



MULTILATERAL DEVELOPMENT BANKS: CONCRETE BENEFITS TO THE U.S. ECONOMY AND AMERICAN JOBS

Testimony before the House Subcommittee on International Monetary Policy and Trade

Benjamin Leo

Research Fellow

Center for Global Development

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Thank you Chairman Miller, Ranking Member McCarthy, and other members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the impact of the World Bank and other multilateral development banks on U.S. job creation. My testimony will focus on three key points:

- (1) The multilateral development banks (MDBs) have, and will continue to have, an important role in helping to establish the next generation of emerging markets. The case of India provides an excellent example of how MDB assistance, economic growth, and U.S. support all come together to offer substantial U.S. business opportunities abroad.
- (2) The MDBs have diminished the impact of global disruptions in emerging countries – which helps to protect, maintain, and even expand U.S. business activity abroad in times of crisis.
- (3) U.S. firms derive sizable *direct* financial benefits from MDB projects and programs. For example, U.S. firms *directly* secured over \$1.6 billion in World Bank contracts over the last decade. However, *indirect* financial benefits could be as large, or even larger, than *direct* procurement awards due to U.S. firms' extensive usage of third party vendors. Moreover, MDB procurement policies have set the global standard and help to ensure a competitive playing field for U.S. companies.

THE ROLE OF MDBS IN THE GLOBAL ECONOMY

Helping Establish the Next Generation of Emerging Markets: Historically, the World Bank, African Development Bank, and other MDBs have played a leading role in supporting economic development and improvements in human development outcomes worldwide. While their role has naturally evolved over the decades in light of increasingly globalized financial markets and investment flows, these institutions continue to play a frontline role in helping to foster the next generation of emerging markets as well as expand economic opportunities within existing ones.

By illustration, the World Bank Group has been a key source of financial assistance over time for India – the world’s most populous democracy, a critical U.S. ally, and one of the fastest growing economies globally. Concessional loans from the World Bank’s International Development Association (IDA) have helped to establish and deepen the ingredients for robust private sector activity – such as: constructing roads and ports, expanding power generation capacity, improving government policies and regulations, and providing educational training for the nation’s youth. In the next few years, India is predicted to graduate from IDA’s concessional assistance and fully enter the ranks of middle-income countries.¹ While it is impossible to quantify the World Bank’s contribution in exact terms, there is little doubt that its financial and technical assistance played an important, contributing role. And, India is by no means an outlier. More than two dozen other countries are poised to follow it, such as: Ghana, Nigeria, Vietnam, and Zambia. Collectively, the size of these five countries’ economies has increased nearly four-fold over the last two decades – with a combined GDP now totaling nearly \$1.7 trillion and almost 1.4 billion consumers. During the same time period, U.S. merchandise exports to these same countries have increased nearly nine-fold – up from \$3.6 billion in 1990 to over \$28 billion last year.

This economic growth and associated increases in consumers’ purchasing power, which has been supported in part by the respective MDBs, provides huge opportunities for U.S. firms to sell billions of dollars in goods and services abroad.

Growing Demand for Non-Concessional Facilities: The graduation of countries like India, Nigeria, and Vietnam could dramatically increase aggregate demand for *non-concessional* financing from the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AfDB), and Asian Development Bank. Unless countries like China, Brazil, and Mexico substantially reduce their MDB borrowing over the near- to medium-term, these institutions will require significant amounts of new capital to handle the projected increase in demand.

At the same time, demand for *concessional* assistance from IDA, the AfDF, and the Asian Development Fund should decline by a commensurate amount over the medium-term. For example, India’s graduation alone will free up more than \$1.5 billion in IDA resources every year.² Based on the United States’ current IDA contribution burden share, this could mean nearly \$200 million in potential annual savings.³ Importantly, this does not mean that the U.S. can or should cut its contributions now. Instead, it simply highlights that these institutions’ successes will allow significant savings down the road.

Maximizing the Leverage of U.S. Contributions: Given their unique capital and financing structures, the MDB non-concessional facilities provide massive leverage of U.S. capital contributions. By illustration, every dollar of U.S. paid-in capital translates into roughly \$26 of IBRD lending capacity or roughly \$38 in AfDB lending capacity. Over time, these leveraging

¹ See Todd Moss and Benjamin Leo (2011), “IDA at 65: Heading Toward Retirement or a Fragile Lease on Life?”, Center for Global Development, Working Paper 246.

² This figure corresponds to approximately how much assistance India is projected to receive annually during the IDA-16 replenishment period.

³ Under the IDA-16 replenishment agreement, the U.S. contribution burden share totals approximately 12 percent.

ratios lead to even larger lending multipliers as the MDBs recycle loan repayments to finance new development programs. By illustration, U.S. contributions of \$420 million for the last IBRD general capital increase (GCI) helped to generate roughly \$325 billion in development investments over two decades.⁴ Compared to U.S. bilateral aid programs, or even multilateral concessional programs, these ratios offer un-paralleled development, national security, and potential business opportunities for the U.S. government and taxpayers.

First Responder to Global Crises: Historically, the MDBs have played a first responder role in preventing or responding to financial and economic crises. In response to most recent global crisis, they mobilized well over a hundred billion dollars to help developing countries: (1) protect social safety nets; (2) implement counter-cyclical spending policies; (3) continue to pursue large, pro-growth investments in physical infrastructure; and (4) crowd in, or even temporarily replace in limited cases, private investment flows. Collectively, these actions played a key role in maintaining economic stability, market confidence, and purchasing power in the United States' leading export markets.

