has been the managing director of the Malaria No More Policy Center in Washington and is on the current board of the Millennium Challenge Corporation.

He is a family man, married with kids. And he certainly does get it, the importance of this initiative. And I do welcome Ambassador Mark Green here today.

Chairman MILLER OF CALIFORNIA. I would like to welcome each of you.

Without objection, your written statements will be made a part of the record. You will each be recognized for a 5-minute summary.

And, Ambassador Green, you and I were classmates in 1998, and it is good to have you back. You are recognized, Mr. Green.

STATEMENT OF THE HONORABLE MARK GREEN, FORMER U.S. AMBASSADOR TO TANZANIA; FORMER U.S. REPRESENTATIVE (R-WI); AND SENIOR DIRECTOR, U.S. GLOBAL LEADERSHIP COALITION (USGLC)

Mr. MARK GREEN. Thank you, Mr. Chairman, Ranking Member McCarthy, my friend and former colleague, Congresswoman Moore, and all the members of the subcommittee. It is an honor to appear before you here 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 and as senior director with the U.S. Global Leadership Coalition. USGLC is often called the "strange bedfellows coalition" because it is comprised of both American businesses like Boeing, Caterpillar, Wal-Mart, Land O'Lakes, and the U.S. Chamber of Commerce, but also leading humanitarian NGOs—CARE, World Vision, Catholic Relief, and Bread for the World. We bring together bipartisan military, business, faith-based, and community leaders from all across the country who are united in the belief that even though all of these programs only constitute about 1 percent of our Federal budget, these programs are vitally important for America's national security and economic growth, as well as our values.

It goes without saying that our Nation is facing lots of fiscal challenges. As a former member of this committee, I know very well that you have tough choices to make in coming months. I also know that most Americans aren't really aware of the critical mission that the World Bank and other MDBs perform, and this puts

even more political pressure on all of you for the funding requests and the legislative requests that you receive.

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 help us, the United States, the American people.

The world has changed dramatically, obviously, over these last few decades. Cold war threats have now been replaced by terrorism, pandemics, weak and failing states, and a number of growing strategic challenges, strategic competitors to America in the global arena. Our national security today is not only dependent upon the strong deterrent effect of a robust military but, quite frankly, also in a wide range of investments in our diplomatic and development tools. In addition to important programs that the United States oversees through USAID and other agencies, the MDBs provide a source of funding that aids in economic growth, and that, in turn, helps with stability and with peace.

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 Bob Gates commented last year, "Development contributes to stability. It contributes to better governance. And if you are able to do those things and do them in a focused and sustainable way, then it just may be unnecessary for us to send in soldiers." He summed it up best by adding, simply, "Development is a lot cheaper than sending soldiers."

My personal view and the view of the USGLC membership is that security in these challenging, ever-changing times means that our leaders must have all of the tools of power—hard power and soft power, military and civilian. And that includes important tools of development and diplomacy, bilateral and multilateral. The programs of the World Bank and the MDBs are a crucial tool in that toolbox.

Withholding or cutting back U.S. contributions would not only limit the amount of capital available to them for carrying out their key missions, but it would risk diminishing our influence around the world. It risks ceding leadership to other countries, including rising powers like China that offer alternative funding sources for development.

I think it is very important to realize that, as developing nations emerge, history shows they tend to reflect the values, the structures, the institutions, and the cultures of those that helped them. You don't have to go back very far in history. You can look at South Korea and the extraordinary challenges that nation was facing 50 years ago, and the support that they received through the World Bank, which they have largely repaid. They have now become not only one of our crucial trading partners but one of our great military partners. And the work that they have done to help us make sure that the world is safe and more stable, particularly in that part of the world, quite frankly, it is invaluable, it is irreplaceable.

So we face lots of challenges. We face lots of fiscal challenges. We all know that they are there. And every agency, every institution must tighten its belt and scrutinize every program. But I think the great risk that we all see out there is, if the United States were to walk away from these institutions, there would be no way the world could be a better place. Clearly, we would be diminishing our own influence. And the world, simply put, is a better place when America is engaged, when America is strong, and when our leaders—past Administrations, current Administration, and future Administration—have all the tools in the toolbox.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mark Green can be found on page 37 of the appendix.]

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

I am going to be generous on time. We only have one panel today, and I think the testimony is very important to us.

Mr. Debevoise, you are recognized for 5 minutes.

STATEMENT OF THE HONORABLE ELI WHITNEY DEBEVOISE II, FORMER U.S. EXECUTIVE DIRECTOR, THE WORLD BANK GROUP; AND SENIOR PARTNER, ARNOLD & PORTER LLP

Mr. DEBEVOISE. I thank you, Mr. Chairman.

Chairman Miller, Ranking Member McCarthy, and distinguished members of the subcommittee, it is an honor to appear before the House Financial Services Committee's Subcommittee on International Monetary Policy and Trade regarding the authorization of capital increases for the World Bank and the other multilateral development banks.

I would like to pause here for a minute just to emphasize that we are talking about banks, albeit development banks. And, certainly, they produce very tangible development results. The World Bank has just published a so-called "Corporate Scorecard" where you can see some of the concrete results, results that help us achieve the Millennium Development Goals, and specific results in countries, results in terms of teachers recruited and trained, children immunized, pregnant women receiving antenatal care, roads constructed, people provided with access to improved sanitation, transmission and distribution lines constructed or rehabilitated, areas with irrigation services. So this is a key development instrument we are talking about.

But we are talking about replenishing the capital of the hard-loan windows of these banks. That is different from the soft-loan windows or IDA or the African Development Fund, which operate on the basis of triennial negotiations and annual appropriations. We are talking here about the hard-loan windows. And as has been mentioned already, requests for general capital are infrequent when we are talking about the hard-loan windows for these banks.

Yet, we should also remember that 70 percent of the planet's poor, defined as living on $1.25 a day or less, live in the countries that are eligible for borrowing from the hard-loan windows. To give you an example, in one country in South Asia today, there are 500 million people living without electricity—more people than the entire population of the United States living without electricity. And this is a country which is in transition from the soft-loan to the

hard-loan area. So we need to keep the focus on what we are talking about with this specific legislation which is before you today.

We also need to remember that we have been through a financial crisis. And I must say that, given the announcements that came out of last weekend's meetings right here in Washington, things aren't looking so good as we look over the horizon.

The MDBs were asked to respond to the financial crisis the last time, and respond they did very strongly. The G20 asked them to find $250 billion so that, as we saved our banks and our population, the Europeans saved theirs, the poor people in the world were not forgotten. And the MDBs responded strongly, and that is, in fact, why we are here today. Because of the strength of that response, the capital of these institutions is depleted. And in the case of IBRD, for example, they will not be able to return to pre-crisis lending levels without more capital.

We have heard a lot today about U.S. leadership. I think it is important to understand that our leadership manifests itself, in part, through our financial support. It also manifests itself through the quality of the ideas that we present for pursuit of the MDBs' economic growth and poverty-reduction mission. We do not possess 50 percent of the votes in any of the MDBs, so we cannot unilaterally block any particular loan or impose any particular policy. Although the MDBs have a strong American presence, they are not U.S. Government agencies or U.S.-controlled entities, so we must use our diplomatic voice to secure the outcomes we desire. And I might say, we have a very good track record of success at doing that.

But if we do not subscribe to these general capital increases, our ability to persuade others will be reduced. You can imagine the conversation with the executive director from one of the African constituencies when Burundi and Rwanda have contributed to this capital increase and we have not. I don't think the conversation would go very well. So we should not forfeit the position that we have.

I am sure that Members will be curious to know what process was used to determine the need for the capital contributions and the level of their contributions. I have tried to describe this process in my written testimony.

The key thing to understand is that these institutions are managed financially in a very conservative manner. And the United States is the strongest voice for that. We get tremendous leverage out of these capital investments. To give you an example, for the IBRD, the Administration request is for $117 million per year for the next 5 years, and we will get 30, 40, 50 times leverage out of that money. There are countries for whom we give bilateral assistance annually that is multiples of the $117 million which is being requested for the IBRD.

Finally, I should say that there are reforms accompanying these requests for capital increases, reforms that the United States has pushed hard for throughout the negotiation process, reforms in terms of greater focus on development results, a subject which was addressed in some detail in IDA negotiations in the past and is now going to be used in the hard-loan windows as well.

