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Written Testimony before the House Financial Services Committee
Subcommittee on International Monetary Policy and Trade

“The Role of the U.S. in the World Bank and Multilateral Development Banks: Bank Oversight and Requested Capital Increases”

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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 central role the multilateral development banks (MDBs) play in promoting U.S. interests and leadership around the world.

The Administration’s pending requests to authorize recapitalization of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development, and to authorize replenishment of the International Development Association and the African Development Fund, come at a moment of extraordinary importance.

The global economy is undergoing a profound reconfiguration, with historic transformations now unfolding in the Middle East and North Africa, and new economic powers like China increasingly exercising their influence. In a region where the United States has deep strategic interests, citizens from Tunisia to Egypt to Libya to Syria to Yemen are rallying for freedom and opportunity. This is a test of U.S. leadership—a crisis and an opportunity we can ill-afford to lose.

Since the reconstruction of Western Europe after World War II, from the beginning to the end of the long Cold War, and throughout economic crises that shook Latin America in the 1980s and East Asia in the 1990s, the multilateral development banks have been pillars of U.S. global leadership, bulwarks for U.S. interests, and shepherds of U.S. values around the world. Once again, we rely on the MDBs as our partners in protecting U.S. interests at a time of upheaval and global transformation.

Leverage and Leadership

If we do not secure congressional authorization for recapitalizing and replenishment of these multilateral institutions, U.S. leadership will wane. At the World Bank, we would risk our unique veto power over changes to the Articles of Agreement, which protects our prerogatives on Bank membership and leadership. Likewise, without authorization for recapitalization of the African Development Bank, the U.S. would miss our next payment, reducing U.S. shareholding by two-thirds and putting our single seat on the Board of Directors in jeopardy. And at the Inter-American Development Bank (IDB), no contributions can be made by any member unless the United States contributes, so being unable to contribute for lack of authorization would deny the IDB of any new funding. This could be interpreted as a deliberate U.S. retreat from the

region at the very time that other emerging donor countries, such as China, are increasing their presence.

Treasury international funding to the MDBs will allow \$95 billion in MDB financing in FY2012 alone. Each \$1 dollar that the U.S. contributes to replenish IDA and the AFDF leverages \$25 dollars of multilateral development investments—to fight hunger and disease, bring education and opportunity to those who have been left out and left behind, stabilize fragile states, support freedom and democratic transitions, and tackle global challenges like tsunamis, earthquakes, and climate change.

And the multiplier effect of our capital contributions is even more dramatic. Capital increases are rare events, occurring once every ten to twenty years and providing funding streams over several decades. A U.S. capital increase contribution of \$420 million for the World Bank in 1988 supported \$325 billion in development investments—a factor of over 800-fold—over the last two decades through the power of leveraging.

In prior meetings, we had an opportunity to discuss these issues, and to share the critical importance of sustaining our leadership role at these multilateral institutions. Let me now elaborate on how these institutions are effectively leveraging scarce resources to foster freedom and opportunity, secure America's economic and commercial interests, protect our national security, alleviate poverty and deprivation, and address urgent global threats.

Fostering Democracy and Freedom in the Middle East and North Africa

Last December, a young fruit seller in Sidi Bouzid, Tunisia set himself on fire in a final act of resistance against a government that denied too many young people meaningful freedoms, or the opportunity to build a future. His act of courage and quest for dignity unleashed an unprecedented wave of change. Popular uprisings washed away repressive regimes in Egypt and Tunisia and planted the seeds of an Arab Spring.

The success of these transitions will depend on whether democracy delivers on its promise of freedom and opportunity; on whether young people see visible improvements in their lives.

On this road towards expanding freedoms and opportunity, the multilateral development banks will play a vital role. They are now deploying short-term support to stabilize economies, and preparing medium-term strategies to invest in private sector growth, and promote greater accountability, transparency, and the fair rule of law. By financing investments and catalyzing key reforms, they will foster inclusive growth that can bring widely shared benefits, ensuring freedom and opportunity for a young generation.

The multilateral development banks have played this role in previous transitions—in Eastern Europe, and in Indonesia and South Korea—and will do so again.

The Marshall Plan has been invoked to describe the size and scale of assistance that will be required to aid the transitions now unfolding in the Middle East and North Africa. And although standing alone, the United States does not now have resources of that size or at that scale to

invest in these transitions, standing with our international partners, and leveraging our investments in the multilateral development banks, we do have those resources. At the recent G-8 summit in Deauville, the MDBs boldly committed to provide \$20 billion to support transitions in the region.

