

**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

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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 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 our 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.

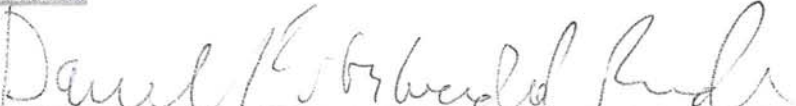
Mr. Runde has been involved in the philanthropic sector as a member of committees for the Global Philanthropy Forum and the Committee Encouraging Corporate Philanthropy. He is a board member of the Peter C. Alderman Foundation, the Alliance for the Family, and has served on the Advisory Board of the 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.

United States House of Representatives
Committee on Financial Services

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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: Daniel F. Runde	2. Organization or organizations you are representing: Center for Strategic and International Studie +
3. Business Address and telephone number: <div style="background-color: black; width: 100%; height: 40px;"></div>	
4. Have <u>you</u> 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?	5. Have any of the <u>organizations you are representing</u> 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?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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