Disclosure policy: There is a new disclosure policy where the presumption has been reserved. The presumption is now in favor of

disclosure of documents, and only a short list of documents as exceptions, not the other way around.

The institutional integrity units have been strengthened, and their performance is dramatically better. The inspection panel, which was an institution created at the instigation of the United States, the insistence of the United States, is now strong and vigorous. And the United States has been a stalwart defender of its independence.

So these are just some examples of the reforms. There are others I could talk about.

In conclusion, I would respectfully submit to this committee that it is time to move this authorization legislation for the World Bank and MDB capital increases, and it is the right decision for U.S. national and economic security. And we need to act now, as well, because inaction will result in forfeiture of our rights.

So I commend these capital increases to you and thank you for your attention. I stand ready to answer any questions you may have. Thank you.

[The prepared statement of Mr. Debevoise can be found on page 30 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you very much.

Mr. Runde, you are recognized for 5 minutes.

STATEMENT OF 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)

Mr. RUNDE. Thank you, Chairman Miller, Ranking Member McCarthy, and members of the subcommittee.

Chairman MILLER OF CALIFORNIA. You might want to pull the microphone closer to you. We can't hear you.

Mr. RUNDE. Okay. Thank you. Thank you very much. I have a loud voice, but this helps. Thank you.

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 general capital increase for the multilateral development banks and U.S. leadership in them.

The bottom line is, walking away from the general capital increase is a downpayment on American decline.

The Obama Administration has made a request to Congress for an extraordinary contribution to a number of the MDBs, the multilateral development banks. It is critical that Congress act on this request so that the United States can maintain its overwhelming influence over these institutions, ensure that we have strong multilateral funding partners for the many challenges we face, and also invest in our national security.

I recognize that making this request for the so-called general capital increases comes at a very difficult time, but the costs of walking away are very high. 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 U.S. national security objectives in places such as Afghanistan,

Libya, Iraq, Haiti, Colombia, Tunisia, and Southern Sudan. They are our set of funders of a U.S. version of globalization. We are in competition with other powers offering their darker version of globalization.

A strong set of MDBs under U.S. leadership is also a critical instrument for achieving victory in the long war. The MDBs 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 order to maintain our current level of leadership and influence in these MDBs, the United States will need to continue to retain its own 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, as I said, an American operating system of globalization. These institutions are heavily influenced by the United States. All or most of the business is conducted in English. All or most of the senior leadership and leading technical experts have studied, worked, or lived here in the United States. The MDBs almost always conduct agreements under U.S. or U.K. law. And the export performance standards and practices perfected or used in the United States.

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 in a foreign country 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.

First, at the World Bank, we risk losing our unique veto power. At the African Development Bank, we risk decreasing our shareholdings by two-thirds, which would jeopardize our only seat on the board of directors.

Of particular concern is the Inter-American Development Bank. At the IDB, all funding from other states is contingent on whether or not the United States pays its contribution, as to whether or not the United States ponies up its contribution. If the United States 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, the IDB lending will shrink from its current and target levels of approximately $10 billion to $12 billion to pre-crisis levels of $6 billion to $7 billion a year.

Recovery and reconstruction efforts in Haiti would be directly impacted, with the real potential to destabilize a very fragile democracy, with significant national security implications to the United States. Approximately $2 billion of development funding for Haiti is at risk because the IDB has agreed to use $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 United States does not pay for will ultimately be made available to 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 presidential posts at other institutions. In recent years, U.S. control of these roles has come under increased attack. By not participating fully in the general capital increase, we strengthen those who would like to see the United States lose these critical personnel posts.

During the 2008–2009 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 recovery in developing countries was—the MDB softened the effects of the economic crisis and helped clear a path for the global economic recovery in developing countries.

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 the shareholder capital. As you have heard from others, for every dollar provided by the United States, the World Bank lends $25 to developing countries. 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 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 coming under significant strain. As a consequence of the inevitable cuts in our bilateral foreign assistance budget, it is likely that the United States will stop providing foreign assistance bilaterally, primarily through USAID, to a large number of middle-income and lower-middle-income countries as we focus our limited dollars on the most pressing development and national-security-focused countries. Well-financed MDBs under U.S. leadership need to be a part of a U.S. graduation strategy, filling in the gaps for the United States in middle-income countries.

Just a couple of observations about the national security implications and why the United States is safer with strong MDBs.

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. And the MBDs allow to us do that.

Second, in situations where we are supporting newly formed governments, policymakers need expert advice to manage public money, set up health systems, regulate banking systems, and set up the rules of the game for basic services like electricity and water. The MDBs often have the best technical experts in the world on a wide range of issues, ensuring that a government actually functions.

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, and 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. As I said earlier, walking away from the general capital increase is a downpayment on American decline.

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

[The prepared statement of Mr. Runde can be found on page 50 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Murphy, you are recognized for 5 minutes.

STATEMENT OF JOHN MURPHY, VICE PRESIDENT FOR INTERNATIONAL AFFAIRS, U.S. CHAMBER OF COMMERCE

Mr. MURPHY. Thank you, Chairman Miller, Ranking Member McCarthy, and distinguished members of the subcommittee. On behalf of the U.S. Chamber of Commerce, I am pleased to speak today about the importance of founding a robust international affairs budget in general and supporting the general capital increase for the World Bank and the other multilateral development banks in particular.

No priority facing our Nation today is more important than putting Americans back to work. The biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the recession and to meet the needs of our growing workforce. World trade and expanding U.S. access to global markets will play a vital role in reaching this goal.

After all, outside our borders are markets that represent 73 percent of the world's purchasing power, 87 percent of its economic growth, and 95 percent of it consumers. The resulting opportunities are immense. Already, one in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

Nor is trade just for big companies. More than 97 percent of the quarter-million U.S. companies that export are small and midsized firms. And last year, more than half of all U.S. exports went to developing countries for the first time in a number of years.

The international affairs budget plays a vital enabling role for U.S. companies to tap foreign markets and create jobs and prosperity at home. Although it represents less than 1.5 percent of the total Federal budget, the international affairs budget is critical to creating jobs, saving lives, and protecting our national security. Within that, the Chamber strongly supports authorizing and appropriation measures for capital increases for the multilateral development banks.

American businesses understand these institutions' vital role in fostering prosperity. The banks' loans and expertise help developing countries to become reliable trading partners and open up their markets for U.S. goods and services. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

For example, in Ghana, a World Bank-funded project helped build a flyover bridge and a network of roads linking the country's economic hubs with existing routes, creating a multipurpose industrial park. The results included over 3,000 investment projects valued at more than $12 billion and more than 300,000 new jobs. These investments and the accelerating pace of economic growth and development in Ghana powered a tripling in U.S. exports to Ghana over just the past 4 years. That sum sustains thousands of American jobs.

Also, to facilitate cross-border trade, the World Bank has supported border modernization and trade facilitation initiatives with very favorable results. For example, a project covering Kenya, Uganda, and Rwanda has employed the one-stop border concept. The project has reduced the border clearance time for cargo at one post on the Kenya-Uganda border from an average of almost 2 days, 5 years ago, to an average of only 7 hours today.

It is also worth mentioning the critical role that the multilateral development banks played in addressing the shortage of trade finance that accompanied the recent financial crisis. That shortage of trade finance threatened to greatly add to the decline in world trade at the time and to exacerbate the recession that struck the United States and many other countries.

In all of these cases, the United States plays a significant role in helping to shape these policies as the largest shareholder at the World Bank and the IDB and one of the largest at the others. As you have heard here today, failure to support the capital increase would undermine U.S. leadership and the ability to shape development priorities.

I will skip over some of the things you have already heard.

In addition, MDB loans generate many contract opportunities for U.S. firms and thousands of jobs here at home. The U.S. Chamber is mindful of the difficult financial circumstances facing our country. As the Chamber and more than 150 other business organizations wrote in a joint letter to Congress last week, the United States must find a way to stabilize its debt, reform entitlement programs, and comprehensively restructure the U.S. Tax Code.

Achieving the necessary fiscal adjustment cannot be accomplished by abandoning more than a half a century of leadership in the multilateral development banks. Indeed, the capital increase for the banks is a small fraction of the international affairs budget, which, as I have said, is, itself, less than 1.5 percent of the total Federal budget.

