THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON U.S. JOB CREATION

HEARING

BEFORE THE

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INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

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THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON U.S. JOB CREATION

Wednesday, July 27, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:17 p.m., in room 2128, Rayburn House Office Building, Hon. Gary G. Miller [chairman of the subcommittee] presiding.

Members present: Representatives Miller of California, Dold, Manzullo, Campbell, Huizenga; McCarthy of New York, Moore, Carson, Scott, and Perlmutter.

Also present: Representative Green.

Chairman MILLER OF CALIFORNIA. The hearing will come to order. Without objection, all members' opening statements will be made a part of the record. On the opening statements, we have agreed to a limit of 10 minutes for each side, as previously agreed to with the ranking member.

Today's hearing is focused on the impact of the World Bank and the multilateral development banks on U.S. job creation. This is the second hearing in our subcommittee's consideration of authorization for the World Bank's regional multilateral development banks, or MDBs.

The United States is a lead shareholder at the World Bank and at regional MDBs. The Administration has requested contributions to the capital at these institutions, and has argued that such contributions are important to retain our leadership and position.

The hearing today will focus on how World Bank and MDBs assistance to middle-income and poor countries around the world contributes to the U.S. employment base. Through the development activities, MDBs help contribute to stability around the world, opening up markets for companies to engage.

By ensuring the global environment is stable, American companies can thrive and contribute to robust economic growth. Half of all global growth is expected to be in the developing world, which is estimated to lead to over $3 trillion in infrastructure spending. With MDB support, the developing world can be a source of economic growth and opportunity for American businesses.

MDBs also provide poor countries across Africa a nation alternative to China for development finance and natural resource development, allowing American companies access to these markets. Our subcommittee is interested in learning about how these MDBs help open markets and spur private sector-led economic growth and employment in the United States.

We want to explore how the U.S. leadership position at these institutions provides benefit to U.S. job creation. We also want to hear about the potential consequences, if any, for its economic interest of a delay or reduction in paying what is committed to these institutions.

Specifically, we would like the witnesses to discuss the impact MDBs have on the U.S. economy and U.S. job creation, the economic benefit to U.S. companies of U.S. membership in MDBs, how the MDBs help open markets and spur private sector-led economic growth and employment in the United States, and the consequence for global and U.S. economic interests of any reduction in the amount requested by the Administration for the MDBs or a delay in meeting the U.S. commitment to the MDBs.

We cannot lose sight of the fact that these requests are coming at a time when our country must focus on getting our own massive debt under control. While the United States has a vital interest in continuing to assist emerging economies, improve economic, political and social reforms, we cannot overlook the costs.

During these economically challenging times, Congress must continue to make the difficult choices necessary to reduce the debt and grow our economy. The American people are demanding that their government learn to live within its means and stop spending borrowed money.

The fact is, we simply cannot continue to borrow 40 cents on the dollar, and pass on the debt to future generations to repay. We must prioritize Federal dollars to ensure essential needs are provided for, and do more with less just as American families and small businesses have had to do during these lean economic times.

It is with these financial constraints at the forefront of our minds that this subcommittee will assess the Administration's request for funding. It is important for us to understand the benefit to the U.S. economy and job creation of continuing to assist emerging economies in implementing economic, political, and social reforms.

Before we act, we want to understand clearly the consequences to U.S. economic interests from any delay or reduction in the amount requested by the Administration. Since accepting the gavel for this subcommittee, I have said that our agenda will focus on four things: job creation; global competitiveness; economic growth and stability; and protecting taxpayers.

This is the lens under which we review the Administration's request for funding for MDBs. Our ultimate goal is to promote favorable conditions around the world for American companies in order to increase U.S. exports, and thereby create jobs in the United States.

I now yield to the ranking member for 5 minutes.

Mrs. McCarthy of New York. Thank you, Chairman Miller, for holding this hearing and examining the important role the World Bank and multilateral development banks play in the developing world, and why the United States' continued commitments to these institutions is so important for us.