Securing Our Economic and Commercial Interests

The multilateral development banks also play a vital role in securing our own economic and commercial interests. The MDBs build the roads and ports to get our products to new markets, and the “soft infrastructure” that makes markets work: reducing trade barriers, improving property rights, and slashing cumbersome red tape. Their assistance nurtures the emerging economies that become key export markets for U.S. companies, generating jobs at home.

Over the past decade our exports to Brazil more than doubled, to \$30 billion, while our exports to India almost quadrupled, to \$16 billion. In Turkey, Columbia and Indonesia, to name just a few other key emerging economic partners that have benefited from MDB investments, development fueled rapidly increasing demand for U.S. products, growing our exports to these economies by more than 200 percent.

In infrastructure, the multilateral banks also level the playing field across the world so U.S. companies have a fair chance to compete. The alternative to MDB financing in infrastructure in many countries is lending from countries like China. In contrast, the MDBs have rigorous safeguards to protect the environment, uphold the rights of vulnerable populations, and combat corruption—establishing fair and consistent rules and creating opportunities for U.S. companies to invest.

And the MDBs directly support U.S. business growth through procurement contracts. In 2005, TCI International of California won a \$3 million contract to equip Malawi’s utilities with manufactured components. Learning Resources of Illinois supplies \$1.2 million in education materials to community education projects in Honduras, and in 2007 Illinois-based Abbott Laboratories won a \$350,000 contract to provide anti-retroviral drugs to rural Cambodia. MWI/APCO International of Florida, and Terex Cranes of Iowa, each were recently awarded \$1 million in contracts to manufacture hydro-pumping parts for Egypt. And in 2009 and 2010, Montran Corporation of New York earned \$6.06 million developing mobile phone banking payment systems in the Maldives and Ethiopia. In their work to build a fair and open global economy, these multilateral institutions rely on U.S. firms for goods and services, directly supporting American jobs.

Addressing Global Threats

These institutions also protect our national security by bringing stability to fragile states, providing over \$5.9 billion in reconstruction assistance to conflict countries since 2001. Terrorism and political violence, civil wars, piracy and drug trafficking, and refugee flows cascade across the borders of weak states to hurt our interests here at home. Citizens of countries racked by violence are twice as likely to suffer from hunger, and their children are three times as likely to be uneducated.

In Afghanistan, a key frontline state vital to U.S. national security, the World Bank and Asian Development Bank are the second and third largest donors after the U.S., constructing critical infrastructure like the Ring Road and the Uzbek-Afghan railroad. As General Petraeus and General McNabb reiterated in a letter sent to Treasury Secretary Geithner in May 2010, “[t]hese projects are vital to the success of the U.S. strategy in both Afghanistan and the region”. Over the past three decades, MDB investments in Bosnia, Rwanda, and Indonesia nurtured peace, stability, and economic growth. Today, investments in fragile countries like Sudan and Afghanistan are critical to building more resilient societies that can be our partners in addressing global threats, and where educated peoples with economic opportunities will not be led astray by false promises. The MDBs are financing energy and transport, clean water and sanitation, and education for young women—creating the conditions for long-term stability and economic development.

Chairman of the Joint Chiefs of Staff Admiral Mullen recently stressed that "climate change's potential impacts are sobering and far-reaching ... scarcity of water, food and space could create not only a humanitarian crisis, but create conditions that could lead to failed states, instability and, potentially, radicalization." The MDBs are essential for assisting countries to prepare for and respond to the impacts of climate change, and transition to a low carbon development path.

Tackling the immense climate change challenge involves both mitigation—to avoid the unmanageable—and adaptation—to manage the unavoidable. In 2009, the World Bank began integrating climate considerations into Country Assistance Strategies: connecting more than 50,000 rural households to solar electricity in Bangladesh; financing energy efficiency programs in Ukraine; and pioneering initiatives in Brazil to sustainably and permanently reduce emissions from deforestation. The MDBs are also advancing climate resilience in arid, vulnerable, and conflict-ridden areas of the Middle East, where pressures on resources can quickly escalate into violence.

And the MDBs are among the first to arrive when disasters leave countries vulnerable. Today, the World Bank is on the frontlines assisting refugees fleeing brutal repression in Libya. When the devastating tsunami hit Aceh in 2004, the MDBs immediately formed a new recovery and reconstruction fund to address the urgent health crisis, feed school children, and re-build canals and bridges. While there is much work left to be done, Inter-American Development Bank operations in Haiti have provided tens of thousands of households access to potable water, and rebuilt schools and roads destroyed by the earthquake.

