House Financial Services Committee
Subcommittee on International Monetary Policy and Trade

Written Testimony

Jim Kolbe
Senior Transatlantic Fellow
The German Marshall Fund of the United States

"The Impact of the World Bank and Multi-Lateral Development Banks on U.S. Job Creation"

July 27th, 2011

Chairman Miller, Ranking Member McCarthy, distinguished members of the Committee, thank you for the opportunity to testify before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade. It is an honor to be here with you today to discuss the impact of multilateral development banks on U.S. job creation.

As many of you know, I served for twenty-two years in the House of Representatives and six of those years as Chairman of the House Foreign Operations Subcommittee on Appropriations; the subcommittee that funds the multilateral development banks (or MDB's). As a result, I gained an understanding and a level of respect for the work these institutions accomplish in the world's poorest nations. MDB's play a role and fill a gap in development assistance and specifically economic development that I think is unparalleled. They provide opportunities for developing nations to build economic infrastructure and capacity, create private sector growth and supply chains, and reform custom regulations and barriers for economic growth, all of which raise the standard of living in these nations and create new markets and consumers for U.S. companies.

Access to Markets, Trade Capacity, and Trade Finance

Ninety-five percent of the world's consumers with 75 percent of the world's purchasing power live outside the United States. The combination of opening markets through trade agreements and building capacity such as ports, roads, bridges, financial institutions, and trade finance provide both opportunities for developing nations to access the global market and opportunities for developed nations access new markets and consumers in the developing world. As a result, U.S. exports to and U.S. foreign direct investment in these nations increase when there is a capacity for us to expand into these markets.

Bob Zoellick, President of the World Bank, recently said, "Aid for trade [trade capacity building] is a practical example of aid as self-interest, not charity." I couldn't agree more with that statement. There are humanitarian and moral reasons to invest in development assistance, but it is important and maybe even crucial for us to recognize the economic reasons as well. Investing in the multilateral development banks is a step in that direction.

Brazil, India, Turkey, Colombia, Vietnam, and Indonesia are several examples of countries that have significantly benefitted from MDB's investments and, in turn, so has the United States. U.S. exports to India have nearly quadrupled and exports to Brazil have more than doubled in the past decade – both of these countries were substantial recipients of World Bank and regional development banks' investments. The U.S. has increased exports by more than 200 percent in some of these nations with the help of the MDB's.

In 2008 and 2009 the MDB's played an important role in the global economic recovery. With a sharp decline in capital flows and trade finance to emerging and developing nations, MDB's increased their commitments to help stabilize these economies and in essence stabilize these countries at a time of global economic instability. The MDB's were able to fill a gap while the U.S. and other developed nations focused on stabilizing the leading financial institutions. The World Bank continues to support trade flows with their Global Trade Finance Program and the Global Trade Liquidity Program.

Leverage Investments and Cooperation and Partnerships

Because of their multilateral structure, the MDB's have the means to leverage U.S. dollars wisely for effective development assistance. According to the U.S. Treasury, for every dollar the U.S. contributes, the MDB's leverage $25 of multilateral development aid. Specifically, the U.S. contribution of $420 million to the World Bank has supported $325 billion in investments since 1988. It is hard to imagine another example of such powerful leveraging with a contribution of this size.

The World Bank's reach is vast. Its International Development Association (IDA), for example, is one of the largest sources of aid for the world's 79 poorest nations impacting 2.5 billion people. The ability of these institutions to leverage funds at a large scale provides the United States with a greater bang for its buck. In addition, the MDB's are working together to combat corruption through the creation of the International Corruption Hunters Network and through mutual decisions to disbar companies and contractors using corrupt and unethical practices. At a time when fiscal constraints are at a peak, leveraging investments and cooperating with multilateral institutions and our allies is as important as ever.

With that idea in mind, the Marshall Plan was recently referred to as a model for economic assistance to North Africa in the aftermath of the Arab Spring. I currently serve as Senior Transatlantic Fellow at the German Marshall Fund of the United States (GMF), an institution that stands as a permanent memorial to the Marshall Plan. The German Marshall Fund's Aid Effectiveness Project examines the importance of cooperation with our European allies such as the UK, Germany, and Sweden to promote effective practices through cooperation and partnerships. Its goal is to decrease duplication of foreign assistance programs and provide tools to effectively work together on the ground.

Cooperation with trusted allies allows the U.S. to maximize development results with limited resources. The same is true for the MDB's, which were created as a means for nations to cooperate and partner on development and economic priorities. I would also add that the same is true for partnering with the private sector on development assistance. The World Bank, for example, has partnered with the global express delivery industry to help improve customs procedures around the globe. The private sector understands they have much to gain when nations trade and have investment capacity.

Emerging Economies and Economic Constraints

Countries like China are ready to fill the gaps that the United States, Europe and the multilateral intuitions leave open. This is occurring in both developed and developing nations. We are experiencing this in Europe right now as European nations deal with the euro crisis and in the United States as we struggle with our own debt crisis. In the developing world, China has stepped up to provide an alternative to MDB financing of infrastructure projects. While the MDB's create opportunities for U.S. trade and investment, the Chinese provide opportunities for Chinese trade and investment. As their economic influence grows, so will their overall global influence.

I recognize the tough budget constraints Congress faces at a time of high unemployment, slow economic growth, and the burgeoning debt. As a former Member, I fully sympathize with the difficult decisions you must make. I well remember town hall meetings where questions about foreign assistance would arise. I would ask my constituents how much they thought the United States spent on such assistance. Often they would say 25 percent or even as much as 50 percent. In fact, as you well know, it is less than 1 percent of our national budget. I understand when constituents hear that the U.S. spends billions of dollars on foreign assistance they cannot understand why that amount of money is not spent at home or why that amount is not cut from the budget to decrease the deficit. The bottom line is we spend less than 1 percent of our annual budget on foreign assistance and the multilateral development banks are just a fraction of that 1 percent. This does not mean that any small fraction of spending should not be effective. If you look at countries like India, Brazil and Turkey, the investments made in the MDB's have greatly benefitted the U.S. economy over the last decade. That money was not really about development assistance; it was an investment and it was a successful investment. It was "aid as self-interest, not charity."

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

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Jim T. Kolbe	- The German Marshall Fund of the US. - McLarty Associates
3. Business Address and telephone number: [redacted]	
4. Have **you** received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? ☐ Yes ☑ No	5. Have any of the **organizations you are representing** received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? ☐ Yes ☑ No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: Jim Kolbe	

Please attach a copy of this form to your written testimony.