Today, we will examine the role these institutions play in the global economy as well as the U.S. economy. Emerging markets in developing countries provide economical growth opportunities for U.S. businesses and U.S. exports. Recently, during a speech before the U.S. Global Leadership Coalition in Washington, D.C., Secretary of State Clinton said, "The growth of the developing world presents a major economic opportunity for America businesses today, and a thousand opportunities for tomorrow."

MDBs play a crucial role for developing countries, providing assistance to weak and fragile states to promote democracy. This helps advance our national security efforts and creates stable markets and fiscal prosperity. Empowering a country to move from poverty to a global middle class forces a desire and a need for American products, and provides an opportunity for U.S. businesses and U.S. job growth.

For example, products we take for granted such as phones and computers are being rapidly adopted by the developing countries. The United States has played a leadership role in crafting a policy agenda to ensure our financial contributions will be leveraged by other donors and borrowers, and that investments may be made to institutions directly that support our priorities.

If we do not maintain our leadership role, other global competitors such as China, who will not share our values, will undo the good reform work that has been adopted in these institutions. MDBs provide support in the areas of education, health, agricultural development, infrastructure development, and humanitarian relief.

As well, the institutions work to strengthen principles of good governance, fight corruption, and encourage human rights standards. By fulfilling our commitments to the MDBs, we remain globally competitive and strive to build a safer and a better world.

I recognize that we are faced with extremely difficult financial challenges in this country. As we work to address these challenges, we must remain committed to our economic recovery, and our participation in these institutions will allow us to do that. I would like to thank the witnesses for being here today, and I look forward to hearing your testimony.

With that, I yield back.

Chairman MILLER OF CALIFORNIA. Vice Chairman Dold is recognized for 3 minutes.

Mr. DOLD. Thank you, Mr. Chairman. I want to thank you for calling this important hearing. And I certainly want to thank the witnesses for your time and your testimony here today.

Since coming to Congress, my primary focus has been on improving the environment for job growth and economic expansion. And I hope we have broad bipartisan agreement that fully funding our commitments to the multilateral development banks will promote job growth and economic expansion, as well as also promoting our Nation's strategic security interests.

I believe that President Obama, congressional Democrats and Republicans, military leaders, and business leaders all agree on these points. However, many Americans and some politicians might not appreciate the value that Americans receive from our MDB leadership. And there seems to be a misimpression about how much money we spend on foreign aid and on MDBs.

According to a recent poll, Americans believe that the Federal Government spends approximately 25 percent of its budget on foreign aid. And then that same poll indicated that Americans would prefer if we only spent approximately 10 percent. The good news is that we really only spend approximately 1 percent of the Federal budget on foreign aid, and only a small fraction of that would be to fully fund the MDB commitments.

So the fact is, our MDB spending is far less than many Americans believe. And we cannot have any meaningful impact on our deficits and our national debt by failing to fully recapitalize these obligations. But in this economy and in this budget environment, every dollar counts, and Americans are entitled to ask what value we receive for these contributions.

How effectively does our MDB leadership promote job growth and economic prosperity right here in the United States? And that is why this hearing is so important. Our military leaders have repeatedly told us that our MDB leadership makes our Nation safer and more secure.

But our business leaders have also emphasized the vital importance of our MDB participation in promoting our own export markets, domestic economic prosperity, and domestic job growth. So I look forward to hearing our witnesses elaborate on how we can, with relatively little in terms of an investment, promote economic prosperity and job growth right here in the United States.

And with that, I yield back, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Mr. Carson is recognized for 5 minutes.

Mr. CARSON. Thank you, Mr. Chairman. Thank you. I want to first thank the Chair for holding this hearing, as clearly the World Bank and multilateral development banks are important aspects of combating poverty in developing countries, and our influential entities throughout the world.

Strategies and tactics employed by the Bank and MDBs are of utmost importance, especially when implementing programs that could influence job creation in up-and-coming economies, as well as the United States. I am interested today in learning more about how the process by which the World Bank and MDBs are providing loans and grants for development projects in various countries, and how these processes can be improved upon, as this will only benefit U.S. markets.

I understand that any project supported by an MDB must use an open procurement process devoid of any corruption. I would be interested in learning how exactly that is achieved, and how many more of these major infrastructure projects U.S. firms have won through the open bidding process.