Alleviating Poverty and Deprivation

These multilateral institutions are important shepherds of U.S. values around the world, defending against the threat to human freedom posed by poverty, hunger, and disease. Every day, more than 30,000 people perish from poverty. The poor die in shantytowns without safe drinking water or sanitation, in rural villages where droughts mean that crops fail and famines follow, in communities where cheap vaccines, penicillin, and antimalarial bednets are mere folklore. Almost 1 billion people are malnourished in the world today. Hunger kills 5.5 million children each year. And life expectancy is just 43 years in the world's poorest countries, like

Zambia, where people die from small infections left untreated, starvation, minor parasites, diarrhea, and diseases easily prevented or cured with inexpensive drugs. As Nobel laureate economist Amartya Sen reminds us, the deprivations of extreme poverty are, fundamentally, deprivations of human freedom.

MDB investments are on the frontlines confronting these deprivations. Since its inception, International Development Association (IDA) credits and grants to impoverished countries have totaled \$222 billion, averaging \$13 billion a year in recent years. The African Development Fund (AfDF) likewise plays a critical role in Africa, where more than 50 percent of the world's poor live. Working together, the MDBs have reduced deaths from malaria by 50 percent in Zambia, decreased transmission of HIV from mother-to-child by 90 percent in Moldova, and distributed 2 million insecticide treated nets in Benin. The MDBs have provided more than 47 million people with basic health services, immunized 310 million children, and distributed antiretroviral therapies to almost 2 million people with HIV/AIDS over the past two decades. And since 2001, the MDBs have made it possible for an additional 89 million children to enroll in primary school in Sub-Saharan Africa and South Asia, the regions with greatest education gaps. In Bangladesh, an innovative stipend program tripled girls' secondary school attendance; in Pakistan and Djibouti, MDB investments and policy reforms have increased primary school enrollment by more than 25 percent in a few short years.

Leveraging U.S. Leadership to Improve Transparency, Accountability, and Results

These institutions, as valuable as they are, also require strong oversight to ensure that resources are invested to maximize impacts. As a leading shareholder, we can exert our influence to hold them to the highest standards. We have been consulting closely with Congress throughout the capital increase and replenishment negotiations on key priorities for improvement. Through our leadership, the U.S. has achieved significant reforms at all the multilateral banks to increase transparency and accountability, guard against corruption, and enhance the results and impacts of our investments.

We have secured more effective internal audits to prevent and deter corruption, and put in place additional procurement rules to ensure money is well spent and all companies have a fair chance to compete. We have made disclosure of significant policy documents the norm. And we have strengthened the role of mechanisms like the World Bank's Inspections Panel to promote compliance with environmental and social safeguards, and make the MDBs more accountable to the communities in which they operate—ensuring that villagers like those in Bangladesh, whose livelihoods were threatened by the World Bank financed Jamuna Bridge Project, can advocate their cause before an impartial arbiter and win redress.

The United States has also achieved high 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. Recently, a study by the impartial Center for Global Development ranked IDA among the very top in development effectiveness out of 150 bilateral and multilateral aid agencies. And impact evaluations, which identify the effects of development projects on people, households, and communities, are being undertaken across the MDBs so that future policies can build on better knowledge about program results. Researchers are testing the

poverty impacts of irrigation rehabilitation projects, the health and behavior impacts of antiretroviral therapies, and the learning and school attendance impacts of conditional cash transfers. In this way, we can use rigorous impact evaluations and results monitoring to learn from set-backs and scale-up successes, maximizing the value of our development investments.

These important reforms would not have occurred without our leadership. Our ongoing work to demand the highest standards in transparency, accountability, results, and corruption safeguards would not long endure if we were to allow our voice at these institutions to diminish.

Conclusion

As General David Petraeus' affirmed in his recent testimony to the Senate Armed Services Committee regarding the vital role played by the MDBs in fostering stability and economic development in Afghanistan, "we need these critical enabling institutions, and further US support for them will ensure that they are able to continue to contribute as significantly as they have in the past."

Our leadership as the foremost shareholder at these institutions guarantees that their sizable and significant investments will continue to foster freedom and opportunity, secure America's economic and commercial interests, address urgent global threats, safeguard national security, and alleviate extreme deprivation around the world. And as a lead contributor we can ensure effective development impacts and strong transparency and accountability.

As the global economy shifts and new powers like China exercise increasing influence, we cannot afford to forfeit our leverage and our leadership. As young people in the Middle East and North Africa raise their voices for freedom and opportunity, we must seize the moment that is ours to assist the young generation chart a new course. At this hour of crisis and opportunity let us not allow U.S. leadership to wane. We must instead, now, redouble our commitments to the multilateral institutions that for almost seven decades have been pillars of U.S. global leadership, bulwarks for U.S. interests, and shepherds of U.S. values around the world.