The United States cannot afford to sit on the sidelines while others seize leadership in the world economy, including at the multilateral development banks. We need to support this capital increase. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and our brand overseas, and our best hopes of escaping high unemployment here at home.

The U.S. Chamber of Commerce looks forward to working with members of the subcommittee to secure approval of the general capital increases for the multilateral development banks.

Thank you very much.

[The prepared statement of Mr. Murphy can be found on page 44 of the appendix.]

Chairman MILLER OF CALIFORNIA. I thank each of you for your testimony. It was very, very informative.

Mr. Debevoise, some people mistakenly think capital increases, or GCIs, are foreign aid. Can you explain the difference between these GCIs and foreign aid? And what happens to the profits earned from these loans? Does that help offset what the United States has to spend on foreign aid?

Mr. DEBEVOISE. I thank you, Mr. Chairman.

As I emphasized in my opening remarks, we are talking about the hard-loan windows of banks. So these are institutions that make loans at roughly market rates and they do generate profits. Annually, in each of the institutions, there is discussion about what to do with the profits. As in the management of any prudent bank, you set some aside for reserves; you put some in retained earnings so that the business could increase; and if there are things left over—in the case of the MDBs, money is currently being transferred to soft-loan windows.

So, at the IBRD this last year, $520 million was allocated for transfer to IDA, which is the soft-loan window, thereby directly reducing the call on IDA contributors in that amount. There also can be transfers to special windows for crisis response situations, as well.

Chairman MILLER OF CALIFORNIA. So a normal call would be the amount being transferred, so it is really an offset; it is a benefit to us on that side?

Mr. DEBEVOISE. Right. The amount being transferred, if you will, reduces the amount that the United States and other donors to IDA would otherwise be asked to contribute on an annual basis.

Chairman MILLER OF CALIFORNIA. Great. Thank you.

Mr. Green, if the United States does not contribute to the GCIs, what are the potential risks to our national security? And how do MDBs break the cycle of conflict and insecurity in unstable countries?

Mr. MARK GREEN. I think the best way of thinking about it—can I harken back to my opening testimony about the challenges and the threats that we face these days? As I mentioned, I served, obviously, in a part of the world where those challenges were very evident. Tanzania is a country that knew terrorism all too painfully.

One of the things that was very clear is that poverty does not cause terrorism. That is something that we need to repeat over and over again. However, destitution, abject poverty can lead to despair. And despair is a condition, sadly, that all too often extremists know how to exploit.

Where we can be part of institutions and initiatives that are working to create opportunity, to address those conditions that can lead to despair, we are most definitely enhancing our national security, we are most definitely involving ourselves in poverty relief, so that we are not only addressing the conditions but that we are being seen as doing so, which is very good for our image around the world and the alliances that we seek to build.

When we step back from these multilateral institutions, which, as Congressman Frank pointed out, are sometimes able to operate

in parts of the world where, for a variety of political reasons, it may be more difficult for to us operate, we are seen as being less engaged in taking on those challenges. And there is, simply put, no way that that enhances our security. Removing ourselves creates a void in a vacuum for players, state players and non-state players, to be more engaged. And I think history shows us that can be a dangerous situation for us.

So we are talking about preventing conflict, we are talking about addressing conditions that can lead to conflict. To me, that is as smart a national security investment as we can make.

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Runde, if we don't fund the GCIs, what would the impact be to the various banks? And the comment by Mr. Green, the consequence of losing our leadership position in the banks, how would that—do you agree with that?

Mr. RUNDE. There will be very negative consequences for the United States if we don't participate. We are going to, as I said, lose de facto control over these institutions. We are exploiting an American form of globalization through these institutions. And to the extent that we lose control over these institutions, the kinds of messaging, the kinds of policies that these institutions export are going to change. We are going to move from a Texas Hold 'Em rules of the game to, perhaps, Chinese Mahjong rules of the game, in terms of the sorts of rule sets that are going to be exported from these multilateral development banks over time—not immediately, but over time.

So I think we have to be very cognizant of the fact that we are on the knife-edge of control of a lot of these institutions. We do have to use our diplomatic voice, we have to persuade, but, overall, we continue to have control over these institutions.

In the case of the Inter-American Development Bank, we spend a lot of time in the United States worrying about how we should engage with Latin America and how we can be constructive. To the extent that we are cutting back 50 percent on the lending that the IDB is going to do as a result of us not participating, it is an extremely bad signal. People really follow the goings-on of the Inter-American Development Bank in Latin America, and so to the extent—we may not hear about it here, but they will certainly hear about it there, and it will have a very negative impact on our personal brand, in addition to what I described in terms of the implications for situations like Haiti.

In the case of the African Development Bank and in the World Bank, those shares are going to come up for sale. There are willing buyers to buy those shares, and the negative impacts that I described earlier. And I think we will lose control over the World Bank presidency if we are not careful.

Chairman MILLER OF CALIFORNIA. I don't have time to ask Mr. Murphy a question, but maybe later. Mrs. McCarthy for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman, Mr. Runde and Mr. Murphy also. Each one of you has talked about what the consequences would be if we do not pay our fair share and to stay ahead of it, and yet no one really mentions outlays. What countries are you talking about that might take over?

Mr. RUNDE. I think that certainly China has expressed interest in buying shares of the African Development Bank, that basically they have been—

Mrs. MCCARTHY OF NEW YORK. So let's give it a—what would you think is an example if China took over that would be different than the way we run the banks? I will open that up to everybody.

Mr. RUNDE. I will take a stab at that. I think the things that we have pushed, for example, labor and environmental standards that we have exported through the World Bank and other multilateral development banks, that we have helped perfect here in the United States and that are exported through these institutions, I think we could expect that those sorts of standards would get a lot less emphasis.

I also think the sorts of safeguards around corruption or around laying the groundwork for better governance or responsiveness to public—I am not saying democracy building per se, but sort of setting the table for democratic reforms and being responsive to—being more responsive to the societies that a government serves, I think those sorts of reforms that the multilateral development banks export would be certainly a lot less emphasized.

Mrs. MCCARTHY OF NEW YORK. Mr. Murphy, what would the atmosphere be for our American businesses that are exporting if we lost our leadership with the banks?

Mr. MURPHY. I think Mr. Runde's comment about the Inter-American Development Bank is very appropriate. If you look at the profile of American exports today, Latin America last year purchased 3 times as much goods as China. This is an incredibly important market for us. The Inter-American Development Bank is by far the most effective Pan-American institution. It is respected across the hemisphere. It does things that really matter, and at a time when in the past decade, U.S. exports to South America grew twice as fast in the past decade as our exports to Asia did, we need to be seen as leading the way within that institution and funding its efforts which are still incredibly important in terms of investments in infrastructure and education and in other programs.

Mrs. MCCARTHY OF NEW YORK. One of the things I think we as Members of Congress struggle with is how to explain to our constituents why this is so important, especially with the economy problems that we are seeing here in our country. So, in everyday language, not Washington language, how would you give the best argument on why this is important to the United States, why it is important for jobs and for our workers, and why it is important that we pay our dues, because it is very hard to explain to people why many of us support these issues?

Mr. DEBEVOISE. Thank you, Congresswoman, for that question. I will try and do it in three or four short sentences for you.

Jobs depend on U.S. economic growth. U.S. economic growth is tied to exports. Increased exports need stable markets. These institutions contribute to the establishment of stable markets for U.S. exports that create jobs.

Mr. MARK GREEN. Thank you, Ranking Member McCarthy. I guess I will try to take it a step further. As I harkened to earlier, history shows us the developing countries, as they emerge, reflect the values and institutions of those that assisted them along the

way. The World Bank, the MDBs, as well as our own bilateral assistance, economic assistance, is vital in helping many of these nations develop the kinds of institutions that are friendly to American involvement, including business investment.

On top of that, we talk a great deal about the importance of trade and exports in keeping our economy growing. We need to remember that a large percentage of the projected export opportunities, growth opportunities, in this world for American businesses are in the developing world. In many parts of the developing world, they do not yet have the fully developed rules and institutions that would protect the kinds of things that American entrepreneurs are looking for in terms of their investments: private property ownership, well established; greater transparency; capitalist values in terms of bids for business; and rule of law and predictability. All of those things are vitally important if American capital, American business, is going to make investments in those markets. These institutions, and our support for these institutions, can facilitate that, which will lead to job creation.