I believe there is much potential here for significant job growth. The United States is, indeed, the largest shareholder at each of the MDBs, and as a result of their large capital base, each of these banks holds a triple-A credit rating. As such, they are able to borrow at favorable rates in the private markets.

However, as we grow near to the ever-looming August 2nd date Treasury has given us, how do you believe the potential for default will impact not only the credit rating of the MDBs, but also our very own credit rating, especially as credit rating agencies are threatening a U.S. credit downgrade?

During the economic crisis, private institutions sharply reduced lending to these developing countries and MDBs increased their lending to these nations which, in turn, depleted their capital. I am interested in knowing how negotiations to increase MDBs' capital are proceeding, and what headway has been made.

The United States continues to face a growing deficit. We want to ensure that the Administration's $3.3 billion funding request has adequate oversight and will be going to service things that actually fit. Finally, I do not agree that investments in MDBs and a strong World Bank help to advance the national security and economic interests of the United States.

We want to ensure that the money procured is actually going to the promotion of national security initiatives, preventing and mitigating financial instability as well as creating markets for varying forms of viable employment. Again, I am pleased the chairman has hosted this and I look forward to hearing your testimony.

Thank you.

Chairman MILLER OF CALIFORNIA. Thank you. I would like to welcome our panel of witnesses today, and introduce them to the public.

The Honorable James Kolbe—it is good to have you back here again—was a Member of Congress for 22 years, and served as chairman of the House Foreign Operations Subcommittee on Appropriations for 6 years. He is currently senior transatlantic fellow with the German Marshall Fund of the United States. He advises on trade matters and the effectiveness of U.S. assistance to foreign countries. It is good to have you back.

Mr. Robert Mosbacher, Jr., is chairman of Mosbacher Energy Company and past president and CEO of the Overseas Private Investment Corporation, OPIC.

Mr. James A. Harmon is chairman of Caravel Management, and chairman of the board of the World Resource Institute, WRI. Mr. Harmon is past president and CEO of the Export-Import Bank of the United States. It is good to have you here.

Mr. Benjamin Leo is a research fellow at the Center for Global Development. Mr. Leo has extensive experience in these issues through service to the White House, in the private sector, and at the Treasury Department. Prior to joining the Center, Mr. Leo worked at the White House National Security Council as the Director of African Affairs. Mr. Leo has also held a number of roles at the U.S. Treasury Department, focusing on development finance in Africa.

And finally, Mr. John Hardy is president of the Coalition for Employment through Exports, CEE. Mr. Hardy has spent his career both in the government and the private sector in the export, promotion, and project and trade financing sector. Mr. Hardy served as Deputy Director, then acting Director, of the Trade and Development Agency, before managing the private sector investment fund at the Agency of International Development.

Without objection, your written statements will be made a part of the record, and each of you will be recognized for 5 minutes.

Mr. Kolbe, you are recognized.

STATEMENT OF THE HONORABLE JAMES T. KOLBE, FORMER MEMBER OF CONGRESS, AND SENIOR TRANSATLANTIC FELLOW, THE GERMAN MARSHALL FUND OF THE UNITED STATES

Mr. KOLBE. Thank you, Chairman Miller, Ranking Member McCarthy, and members of the subcommittee. It is a great opportunity and a pleasure to be back here before this subcommittee and this committee in the House of Representatives.

As you already noted, Mr. Chairman, I did serve 22 years in the House. And 6 of those years were as chairman of the House Foreign Operations Subcommittee on Appropriations, the one that was responsible for providing the funds for the multilateral development banks, or MDBs.

During that time, I think I gained a pretty good understanding and level of respect for the work these institutions accomplish in some of the world's poorest nations. The MDBs play a role, and fill a gap in development assistance—and specifically in economic development—that I think is unparalleled.

They provide opportunities for developing nations to build economic infrastructure and capacity, create private sector growth in 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.

Ninety-five percent of the world's consumers, with 75 percent of the world's purchasing power, live outside of the United States. The combination of opening markets through trade agreements, and building capacity such as ports and roads, bridges, financial institutions, and trade finance provide opportunities for these developing nations to access the global market, and opportunities for developed nations to 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—or trade capacity building as we sometimes call it—is a practical example of aid as self-interest, not charity."