Operational Effectiveness: The World Bank and the African Development Bank consistently rank among the most efficient, transparent, and effective development institutions globally. According to recent Center for Global Development and Brookings Institution research that assesses the quality of foreign aid, these two MDBs out-perform nearly every bilateral and multilateral development institution globally, such as: USAID, the United Kingdom's Department for International Development (DfID), the European Commission, and all UN agencies.⁵ This illustrates that U.S. taxpayers are getting strong development value from their leveraged contributions.

CONCRETE BENEFITS TO THE U.S. ECONOMY AND AMERICAN JOBS

Direct U.S. Business Contracting: Over the last decade, U.S. firms and individuals received nearly 2,500 World Bank Group procurement contracts totaling over \$1.6 billion globally.⁶ World Bank Group contracts mirror the U.S. economy's increasing concentration in human capital-intensive services – with nearly two-thirds relating to the provision of consulting and advisory services. Roughly 30 percent of World Bank procurement contracts relate to the provision of physical goods. Examples of U.S.-sourced contracts include:

- *InterChurch Medical Assistance Inc (Maryland):* Nearly \$17 million over the last three years to provide basic health services to the needy in war-torn, and now newly independent, Southern Sudan.

⁴ U.S. Department of the Treasury (2011), FACT SHEET: General Capital Increases for the Multilateral Development Banks.

⁵ The Quality of Official Development Assistance (QuODA) assesses 23 donor countries and more than 150 aid agencies according to 30 indicators grouped in four dimensions: (1) maximizing efficiency; (2) fostering institutions; (3) reducing burden; and (4) transparency and learning. For additional details, see http://www.cgdev.org/section/topics/aid_effectiveness/quoda.

⁶ For details, see www.worldbank.org/procure.

- *Union Switch & Signal International (Pennsylvania)*: \$14 million to supply and install track signaling and traffic control systems in Brazil.
- *International Land System (Maryland)*: Roughly \$2 million last year to develop a land registry system in the Ukraine.
- *TCI International (California)*: \$15 million to provide radio spectrum management and monitoring systems in Bangladesh, Burkina Faso, Malawi, Nepal, and Samoa.

Secondary U.S. Business Contracting: *While the aggregate World Bank and other MDB procurement figures are substantial, they underestimate the true benefit to U.S. firms by a sizable margin.* This is because many U.S. firms – particularly large multinationals – sell their goods and services indirectly through third-parties. This explains why there are very few, if any, Fortune 100 companies listed in the MDBs’ procurement databases. Yet, General Electric is selling power turbines in Ghana through an AfDB loan. And last year, Tyco Communications completed a massive undersea cable contract in West Africa, which was also financed in part by an AfDB private sector loan.

I experienced this practice firsthand while working for California-based Cisco Systems developing public sector deals in Sub-Saharan Africa, the Middle East, and North Africa.⁷ Like many other companies, Cisco utilizes an extensive system of certified, local companies to deliver its networking and advanced technology products to developing country clients worldwide. For example, Cisco has nearly 500 certified partners in South Africa alone. These companies have their own sales staff that chase and build deals both independently and in coordination with supplier firms (e.g., Cisco). While companies like Cisco have modest local management and sales staff as well, their size and geographic coverage pale in comparison to affiliated third-party partners.

And the existence of these partner companies is good for U.S. businesses. They help to keep overseas staffing costs down, maintain strong profitability margins, and leverage in-house expert teams that often operate out of the United States. Put differently, companies like Cisco design the hardware (largely in the United States), build and assemble the products in dispersed manufacturing centers (including in the United States), and then leverage thousands of proxy partner firms to market and sell those products to developing country clients. This is the tried and true recipe for selling America overseas. While MDB procurement statistics do not accurately capture these exports, and the U.S. jobs they support, it does not mean that they are not a concrete reality. My direct involvement in indirectly selling millions of dollars worth of Cisco products through MDB-financed projects in Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, and Zambia suggest otherwise.

Ensuring a Level Playing Field: *MDB procurement policies help to ensure a level playing field for U.S. companies.* MDB contracts are posted publicly, transparently, and are open to all companies from MDB member countries. Their procurement policies are consistent with the Foreign Corrupt Practices Act (FCPA) – which explicitly forbids the bribery of foreign officials

⁷ Cisco Systems is a Fortune 100 company based in San Jose, California that designs and sells networking, voice, and communications technology products and services.

to obtain or retain business overseas. If illicit activities are proven, then the MDBs' disbarment procedures can, and do, disqualify associated businesses from future procurement contracts. In light of weak government institutions and corruption in many developing countries, these best practice policies help to ensure that U.S. companies can compete for business on the merit of their goods and services.

CONCLUSION AND RECOMMENDATIONS



In summary, the MDBs serve the interests of thousands of U.S. businesses through a variety of direct and indirect channels. In concrete terms, these firms export hundreds of millions of dollars worth of goods and services every year through MDB-financed projects in developing countries. Going forward, the U.S. government should actively consider a two-track approach for maximizing the opportunities presented by MDB assistance flows:

- First, it should help to maintain the MDBs' future financing capacity through the requested general capital increases and regular contributions to the concessional facilities, such as the AfDF and IDA.
- Second, the U.S. government should proactively work with the business community to identify ways to capture an even larger share of MDB procurement contracts. Among other things, this would entail enhanced usage of commercial diplomacy and advocacy overseas through the vast network of U.S. embassies.

United States House of Representatives
Committee on Financial Services

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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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