Mrs. MCCARTHY OF NEW YORK. Thank you very much. I yield back.

Chairman MILLER OF CALIFORNIA. Mr. Dold, for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

As all of you probably know, Argentina has completely disregarded international agreements and obligations with respect to the World Bank's international arbitration decisions, and Argentina has also not shown any improvements in counterterrorism and counternarcotics cooperation. For many of us in Congress, these are major problems that would seem to warrant American opposition to any MDB projects for Argentina. I am pleased that during our last hearing, the Administration announced that they would not be supporting Argentina, and has done so. But more generally, I think many of us are concerned not just with Argentina, but with any country that violates its international obligations, actually receiving MDB funding.

So the question I have for the panel: Do any of you have any suggestions about how we here in Congress can legislatively ensure that we are not violating or not voting in favor of MDB funding for countries like Argentina who violate their international agreements?

Mr. MURPHY. If I may, thank you very much for that question.

Over the past 40 years, the United States has negotiated bilateral investment treaties to protect U.S. investment abroad with more than 40 countries, and in that time, governments have respected arbitral awards under those treaties in virtually every instance, until recently in the case of several cases relating to Argentina. It is very worrying and it calls into question the respect globally for these kinds of rules which, in fact, are embedded in more than 2,000 treaties worldwide.

So from the perspective of the business community, we are pleased that the Administration has taken this step that you have mentioned, that they are using this lever of influence to convey that concern, and we would encourage that to continue in the future.

Mr. DOLD. Okay. Specifically, first of all, Mr. Debevoise, thank you so much for your answer to the ranking member. Very concise, and certainly one that we can use back at home when we are talking at town hall meetings as to why in the world we are spending money abroad.

But if I can ask you, Mr. Debevoise and Mr. Runde, to comment, what can the MDBs do to ensure that environmental and social safeguards and transparency remain part of the MDB philosophy, and what would you say to those who say that the MDBs aren't doing enough to promote environmental and social safeguards in those countries in which they operate?

Mr. DEBEVOISE. Thank you for that question, Congressman.

On the transparency front, I think that the World Bank has advanced hugely with the new disclosure policy. It is a difference of night and day, and I think that is a development that should not go unnoticed. We had an earlier question about what happens if we forfeit our leadership. I can tell you that the transparency policy that was adopted at the World Bank would not have happened under a situation with other strong voices on that board.

And in the environmental and social safeguards area, I think the Bank today really is a leader, both in the private sector and in the public sector sides of the Bank. Commercial banks around the world do not make loans to sensitive, natural resource projects today without applying something called the equator principles which were developed at the IFC, part of the World Bank Group. We also have now very vigorous oversight in this area through the inspection panel mechanism, another mechanism that was strongly promoted by the United States and for whose independence we stand up regularly.

So there are always going to be constituencies who feel aggrieved by particular projects, but I believe that the standards that are being developed and applied now are, in fact, quite robust and are the world leaders.

Mr. RUNDE. I would just echo what Mr. Debevoise said about the standards. I think—I was going to mention the equator principles which, as Mr. Debevoise mentioned, were devised at the International Finance Corporation, and which if you want to do any sort of project finance investments in developing countries, they require meeting these equator principles, and so there are dozens and dozens of international banks that are signatories to these standards.

And then if you want to do any sort of significant infrastructure investments, say, hydroelectric dams or other sorts of infrastructure, there are all sorts of significant environmental and other sorts of social hurdles that have to be looked at before those sorts of projects go through. I think that has been a direct result of U.S. leadership in asking hard questions. So I think having U.S. leadership has been very important, seeing those sorts of standards be put in place and enforced.

Mr. DOLD. Thank you very much. Mr. Chairman, I yield back.

Chairman MILLER OF CALIFORNIA. Thank you. Ms. Moore is recognized for 5 minutes.

Ms. MOORE. Thank you so much, Mr. Chairman.

A big concern that this committee has raised is about the current debt situation and expenditure, the unwillingness on the part of

many of our colleagues to make the 1 percent expenditure for these foreign investments. So, given that, I guess I want to ask, and I will start out by asking Mr. Runde, I was looking at your—I am sorry, Mr. Murphy—from the statement of the U.S. Chamber of Commerce, to share with us what the multiplier effect is for the investment in these MDBs with respect to the small amounts that we invest?

And also, I wanted to ask Ambassador Green, who has been a member of this body, what we could say to the Majority party, who are Republicans right now, about the scoring of these investments and tell us a little bit about—and anyone else on the panel who might want to share in this—the difference in the callable capital, which is not scored and the paid-in authorization request. For example, the World Bank International Bank for Reconstruction and Development, the callable capital investment, the U.S. share would be $9.78 billion, and then the callable capital, which is not scored, is $9.19 billion, and then the paid-in authorization request is $587 million over 5 years, $587 million over 5 years which is a little—it is about $115-or-so million a year in 5 years. That would be the investment.

So I guess I want you guys to comment on whether or not this is a bang for the buck we might be able to sell to our colleagues in the Majority with respect to the investment opportunities this presents.

Mr. MURPHY. Thank you for the question.

With regard to the multiplier effect in my written testimony, I was referring—I was reflecting on how the World Bank Group, since its creation in the aftermath of World War II, has been able to provide nearly half a trillion dollars in financing for development projects around the world and was able to do this with a U.S. investment of just $2 billion in its capital base. That is a remarkable accomplishment, if you do the math. That is $25 in additional contributions from around the world for every one U.S. taxpayer dollar that went into it. We consider that an excellent investment.

And if you consider how the Bank's work has helped cut the mortality rate of young children in half in developing countries, reduce by half the proportion of people living in poverty, it is a remarkable record, and that is absolutely an investment in markets that are helping to drive American exports today.

Ms. MOORE. Ambassador Green?

Mr. MARK GREEN. Thank you. And I may not be the best qualified to go over the details of the scoring and break it down for you, but what I can say is, as we all know, we are sometimes victims of our own scoring rules. And I think one of the things that we have to remind ourselves is that regardless of which party we are talking about, and where our leaders come from, everyone agrees that a growing economy is the most important single goal that we can pursue in terms of providing the revenues and the good-paying jobs. Every economist will tell you that increasing exports is a vitally important part—in fact, it is an absolutely necessary part—of any growth strategy that the United States will undertake.

These contributions help us in two ways. First off, they, for a modest investment, allow us to receive a much greater benefit be-

cause of the burden-sharing, the fact that we pay only in a portion for the benefits that are put out.

But secondly, and I come back to it, for our job creators to be able to invest overseas, to export overseas, to be able to be involved overseas, there are certain foundational needs that they have. Investment in the World Bank facilitates those conditions that all of our entrepreneurs need in order to make any of the export opportunities meaningful.

When you ask exporters why they aren't able to go into certain countries in Africa, they will tell you it is because of a lack of a rule of law, unpredictability, insufficient transparency. The rules that the World Bank fosters, facilitates, and in some cases makes an absolute precondition of any loans that they make, are absolutely in our interest, in our governmental interest, but more importantly, in the interest of our job creators.

Ms. MOORE. Thank you, Ambassador. Just a follow-up. Do you all agree that—I think that the example I gave was World Bank's International Bank for Reconstruction and Development, where the U.S. share is $9.78 billion, and the callable capital is $9.19 billion. Has there ever been an instance that any of you know of where that callable capital has had to be paid?

Mr. DEBEVOISE. Congresswoman, the answer to that question is no, not since 1945 has there ever been a call on the callable capital.

I referred earlier today to the prudent financial management of these institutions, and this is an example of that. There is 6 percent that is actually paid in, in this capital increase and 94 percent which is callable capital; yet we are able to leverage. I know there are times in this committee where the word "leverage" might be a bad word, but this is leverage that is very prudently managed, and one of the consequences of dipping below 15 percent voting power in the World Bank would be that we would lose the ability to veto amendments to the articles.

One of the key articles is the article that says that the callable capital is only available to pay bondholders if the bank defaults. The callable capital cannot be called just because the bank wakes up one day and says we want some more money. If we lose that 15 percent, the credibility in Wall Street and the capital markets of the world will be at risk.

Ms. MOORE. Thank you so much. And thank you, Mr. Chairman, for your indulgence.