I could not agree more with that statement. There are humanitarian and moral reasons to invest in development assistance, but it is important—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 just several examples of countries that have significantly benefited from MDBs investments. And, in turn, so has the United States and our taxpayers and our consumers. U.S. exports to India have nearly quadrupled. Exports to Brazil have more than doubled in the past decade.

Both of these countries were substantial recipients of World Bank and regional development bank investments not long ago. The United States has increased exports by more than 200 percent to some of these nations, with the help of the work that has been done by the MDBs.

In 2008 and 2009, the MDBs played an important role in the global economic recovery. With a sharp decline in capital flows and trade finance to emerging developing nations, MDBs increased their commitments to help stabilize these economies and, in essence, stabilized these countries at a time of global economic instability.

They were able to fill a gap while the United States 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 global trade liquidity program.

Because of their multilateral structure, the MDBs have the means to leverage U.S. dollars wisely for effective development assistance. According to the U.S. Treasury, for every dollar the United States contributes, the MDBs leverage $25 of multilateral development aid. Specifically, the U.S. contribution of $420 million to the World Bank has supported $325 billion of 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, or IDA, for example, is one of the largest sources of assistance to the world's poorest countries, 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. 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.

As you mentioned, I serve as the Senior Transatlantic Fellow at the German Marshall Fund of the United States, an institution that stands as a permanent memorial to the Marshall Plan. The 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 United States to maximize development assistance with limited resources. The same is true for the MDBs, which were created as a means for nations to cooperate and to partner on development and economic priorities. And I would add the same is true for partnering with the private sector on development assistance, and you are going to hear more about that today.

Countries like China are ready to fill the gaps that the United States, Europe, and other multilateral institutions leave open. This is occurring in both developed and developing countries. While the MDBs create opportunities for U.S. trade and investment, the Chinese provide opportunities for Chinese trade and investment.

As China's economic influence grows, so will their overall global influence. Let me conclude, Mr. Chairman, by saying that I recognize the very tough budget constraints Congress faces at a time of high unemployment, slow economic growth, and the burgeoning debt.

And I do not think that all MDBs are the same. They are not all equal. It is the responsibility of this committee to look at them very closely and see which ones have been the most successful in leveraging those dollars, which ones have been the most successful in helping lift these countries out of poverty and into economic growth.

So, I think that the money is really not about development assistance. It is an investment, and I think it is a successful investment. It is aid as self-interest, not charity. I thank you for the opportunity to testify before you today, and I look forward to questions.

[The prepared statement of Mr. Kolbe can be found on page 46 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Kolbe.

Mr. Mosbacher?

STATEMENT OF ROBERT MOSBACHER, JR., CHAIRMAN, MOSBACHER ENERGY COMPANY, AND PAST PRESIDENT AND CEO, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. MOSBACHER. Chairman Miller, Ranking Member McCarthy, and distinguished members of the subcommittee, thank you very much for the opportunity to appear before you regarding the impact of the World Bank and multilateral development banks on U.S. job creation.

As our country struggles with massive deficits and tragically high unemployment, it is only natural that someone question the wisdom of the United States' contributions to the World Bank and multilateral development banks. Given the fact that MDBs focus more on middle- and low-income countries and not the United States, the temptation of some might be to cut back on our contributions and to refocus those resources elsewhere.

And yet such a decision would be extremely shortsighted, in my judgment, because it would negatively impact job creation at the very time when we are trying to rebuild our economy.

I spent 28 years helping run a family business, an energy business located in Houston, Texas. And we operate primarily on the Gulf Coast of the United States, but we have also done business and operated in Los Angeles, North Africa, Asia, and the Asian subcontinent.

Starting in 2005, I served for over 3 years as president and CEO of the Overseas Private Investment Corporation, an independent agency of the U.S. Government, that operates profitably and helps facilitate U.S. private capital investment in the developing world.

I have had the opportunity to witness firsthand the emergence of an interdependent global economy, and observe the critical role that the MDBs have played in that growth. And I believe the United States in general, and American businesses in particular, derive significant economic benefits from the contributions to MDBs.

