

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

“The Impact of the World Bank and Multilateral Development Banks on National Security”
September 21, 2011

Chairman Miller, Ranking Member McCarthy, distinguished members of the Committee, thank you for the opportunity to testify before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade, regarding the critical importance of the multilateral development banks (MDBs) in safeguarding U.S. national security interests.

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

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

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

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

Unrivalled Leverage, Expertise and Reach

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

Leverage

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

Global Reach and Expertise

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

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

Vital Partners in Prevention and Deterrence

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

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

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

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

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

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

Conclusion

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

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