Chairman MILLER OF CALIFORNIA. Mr. Huizenga for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman, I appreciate it. Ambassador Green, it is good to see you again, and I just want to start off by saying thank you. I appreciate your leadership on some of these issues, and I know you had a chance to travel extensively with my predecessor into Africa and other places as well. I am a firm believer, though, that every garden party needs a skunk, and I just want to kind of pursue a few things.

I am one of those people who is concerned about the outlay, the exposure that the American taxpayer has, and I understand some of my colleagues haven't met a spending program they haven't liked in the past, but these are uncharted territories that we are in, not just here in the United States but with the world economy. And it strikes me that we are trying to do two things here, or at

least the explanation seems to be doing two things: one, deal with aid; but two, talking about business investments.

And I am just—I am concerned with the world economy as it is. Can we really expect that there are not going to be any defaults? I know you had just said that there have not been, I believe you said, since 1945 at least, a callable situation where those loans could be called. This $7.5 billion direct investment is about $36 billion, according to my math and numbers that I have, in potential exposure for this government and for our taxpayers.

And going back to my colleague from Illinois, his question to Mr. Murphy, it seemed to me he didn't really answer the question about how can we be assured that our tax dollars are not supporting governments that are problematic to us as we are moving forward. And, again, these tend to be nonbankable projects, right? That is, they can't go out and get traditional bankable paper. They can't get traditional backers. What is the assurance that these really are positive projects that we need to be involved in?

So I open it up to any of you for a quick follow-up. And Mr. Murphy, I would like to hear specifically from the Chamber on that, too.

Mr. DEBEVOISE. Thank you, Mr. Huizenga. It is a skunk's question, but fortunately, I don't sense the odor, because the answer is quite positive in that regard.

The Bank has a long history of lending. It started lending to France after the Second World War and now lends in other countries. At the moment, there is one country in default to the World Bank: Zimbabwe. Argentina has paid everything, all of the other countries that you might think of that have had difficulty. That is because the Bank has a preferred creditor status, and it is recognized as such. Now, that is a de facto recognition. It is not a formal legal seniority, but it works.

When I sat on the World Bank board and looked at the financials every year, I was always asking, is the loan loss reserve large enough? And the experience has been stellar. The defaults have been limited to cases where countries have literally been destroyed by civil war or things like that. But this institution, and the others as well, have very strong reserves to cover that type of situation, and it is something that is looked at very closely by the rating agencies which continue to rate the institution as AAA.

Mr. HUIZENGA. I have 1 minute here, and I know I want to get a couple of other answers, but have we not redefined that debt in the past? Have we not restructured that?

Mr. DEBEVOISE. I think what you are referring to is debts that were incurred by IDA countries, not by IBRD countries. That is what MDRI, the Multilateral Debt Relief Initiative, is all about. Those are the poorest of the poor countries, with per capita income below $1,300 a year of GNI; but IBRD countries, it is a completely different situation. There has never been any debt relief for an IBRD borrower.

Mr. HUIZENGA. Mr. Murphy?

Mr. MURPHY. My response is perhaps not as satisfactory as I would like it to be, but if the United States does not make these investments, then we lose the ability to be influential in the councils of how these decisions are made within the multilateral devel-

opment banks. If you look around the world today, particularly in Africa, you see that Chinese investment and direct assistance is increasingly important. It is often tied to the development of natural resources in that country. The alternative to our investments and increasing the ability of the multilateral development banks to be influential in the developing world is most likely to see more activism on a direct bilateral basis by rising powers such as China.

Mr. HUIZENGA. I appreciate the chairman's charitable clock time here, but I guess I need to leave with this: Have there really been any successes in changing these corrupt governments? I think it was Mr. Runde earlier who talked about Haiti. One of the problems with Haiti as I have been reading—I have not visited there, but it is one of the things I have been reading—is the rampant corruption that is continuing to go on there, and how is that not an exposure that we should be afraid may come back and haunt us?

Mr. RUNDE. Thank you for that. I do think that in some context, there is a national security component to what we are trying to do. I think in the case of Haiti, which is unique I think for a number of reasons, I think we have to think about the counter factuals. If we don't prop up that government, do we really want several hundred thousand people getting on boats and coming to Miami? I think that is the cost. We have to choose what sort of an outcome we want. So I would say that in the case of Haiti, that is sort of in the background.

I think in the case of other countries, have we seen countries reform over time? Absolutely. I think about countries like Chile or South Korea or Ghana or France that were all recipients of World Bank loans over time and participated in reforms that were American-influenced. And so, yes, absolutely, we see countries graduating from foreign assistance over the last 20 or 30 years. South Korea is now a donor. Chile is about to become a donor. Brazil is about to become a donor. So these are examples.

Not all countries are doomed to failure, but I do think it is very hard to go back home—when I come home for Thanksgiving, I talk to my parents around the dining table, who don't follow foreign assistance and aren't really that interested in it and are kind of skeptical about it. I think there are sort of four arguments that we have to make for why we have to be a participant in this.

One is, this is about stable and growing markets. This is about who buys our goods and services. The second is national security. In many country contacts, we are fighting insurgents where we need our host country partners to demonstrate that they can provide public goods and services, and the MDBs play a crucial role in that. So places like Iraq and Afghanistan or places like Haiti, where we have failed governments, we are helping to prop them up, and these institutions stay longer than sometimes the American people have the stomach for staying. And so they are built to last. They are built to stay beyond our ability to stay or sort of help the local process, willing to let them stay. If we don't do this, someone else will is the third argument. It is not as if we take our bat and ball and go home. There are other folks waiting in the wings to offer an alternate vision of globalization which isn't one that is favorable to the United States of America. And then if we want to

be leaders of the free world, we have to pay to play, and if we don't do this, this is a downpayment on American decline.

Chairman MILLER OF CALIFORNIA. Mr. Huizenga, I would like to show you a testimony by the Admiral, sent by the Joint Chiefs of Staff, very informative, and that is the first time the Joint Chiefs have ever sent a witness to this committee. On national security issues that they have been really involved with and benefit from, it is very informative.

I had expressed and apologize for mispronouncing your name, but I corrected it.

Mr. HUIZENGA. That is all right, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Mr. Green, you are recognized for 5 minutes.

Mr. AL GREEN OF TEXAS. Thank you, Mr. Chairman, and thank you for allowing me to be a part of this hearing. I thank you and the ranking member because this has been very informative and I think very beneficial.

I would like to thank all the witnesses for your testimony. I tried to follow it. I had to step away for a moment, so my question may be repetitive in that it has already been addressed, but I would like to speak for just a moment to you about the foreign markets for U.S. companies. I have intelligence indicating that half of the global growth is expected in developing countries, and that we are talking about $3 trillion in infrastructure spending.

Would one of you kindly elaborate and give some indication as to how this will impact the ability of U.S. companies to do business and how that business will impact the U.S. economy?

Mr. MURPHY. Thank you very much for that thoughtful question. Last year, over half of U.S. exports went to developing countries for the first time in a number of years. I think this is a reflection of the fact that you just pointed out, that developing countries are growing more rapidly than the developed markets. You see a situation where countries such as Brazil have literally tens of millions of people making a transition from a level of income where they are shopping in a local market to where they can go to a supermarket and buy processed goods. They can buy shampoo. They are joining a consumer culture to a degree that is raising their living standard, and these are markets where U.S. companies and their products, their goods and services, are very much in demand.

What we at the U.S. Chamber hear from our members is an incredible level of interest in some of these large emerging markets such as Brazil and India, Indonesia, and very much so in Africa as well, and a number of African countries are graduating from being so-called frontier markets to countries that are growing, in some cases, by double digits, double-digit income growth, and at a time when demand is slack here in the United States, the housing crisis has kept the U.S. consumer in a, shall we say charitably, restrained mode, this is very welcome to American companies, and it is going to be crucial to our recovery.

Mr. AL GREEN OF TEXAS. Thank you. Let me move to another area that is somewhat esoteric. I would like for you to address the currency of choice for the MDBs. Is it the American dollar? Is that the currency of choice, generally speaking?

Mr. DEBEVOISE. Congressman, thank you for that question.