I urge the Congress to continue that support. There are a few statistics I would like to touch on, and by the end of this hearing, you will have heard all these 3 or 4 times. But nearly 95 percent of the world's customers, as Jim said, live outside our borders, and they have three-quarters of the purchasing power.

One in three acres of American farmland is planted for consumers overseas. One in five American jobs is related to trade. For every 10 percent increase in U.S. exports, there is a 7 percent increase in employment. Over 280,000 small and medium-sized businesses export, and that amount is nearly one-third of all merchandise exports.

Now, you can ask, what is the role of the MDBs in this scenario, and why should taxpayers support them? The answer, very simply, in my judgment, is jobs. It is in our own enlightened self-interest to access new markets, new customers, and compete on a level playing field.

Half of U.S. exports go to developing countries, and those markets are growing 3 times faster than exports to the other countries. We often hear about Brazil, India, and China. But, for instance, the 53, 54 countries on the continent of Africa will soon represent a consumer class of over a billion people.

The MDBs are the most effective players in opening new markets and creating more favorable environments for business growth and investment. And using their leverage with governments, derived from the loans, and from the financial expertise they provide, the MDBs have been instrumental in establishing better governance, promoting more transparency in decision-making and bidding, and building stronger structures for the rule of law.

Make no mistake about it. Corruption is and has been a plague on African economies, Latin American economies, and Asian economies that are in the emerging markets, and it is a fight day-to-day to overcome that. But progress is being made.

I would like to focus the balance of my remarks on two specific sectors in which some of the MDBs have focused great attention and have had a hugely critical role in facilitating growth: the first is financial services; and the second is infrastructure. With respect to financial services, the truth is that most small and medium-sized businesses that will generate the vast majority of jobs—not just in this country, but around the world—have no access to credit or capital in most of the emerging markets, most of the developing world.

As a result of this, you do not have the growth capacity, you do not have the hiring capacity. But most importantly, you do not have the capacity to buy U.S. goods and services that would be enabled by having a line of credit at a bank or the capacity to borrow money on any kind of a long-term basis.

In recent years, that has begun to change, largely because of the IFC of the World Bank, of the ADB—or the African Development Bank, the Asian Development Bank, all of which have supported greater access to credit for SMEs with real results. This results in SMEs—again, in these countries—beginning to purchase American goods and services and products.

With respect to infrastructure, the absence of sufficient electricity, water, roads, etc., continues to be a huge challenge to the developing world in realizing their economic potential. Over the next several years, you will see massive investments in infrastructure, and I am thinking particularly about electric power.

Here again, this represents a wonderful opportunity for American companies to construct dams, to construct power plants, to operate power plants, to sell gear. And this is an opportunity that we should not lose. The MDBs are the principal financers of these projects, sometimes with commercial banks, sometimes without.

But they are the lead party. You take them out of the game and you leave the Chinese in charge. And with the Chinese comes Chinese political influence, as well as Chinese approaches to transparency in governance, which I do not think most of us support.

So in conclusion, I urge continued support of the MDBs for a host of reasons, not the least of which is the critical role they play in helping American businesses sell goods and services to the 95 percent of the world's customers who live outside our borders.

More exports, more investment, and freer trade are the only ways that we are going to generate the kind of broad-based economic growth and prosperity for our citizens that we all desire. Thank you very much.

[The prepared statement of Mr. Mosbacher can be found on page 55 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Mosbacher.

Mr. Harmon, you are recognized for 5 minutes.

STATEMENT OF JAMES A. HARMON, CHAIRMAN, CARAVEL MANAGEMENT LLC, AND FORMER PRESIDENT, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HARMON. Thank you, Mr. Chairman, and Ranking Member McCarthy. My goal is to try to make a case without repeating what you have just heard, which is all very logical. Plus, they did it in the New York style, which was very quick, staccato fashion. And that is the challenge I have undertaken in the 5-minute rule.

First, I want to say that I am particularly proud of Ex-Im Bank. During the 4 years I was chairman, from 1997 to 2001, we increased support for exports to Sub-Saharan Africa from $40 million the first year to a bit more than a billion dollars in the fourth year.

