U.S. Support for the World Bank and Multilateral Development Banks

Testimony before the House Subcommittee on International Monetary Policy and Trade

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Thank you Chairman Miller, Ranking Member McCarthy, and other members of the Subcommittee. I am honored to appear here today and to have the opportunity to testify on the importance of strong, clear, and reliable support from the United States for the multilateral development banks.

Even in these very difficult fiscal times, U.S. leadership and contributions are essential investments in both promoting global economic growth and the health of the American economy. Balancing the U.S. budget on the back of cutting U.S. contributions to the multilateral development banks would be a terribly short-sighted decision and counterproductive to the U.S. economic recovery and our future prosperity.

I would urge the Committee and your colleagues to look favorably upon both the soft loan window replenishments and general capital increases for the multilateral development banks, especially the African Development Bank and the World Bank.

In support of this position, I will make just three points today.

First, the multilateral development banks are absolutely critical to building new markets abroad—and thus to future U.S. prosperity. Expanding markets in the developing world is of course a key driver in reducing global poverty, something I think we can all agree is consistent with American values and interests. The number of people worldwide living in dire poverty has plunged over the past decade, but wiping out the remaining pockets of deprivation affecting some 900 million people will require strong and well-resourced multilateral development banks.

But more directly related to U.S. economic interests than poverty reduction is the rise of the global middle class that will expand demand for American goods, services, and know-how. This will drive the future of U.S. production and the next wave of job creation here at home.

I say this not in theoretical terms, but from the perspective of a private investor in these markets. After a career on Wall Street, I had the honor to serve as President of the U.S. Export Import Bank for 4 years 1997- 2001. That was when I first saw the enormous opportunities for growth in the emerging and frontier markets. The potential for expanding finance and exports, even at that time in the wake of the Asian financial crisis, was tremendous. In just four years, we increased ExIm support of U.S. exports to sub-Saharan Africa by some 25 times.

After leaving public service, I still saw the unrealized potential and chaired a Commission on Capital Flows to Africa that made recommendations for how to leverage public policy to increase investment in the continent.[1]

In 2004 I launched the Caravel Fund to invest directly in frontier and emerging markets. The premise was that growing middle classes and rising consumption would be key drivers of economic growth and would generate healthy returns for investors. The idea also was that greater returns could be found, not just in Brazil and India and other well-known emerging markets, but also in Pakistan, Zambia, Lebanon, and Indonesia. After seven years of investing in these kinds of markets, the Caravel Fund has returned approximately 20 percent per annum.

I now see similar opportunities today in countries like Rwanda and Nigeria. Most people, if they think about these places at all, still associate Rwanda with genocide and Nigeria with fraud scams. But I see invigorated leadership combined with sensible economic policies that are creating enormous new opportunities, both for the people in these countries but also for the American economy.

In Africa alone, I have observed a number of important projects during the past few years that directly benefitted American companies, both large and small. Without financing and leadership from the multilateral development banks, these opportunities might not have existed. The deals include for example:

- Ethiopian Airlines recent purchase of new Boeing aircraft
- The Main One Fiber Cable project in West Africa, with Tyco
- The Kivu Watt Power project in Rwanda, led by Contour Global
- The Dibamba and Kiribi Power projects in Cameroon, led by AES Corporation
- Tema Power in Ghana, using GE turbines

The African Development Bank and the World Bank are crucial partners for countries like Nigeria and Rwanda, helping to make sound investments and to make the environmental changes that will enable the private sector to grow. This leads to my next point.

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[1] *A Ten-Year Strategy for Increasing Capital Flows to Africa*, Commission on Capital Flows to Africa, June 2003. http://www.iie.com/publications/papers/africa-report.pdf

Second, infrastructure is the critical sector for the next decade and the multilateral development banks are our best tools for making such investments. Studies have shown that the single largest constraint to growth in Africa is the cost and reliability of infrastructure, especially power, transportation, and water.[2] This means not only finding new sources of capital, but also working on the regulatory and business climate constraints. The multilaterals are central to both: they make major financial investments in infrastructure projects and also work with countries to set high standards for transparency, procurement, and environmental and social impact.

Without MDB support for infrastructure, the only alternative is Chinese financing, which comes without any of these safeguards.

Many of the most impactful projects, such as Inga 3, a hydroelectric project on the Congo River that could add up to 4,000 megawatts of low cost renewable energy for the entire southern African subregion, simply cannot happen without the multilateral development banks.

Earlier this year I was appointed to represent the United States on the G-20 High Level Panel to find ways to fill the gaps in financing infrastructure in Africa. Through this experience over the past four months, I have seen both how important this issue is and how the multilateral development banks are central to filling the gap. This leads to my final point today.

Third, the multilateral development banks are highly effective, professional, and impressive organizations. Some on Capitol Hill view the World Bank and other multilateral development banks as big, inefficient bureaucracies. However, the quality of the human capital that I have met with, at all levels of the World Bank and African Development Bank, has been exceptional. There is first-class talent in these organizations, with deep understanding of the macro-economic, social and political challenges facing the developing world. What has impressed me most as a private businessman is that the information that they have shared is based in practical, on-the-ground, experience, rather than just theoretical development economics.[3]

The World Bank and AfDB teams that I have interacted with have been on every side of an infrastructure deal. They have faced every conceivable political, bureaucratic, logistical and funding challenge. They have worked across all sectors and have decades of experience in nearly every country. Their relationships on the ground are irreplaceable.

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[2] See e.g., Vijaya Ramachandran, Alan Gelb and Manju Kedia Shah, *Africa's Private Sector: What's Wrong with the Business Environment and What to Do About It*, Center for Global Development, 2009.

[3] See e.g., Vivien Foster and Cecilia Briceno-Garmendia (eds.), *Africa's Infrastructure: A Time for Transformation*, World Bank, 2010.

And, crucially, their proposals have struck me as practical, real-world suggestions that reflect out-of-the-box thinking, without losing sight of the complexity of the challenges. It is clear that the MDBs have moved beyond traditional aid-heavy, "throw money at the problem" solutions and fully embrace the role of the private sector. There is a level of pragmatism and open-mindedness that is refreshing.

Let me end by painting a blunt picture of what reduced U.S. contributions to the multilaterals would mean: lost American leadership, a steep reduction in U.S. leverage of scare resources, fewer economic opportunities for American companies, and an acceleration of Chinese influence.

Thank you.

United States House of Representatives
Committee on Financial Services

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