Mr. AL GREEN OF TEXAS. May I just share that the reason I ask is because many people are not aware of the currency challenges that are out there in terms of a desire to move into new currency. There is currencies of choice, "competition" is a better word with the euro, competition with the yuan. That is why I am asking, because I want to know how our currency is faring in terms of being promoted. The American dollar is important to the American economy as a currency of choice.

Mr. DEBEVOISE. Thank you, Congressman Green.

The answer to your question is that at the World Bank, the U.S. dollar is the currency of account, and all of the accounts are maintained in U.S. dollars in terms of the formal reporting, and most of the borrowing is hedged back into U.S. dollars. That portion which is not is because there might be a disbursement in some local currency, but for the most part, it is a dollar-oriented institution.

Mr. AL GREEN OF TEXAS. And the second part of this question deals with our lack of voting privileges. Would that then put us in a position such that we cannot continue to influence our model as a currency of choice for the Bank? Do we lose something if we are not—I hate to use the terminology that has been used—but we are not playing by contributing, if I may say so?

Mr. DEBEVOISE. Congressman Green, I think the question has been asked, and the influence of the United States is very important for maintaining something like that in the institution, in all the institutions, frankly.

Mr. AL GREEN OF TEXAS. Finally, with the few seconds left, you mentioned the hard-loan window versus the soft-loan window, and for a neophyte, those are terms that I can draw some conclusions about. But could you just for a moment explain a little bit more about the hard loans versus the soft loans in terms of how they benefit countries?

Mr. DEBEVOISE. What we are talking about is categories of countries. Countries with per capita GNI, gross national income, above approximately $1,300, borrow from the hard-loan window, and they pay interest at a roughly market rate. Countries with per capita GNIs below that level deal with the soft-loan window. In the case of the World Bank Group, that is called IDA. In the African development group, that is called the African Development Fund, and similarly in Asia.

And the terms that they get are a mixture of outright grants and loans which—

Mr. AL GREEN OF TEXAS. Let me interrupt you to say, I will ask you to explain it to me afterwards. We are over my time, and I am an interloper. Mr. Chairman, thank you. I will get my answer.

Chairman MILLER OF CALIFORNIA. Thank you. I want to thank the panel. You have been excellent. Your testimony is very, very good. I want to thank Ambassador Green and Mr. Runde for their patience. They came for the last hearing, and they were here ready to go, but it was canceled at the last moment. So I thank you for coming back again today and giving us your time and all of your talents.

Without objection, I submit the following for the record: a letter from the Bretton Woods Committee urging strong support for the

Administration's request for general capital increases for the MDBs. The committee writes: "It is important to sustain global leadership and influence in the MDBs in order to promote U.S. national security interests and advance U.S. business opportunities abroad. Former Presidents George Bush, Jimmy Carter, honorary co-chairs of Bretton Wood Committee."

This letter is signed by 14 of the committee's members including Nicholas Brady, Henry Kissinger, Lee Hamilton, Paul O'Neill, Jim Kolbe, and Brent Scowcroft.

With that, the hearing is adjourned. 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 responses in the record.

This committee is adjourned.

[Whereupon, at 3:57 p.m., the hearing was adjourned.]

A P P E N D I X

October 4, 2011

THE HON. ELI WHITNEY DEBEVOISE II

FORMER U.S. EXECUTIVE DIRECTOR,
THE WORLD BANK GROUP,
SENIOR PARTNER, ARNOLD & PORTER LLP

WRITTEN TESTIMONY BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

ON

WORLD BANK AND MULTI-LATERAL DEVELOPMENT BANKS AUTHORIZATION

OCTOBER 4, 2011

Chairman Miller, Ranking Member McCarthy, and distinguished members of the Subcommittee, it is an honor to appear before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade regarding the authorization of capital increases for the World Bank and other multilateral development banks (MDBs).

Legislation to authorize capital increases for the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IADB), the African Development Bank (AfDB), and the European Bank for Reconstruction and Development (EBRD) comes at a crucial moment for the United States, the institutions and the global economy.

We all recall the dangerous moment in 2008, when the world economy fell off a cliff, and the strong response of the World Bank and the MDBs to the G-20 call to stretch their balance sheets. In large measure, that response is why you have capital increase authorization requests before you today.

Speaking of the institution I know best because I lived these moments in the U.S. Executive Director's chair, the IBRD component of the World Bank dramatically increased its loan commitments from the $13 billion per year range to an average of $34.6 billion per year in the three years from July 1, 2008 to June 30, 2011, for a total of $103.8 billion in commitments during the period.

Without more capital, the World Bank cannot continue this pace should another crisis occur, let alone return to the pre-crisis commitment level of $13 billion per year, without slicing through the bottom of its target risk coverage range, which is part of its strategic financial adequacy framework.

Without more capital from the United States, the crucial economic development and poverty reduction mission of the World Bank will suffer, along with the American reputation for leadership in important international institutions. The same will hold at the other MDBs, which also confront depleted capital following their strong response to the financial crisis of 2008.

What is the role of the MDBs and their relevance in today's world? This Subcommittee has held three hearings this year to answer that question. As you heard, the MDBs play a vital role in U.S. national security, the U.S. economy and U.S. job creation.

U.S. leadership is vital in ensuring that MDB operations contribute to safeguarding national and economic security. The MDBs do not automatically pursue our interests. It takes strong leadership to achieve that result.

On the leadership question we start from a good point. We were leaders in the creation of IBRD at the Bretton Woods conference in 1944 and present at the creation of the regional MDBs. When Communism beckoned near our shores, President Eisenhower promoted the establishment of the Inter-American Development Bank. When the Berlin wall fell, President George H. W. Bush championed the European Bank for Reconstruction and Development, which is also now preparing to assist Arab countries with democratic ambitions.

Our leadership manifests itself in part through our financial support. We are the largest shareholder in IBRD and many of the regional banks, because we have contributed the most capital. Without U.S. participation in the capital increases, that situation would change at some MDBs. Worse yet, without U.S. participation in the IADB capital increase, there will be no capital increase and it will be said that the United States is withdrawing from its own back yard and leaving the region to other powers.

Our leadership also manifests itself through the quality of the ideas we present for pursuit of the MDBs' economic growth and poverty reduction mission. We do not possess 50% of the votes in any of the MDBs, so we cannot unilaterally block any particular loan or impose any particular policy. Although the MDBs have a strong American presence, they are not U.S. government agencies or U.S.-controlled entities, so we must use our diplomatic voice to secure the outcomes we desire.

If the United States does not subscribe to the general capital increases our soft power, our ability to persuade others will be reduced. Other shareholders will simply say we do not care any more. In some cases they may even take up the subscriptions we cast aside and try to install themselves as the dominant force in the institutions.

We should not forfeit the position we currently have. At times, our approach to the MDBs can be seen as tough love, but frequently tough love is appreciated by other shareholders. They know that the institutions would not be financially sustainable if we did not speak up for stronger financial discipline, improved governance and accountability and enhanced development impact and effectiveness. But if we do not participate in the capital increases, our messages in these areas will fall on deaf ears.

Members may be asking themselves what was the process for determining the need for capital contributions and the level of the U.S. capital contributions? Why is any new capital needed in a world of economic imbalances with large amounts of capital flowing to many emerging markets?

Indeed, to some markets, there do appear to be significant capital flows. But those flows are increasingly volatile. In fact, some of the countries which experienced substantial inflows and currency appreciation earlier this year have witnessed reduced inflows and currency depreciation in the last two months as global capital markets have retreated, in some cases, by twenty percent or more.

The communiques from the late September meetings of the G-20, the International Monetary and Finance Committee (IMFC), the Development Committee and the speech of Treasury Secretary Timothy Geithner to the IMFC all resonated with warnings of downside risk, potential cascading defaults and severe declines in economic growth. If major developed countries have difficulties, developing countries will be affected. Indeed with globalization, the correlations among markets have become very high.

Growth cannot come only from developed nations; in fact, more than half of all economic growth in the planet is now coming from developing countries. They represent export markets for us. If global growth stalls, those markets could be lost. Therefore, it is extremely important for us that the World Bank and the MDBs carry on, and potentially increase, their financial support for economic growth and poverty reduction among their clientele. Without more capital this will not be possible.

How does an MDB know it needs capital? How does an MDB measure the shortfall? At the World Bank, management and the Board of Executive Directors followed a rigorous analytical process employing a strategic financial adequacy framework. This involved examination of the Bank's risk bearing capacity, stress testing and measurement of the sustainable equity-to-loans ratio (E/L ratio).