The AGOA legislation was helpful. I thought that was a good piece of legislation, and that it memorialized the work of the Ex-Im Bank in Sub-Saharan Africa. My first experience with the World Bank was the $3.5 billion Chad-Cameroon project, the largest project finance done in Africa at this time.

Ex-Im would never have done that were it not for the World Bank. We looked to the World Bank to give us comfort in a number of different areas. There were controversial aspects to it, but were it not for the World Bank, Ex-Im would not have done it. And Chevron and Exxon, which invested $3 billion in that pipeline, and very significant exports were supported, I give credit to an excellent structure that was created by the World Bank at that time.

When I graduated from public service—and you should all know there is life after public service—we formed a fund to invest in the poorest parts of the world. Probably no one has ever testified in Congress before who ran a fund that invests in, I will say somewhat sarcastically, failing states.

But we actually invest throughout Africa, in some of the poorest countries there. Also in Pakistan, in Lebanon, and throughout the Middle East. Our returns, in 7 years, are a little bit more than 19 percent compounded annually. And we are buying marketable securities that can be priced every day.

So therefore, first, you can do well by actually investing in these countries. The role of the World Bank and the African Development Bank in encouraging us to make these investments, and understanding the countries and the companies, was important. Where we saw the World Bank and where we saw the African Development Bank doing work, for example, in a country like Rwanda—that encouraged us to take a look at Rwanda.

Two years ago, we started to invest in Rwanda. We have invested. Rwanda has made remarkable progress in the last 18 months to 2 years. So we have invested in the two public offerings they have done. Both have done extremely well. I give the World Bank and the African Development Bank a lot of credit for the growth that Africa, Sub-Saharan Africa, has experienced since I finished public service—which is running now at maybe 5 percent per annum.

So improving governance, democracy, transparency, and the rule of law are all very good things that the World Bank does. I jump ahead to January of this year. I was asked to be the representative from the United States to the G20 panel on studying ways to increase funding for infrastructure in, first, Sub-Saharan Africa, but in other states as well.

Each of the G20 countries has a representative. It is very interesting. It was the first time that I have seen the power of the Chinese in meetings. So I sarcastically say that when each one of us was speaking, there was always someone else who was not listening or was typing on their BlackBerry.

But when the Chinese representative spoke, no one took out a BlackBerry. The power that the Chinese now enjoy in the developing world, the significance—there are five Africans who are on this G20 panel—of their role in China I cannot understate, it is so important.

During this period of time, I might say, the Ex-Im Bank has dropped from maybe 2nd or 3rd in size to maybe 12th or 13th in size in supporting exports relative to other export credit agencies. So, we are not doing a particularly good job. Not that I am critical of Ex-Im Bank, but the structure of our export credit agencies is not as competitive as it used to be.

If we take away any support for the World Bank and the development banks, this is going to hurt us. It is going to hurt us relative to the position we have in China. It is going to hurt us throughout the developing world. The world is watching what the United States does all the time.

They already think we are dysfunctional in our government practices for all the reasons that we know. But if we stop support for the World Bank and the other development banks, we are not only losing a good investment opportunity, but we will lose a power base.

I suspect that China will, whatever we do, continue to be a very strong factor throughout the developing world. There is not a country that we invest in, in the poorest parts of the world—from Pakistan to Zimbabwe, to Lebanon, to all over Latin America—where the Chinese are not present.

I am not sure the Members of Congress fully understand where China is coming from or where they are going, but the last thing we need to do is to slow down our support for a World Bank and the multilateral development banks. Thank you for having me.

[The prepared statement of Mr. Harmon can be found on page 42 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Harmon.

Mr. Leo, you are recognized for 5 minutes.

STATEMENT OF BENJAMIN LEO, RESEARCH FELLOW, CENTER FOR GLOBAL DEVELOPMENT, AND FORMER TREASURY DEPARTMENT AND NATIONAL SECURITY COUNCIL OFFICIAL

Mr. LEO. Thank you, Chairman Miller, Ranking Member McCarthy, and members of the subcommittee. I appreciate the opportunity to speak about this issue, which I am very passionate about and have spent a lot of time looking at.