In 2007, pre-crisis, the World Bank's E/L ratio stood at 35%; at June 30, 2011, it stood almost six and one half percent lower at 28.68%, near the top of the desirable capital buffer of 23-27%. This decline resulted directly from the Bank's response to the call of the G-20 at the April 2009 summit to join other MDBs in providing $250 billion of support to developing countries as part of the global recovery effort.

Given the long tenor of typical Bank lending, the E/L ratio will continue to fall into the buffer zone for some years to come even if lending reverts to the pre-crisis level. In short the analysis showed that capital was needed even to sustain the status quo ante.

There was a debate about the proper trajectory for future Bank lending. Some thought the status quo ante was adequate. Others wanted the Bank to move to a much higher level of post-crisis lending. If those voices had prevailed, the capital increase would have been three times as large.

Instead, the United States insisted that a hard look be taken at all elements of the financial equation, including loan pricing, compensation, administrative budgets, greater deployment of paid-in capital denominated in local currency, grant facilities and net income allocations. As a result, many reforms were adopted in these areas.

The United States also sought reforms to make the Bank a more efficient and effective vehicle for development financing. These included a greater focus on development results. The United States had successfully pushed the results agenda in IDA negotiations, and now it will be included for IBRD projects. For the first time, at the recently concluded annual meetings, the Bank released a Corporate Scorecard to demonstrate that it not only measures money disbursed but development results.

The United States also insisted on improved governance and accountability. This started with a very significant change in the approach to the Bank's disclosure policy. Instead of listing positively those items eligible for disclosure, the new policy presumes that all documents are subject to disclosure unless they appear on a short list of document types not subject to disclosure. As a result, those who follow the Bank now have access to much more information about its policies, plans and decisions.

Other important advances have come in the fight against corruption. The Institutional Integrity unit has streamlined procedures and disposed of a significant number of cases that had been backlogged. The MDBs also united to promulgate a cross-debarment plan with the result that contractors debarred at one MDB will now be debarred at all MDBs.

The Inspection Panel has also been nurtured from a fledgling pilot fifteen years ago to an active oversight mechanism available to individuals and communities that feel themselves aggrieved by the Bank's failures to follow its own safeguards and procedures in undertaking a project. The United States has been a stalwart defender of the Inspection Panel's independence, and it has become the model for similar mechanisms at the other MDBs.

The United States also sought and obtained important reforms in two other lines of World Bank business that may be less well known. The Bank now administers more than $20 billion of trust funds as well as conducting substantial knowledge transfer activities. Significant new fiduciary controls have been implemented for trust funds. The Bank has also pursued a knowledge agenda of open access to research data and results and undertaken a major overhaul of training and capacity building activities.

One of the very attractive features of the World Bank for the United States is the ability to leverage U.S. contributions. At the same time, the Bank is very conservatively managed in order to remain in high standing in the financial markets. Since 1945, the United States has paid in a little less than $2.0 billion in capital contributions, the last one of which was some twenty years ago. With that capital and that of others, the Bank has made more than $486 billion of loans to 137 countries.

The Congress can calculate that for every dollar it authorizes for World Bank paid-in capital, more than six dollars will be paid in by other shareholders. The Bank itself is then able to leverage the paid-in capital by borrowing in the capital markets of the world to obtain lendable resources five times greater than the paid-in capital. The resulting loans generate income and through the build-up of retained earnings, the Bank can fund even more lending. MDB capital contributions are truly a force multiplier for American taxpayers.

Committee members about to embark on the legislative process may wonder what policy directives or conditions should accompany an authorization to participate in MDB capital increases. Based on the experience I had deploying the voice and vote of the United States, please allow me to suggest the following general philosophy.

Politics is politics, and there will always be subjects on which the Congress or even individual Members will want to influence U.S. policy. Nevertheless, please try to resist the urge to legislate everything. Maybe report language will do. Certainly in my experience, report language was taken very seriously. Treasury brought these items to my attention, and I advocated as strongly for these positions as for others that appeared in legislation.

Second, when the Congress feels that the Executive needs legislative guidance, whether because the Congress thinks the Executive is evading an issue or because the representatives of the American public need to go on record on a particular point, please pay careful attention to precise wording. Please remember that the World Bank Group has both public and private sector windows. In many countries the private sector cannot change policy the way the public sector can. In such situations, it makes little sense to oppose all IFC or MIGA operations for companies operating in a country because we do not like what the government of that country is doing. Yet, if the Congress does not make its intention clear, Executive Directors will oppose all operations without distinction.

Today's passions and circumstances can change. Please remember this and periodically review mandates or consider the inclusion of sunset provisions. Also, inconsistent or contradictory mandates have been known to exist.

Finally, when adopting mandates, please remember that we cannot veto individual loans. As much as U.S. Executive Directors may advocate, there may be subjects on which we stand alone. Once Bank managements realize what those subjects are, they have the ability to embarrass the United States by presenting loans for our allies in circumstances in which they know that we will have to oppose. This happened on several occasions during my tenure. If the legislation had been less prescriptive, there would have been more room for diplomacy, and the overall objective of the Congress might have been met. Unfortunately, with very tight language counterparties had no incentive to negotiate.

In conclusion, I respectfully submit that this Committee should move authorization legislation for the World Bank and MDB capital increases. It is the right decision for U.S. national and economic security.

Further, now is the time to act; the consequences of waiting are potentially severe. At the World Bank, the current President's term expires on June 30, 2012; if we want an American to continue in the position, we need to be seen to be contributing our share. Further, if we do not, we risk our voting rights falling below the 15 percent threshold needed to prevent amendments to the articles of agreement, something the financial markets count on to be sure that callable capital is reserved only to pay bondholders. At the African Development Bank, we risk losing our own chair at the board; at the Inter-American Development Bank, we will send a huge message of profound disinterest in the region at a critical time. For all of these reasons, negative action, inaction and delay would all be detrimental to U.S. interests.

I commend the World Bank and other MDB capital increases to you and thank you for your attention. I stand ready to answer any questions you may have.

AMBASSADOR MARK GREEN (RET.)
SENIOR DIRECTOR
U.S. GLOBAL LEADERSHIP COALITION

TESTIMONY ON THE WORLD BANK AND MULTI-LATERAL DEVELOPMENT BANKS AUTHORIZATION
October 4, 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.

Testimony of Amb. Mark Green (Ret.)

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.

Statement
of the
U.S. Chamber
of Commerce

ON: World Bank and Multilateral Development Banks Authorization

TO: Hearing of the U.S. House of Representatives Financial Services Subcommittee on International Monetary Policy and Trade

BY: Mr. John Murphy, Vice President for International Affairs, U.S. Chamber of Commerce

DATE: Tuesday, October 4, 2011

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Miller, Ranking Member McCarthy, and distinguished members of the Subcommittee on International Monetary Policy and Trade. My name is John Murphy, and I am Vice President for International Affairs at the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

I am pleased to speak today about the importance of funding a robust International Affairs budget in general and supporting the general capital increase for the World Bank and the other multilateral development banks in particular.

If we are to create the 20 million new American jobs in the next decade that our growing population will require, our engagement in the world economy will play a vital role. In September 2009, the U.S. Chamber set a national goal of doubling U.S. exports in the next five years. We were pleased President Obama echoed that goal in his State of the Union address the following January.

The rationale is clear: We cannot rely on domestic consumption to generate more demand for the goods and services we produce. The American consumer is likely to spend more frugally in the years ahead, and the federal government faces an unsustainable budget deficit equivalent to roughly 9 percent of U.S. GDP this year.

Most importantly, outside our borders are markets that represent 73 percent of the world's purchasing power,[1] 87 percent of its economic growth,[2] and 95 percent of its consumers. The resulting opportunities are immense.

If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, international engagement is a higher priority than ever before.

Trade already supports one in three manufacturing jobs, and one in three acres on American farms is planted for hungry consumers overseas. More than 280,000 small and medium-sized businesses export, accounting for nearly a third of all merchandise exports.

The International Affairs budget plays a vital enabling role for U.S. companies to tap foreign markets and create jobs and prosperity at home. Although it represents less than 1.5 percent of the total federal budget, the International Affairs budget is critical to creating jobs, saving lives, and protecting our national security.

As former Defense Secretary Robert Gates has stated, "America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long … relative to the responsibilities and challenges our nation has around the world." America must utilize all of the tools and resources it has to strengthen U.S. national interests and ensure our global competitiveness.

The International Affairs Budget supports and protects U.S. diplomats, who are on the front lines of American commercial diplomacy and export promotion efforts. U.S. foreign assistance programs provide technical advice and build stronger political, legal, and economic policy regimes in developing countries that help these nations to become reliable trading partners. This is more clearly the case than ever before, as developing countries last year purchased more than half of all U.S. exports for the first time in years.

With regard to the specific topic of today's hearing, the Chamber strongly supports authorizing and appropriations measures for capital increases for the multilateral development banks (MDBs), including the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD).

The World Bank's mission is as vital today as it was in 1944, when the United States led the charge to create an institution to foster reconstruction and economic development. Over the years, the World Bank and the regional banks have funded successful programs to get children into school; build infrastructure to allow entrepreneurs and farmers to transport their goods to market; strengthen judiciaries and the other governance institutions; support private sector job creation; and combat measles, diarrhea, malaria and other preventable illnesses. These efforts helped developing countries add two decades to life expectancy, cut the mortality rate of children under age five by 50 percent, and reduce by half the proportion of people living in poverty.

American businesses understand these institutions' vital role in fostering prosperity. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

As World Bank President Robert Zoellick has said, the World Bank invests in both the *hardware* and the *software* that foster economic development and turn poor countries into growing markets for U.S. goods and services. Much the same can be said of the work of the other MDBs.

Consider the transport sector. In Ghana, for example, the World Bank-funded Trade and Investment Gateway Project helped build a flyover bridge and network of roads linking the country's economic hubs with existing routes, creating a multi-purpose industrial park. The results include over 3,000 investment projects valued at more than $12 billion and more than 300,000 new jobs.

These investments and the accelerating pace of economic growth and development in Ghana have helped drive a sharp increase in U.S. exports to the country. U.S. exports to Ghana have more than tripled in the past four years, sustaining thousands of American jobs.

If this example captures the *hardware* of economic development, the MDBs' work in improving regulation, ensuring the rule of law, and combating corruption represents the *software* to which Zoellick has referred.

To give one example in this area, the World Bank partnered with the World Customs Organization to help Cameroon's customs authority increase transparency and revenue collection by establishing individual and team performance contracts with measurable indicators. In less than two months, revenues increased by an average of 5 percent per customs declaration — the equivalent of $30 million a year. Over 90 percent of the customs declarations in Cameroon are now assessed the same day they are lodged by customs brokers.

To facilitate cross-border trade, the World Bank has supported border modernization and trade facilitation initiatives with very favorable results. For example, the East Africa Regional Trade Facilitation Project covering Kenya, Uganda, and Rwanda has employed the One Stop Border concept. The Project has reduced the border clearance time for cargo at one post on the Kenya-Uganda border from an average of almost two days five years ago to an average of only seven hours today. Further gains are anticipated in the near future.

The business community has been working closely with the World Bank, the World Trade Organization, and others on the issue of trade facilitation. For example, the World Bank has partnered with the global express delivery industry to help improve customs procedures.

It's also worth mentioning the critical role the MDBs played in addressing the shortage of trade finance that accompanied the world financial crisis in 2008-2009. This threatened to greatly add to the decline in world trade at the time and exacerbate the recession that struck the United States and many other countries.

In response, the World Bank Group's private sector arm, the International Finance Corporation (IFC), devised an expanded Global Trade Finance Program to boost credit guarantee coverage for developing country banks, many of them in Africa. Today, the IFC is working with more than 200 issuing banks in 84 emerging markets through this Program. In FY 2011, it issued $4.56 billion in guarantees, a 32 percent increase over the previous year, and the Program recently topped $10 billion in guarantees.

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

The U.S. investment in the MDBs has a huge multiplier effect. For instance, the United States has invested only $2 billion in the World Bank's capital base since its creation in 1944. The U.S. funding has leveraged contributions from other donors, allowing the World Bank to provide nearly $500 billion in financing and invaluable expertise to developing countries.

Every U.S. taxpayer dollar invested in the World Bank leverages $25 in additional contributions from other countries. A similar multiplier effect is achieved by the other MDBs. While the MDBs benefit from sound financial management, they will face serious lending constraints without a capital increase. Because the U.S. recovery may be undermined by even more severe difficulties abroad, it is squarely in the U.S. national interest to support the capital

increases. In addition, MDB loans generate many contract opportunities for U.S. firms, generating thousands of jobs here at home.

On June 7, the Chamber and five other business organizations — the Business Roundtable, the Coalition for Employment through Exports, the Emergency Committee for American Trade, the National Foreign Trade Council, and the U.S. Council for International Business — sent a letter to Congress making many of these points and supporting the capital increase for the multilateral development banks.

The U.S. Chamber is mindful of the difficult fiscal circumstances facing our country. As the Chamber and more than 150 other business organizations wrote in a joint letter to Congress last week, the United States must stabilize its debt and put the debt's share of the economy on a downward path. To do so, Congress must reform entitlement programs and comprehensively restructure the U.S. tax code.

Achieving the necessary adjustment to our fiscal policy cannot be accomplished by abandoning more than half a century of leadership in the multilateral development banks. Indeed, the capital increase for the MDBs is a small fraction of the International Affairs budget, which as I've said is itself less than 1.5 percent of the total federal budget.

The United States cannot afford to sit on the sidelines while others seize leadership of the world economy — including at the multilateral development banks. We need to support the capital increase for the MDBs so that we can continue to lead their efforts to support the export markets on which our recovery depends. Further we need to open markets by approving the pending trade accords with South Korea, Colombia, and Panama and negotiating more agreements like them. We need to work closely with our allies and partners to show leadership in tackling the tough challenges facing the world economy.

The capital increase for the MDBs is an investment that will strengthen our economy by shoring up vital export markets, promote economic development and good governance, and reaffirm U.S. leadership. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for escaping high unemployment, massive deficits, and exploding entitlements. The U.S. Chamber of Commerce looks forward to working with the members of the Subcommittee to secure approval of the general capital increases for the multilateral development banks.

Thank you very much.

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[1] David Wessel, "Asia's Latest Export: Recovery," *The Wall Street Journal*, February 24, 2010, http://online.wsj.com/article/SB10001424052748703510204575085280515242598.html.

[2] Office of the U.S. Trade Representative, Executive Office of the President, *The President's 2010 Trade Policy Agenda*, March 2010, http://www.ustr.gov/webfm_send/1673. "International Monetary Fund forecasts indicate that nearly 87 percent of world growth over the next 5 years will take place outside of the United States."

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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)

October 4, 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 U.S. 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 U.S. 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 U.S. 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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October 4, 2011

Dear Speaker Boehner and Majority Leader Reid:

We write to express strong support for the Administration's request for General Capital Increases (GCIs) for the World Bank Group and for several of the regional development institutions.

During the recent and unprecedented global financial crisis, the multilateral development banks (MDBs) intensified support for affected countries to help maintain the growth and stability of their economies. As a result, the MDBs are now facing a resource shortfall and need to replenish their funds to avoid drops in lending in the future. It is important that the United States (U.S.) supports this effort because of the returns it will bring to the nation going forward:

- **Promoting National Security Interests**
  MDB support to strategically important regions and countries like the Middle East, Afghanistan and Pakistan is vital to ensuring the sustained development and reform needed to achieve long-term stability. Without continuing support, U.S. national security investments in these countries could be undermined.

- **Advancing U.S. Business Opportunities Abroad**
  With downside risks still threatening the global economic outlook, MDB assistance to poor and emerging economies also means preserving and advancing the interests of U.S. business and American workers of companies that trade and invest in these countries.

- **Sustaining Global Leadership and Influence in MDBs**
  Continued support will ensure the U.S.' ability to influence and lead on MDBs' policy directions as well as prioritize global humanitarian initiatives in areas we deem critical, including consolidating new democracies, reducing poverty, and improving governance.

We would therefore urge the Congress to continue its longstanding, bipartisan support for the MDBs for America's self interest and for the good of the global system.

Respectfully yours,

Charlene Barshefsky

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