While my written statement addresses a number of issues, some of which the other witnesses have touched on, I would like to focus on just a couple of key points. First, the MDBs have a very influential, key role in generating and helping to establish the next generation of emerging markets.

I think India provides a really interesting example of the MDBs' role, economic growth, and U.S. support in contribution all come together in a way that is very beneficial for the United States, for U.S. firms, and for job creation as well.

Over the years, the World Bank and the other MDBs have provided a significant amount of assistance to India to help build out its infrastructure, to reform its government policies, and a number of other areas that have a really important impact in terms of creating an environment that is conducive for the private sector.

In the next couple of years, India is expected to graduate from the concessional assistance that is provided by the International Development Association, the soft-loan window of the World Bank, and move on officially to middle-income status.

India is by no means an outlier in this case. According to my research, over the medium term, the near to medium term, about another 2 dozen countries who are currently low-income are going to follow, as well. In those cases, while you cannot say exactly in very quantitative, specific terms the role that the MDBs have played, we know without any doubt that they play an important role.

You just cannot exactly quantify it in terms of the things that I mentioned before—infrastructure, the environment, effectiveness—in those areas. What does that mean in terms of the United States? Some of the other witnesses have touched on this. I will try and use some different statistics for you.

So, five countries, the next ones that I expect to graduate from IDA and move on to middle-income status: India; Nigeria; Ghana; Zambia; and Vietnam. Collectively, those countries have grown. Their economies have grown fourfold over the last 2 decades.

But more importantly, U.S. exports to these countries have grown almost ninefold over the same period. So the role that the MDBs are playing in promoting economic growth is having a direct impact here at home. Just very briefly, as these countries move on to the hard-loan windows like the International Bank for Reconstruction and Development, that is going to mean that there is going to be a lot more demand for those resources.

They are going to need more capital to be able to handle it, and to continue that process of promoting economic growth and helping U.S. firms. One thing that has not been stressed as much, coming out of the global economic crisis, or immediately after it, the MDBs stepped up big-time to plug holes, to try and minimize the fallout in the developing countries, as well as maintain some market confidence in those places.

It had a very, very big impact for U.S. companies. Before I joined the Center for Global Development, I was at Cisco Systems doing business development in Sub-Saharan Africa, the Middle East, and North Africa. And what we saw in those first months—maybe 6 months, 12 months—after the crisis struck was that the contract opportunities that were stable were almost always MDB contracts.

I did public sector sales. The government contracts almost completely dried up. So the MDBs were where we still had opportunities, and that is what was driving our sales numbers. It was very powerful. In terms of that procurement, just a couple of points on this.

The direct benefits to U.S. firms are quite significant. Over the last decade, from just one of the MDBs, the World Bank, directly sourced contract awards, total about $1.6 billion. While that is large, in my view it substantially underestimates what the true impact is.

And again, I go back to my experience at Cisco. If you look at their lists of who won awards that are U.S. firms, you do not see any Fortune 100 companies on there. There is a reason for that. Because most of these firms are not directly bidding on the contracts. They are using third parties to then sell their goods.

That is how Cisco does business throughout the world. So while Cisco was not in those databases, I personally was involved in millions of dollars of sales in Nigeria, Zambia, South Africa, Kenya, and Egypt which were financed by MDB projects and loans.

Now lastly, on this issue in terms of the procurement, I think if you look at the MDBs, there is a very clear, profound benefit in the fact that their procurement standards are world-class—transparent, open to all countries that are from countries of their MDB members, and very fair.

My experience, compared to trying to win contracts that were financed by the MDBs, compared to host governments in some of the more difficult environments, it was night and day. We would never have tried to—there were a number of markets where we would not even try to go after the contracts at all because it was so nontransparent, unless they were an MDB contract.

And when we were competing with the Chinese, it was an equalizer. Huawei is their big telecom company. We lost a lot of business to Huawei in the nontransparent environments. We could fight head-to-head with them on MDB contracts. So it has a very important impact.

I will stop there, and thank you for the opportunity. And I look forward to any of your questions.

[The prepared statement of Mr. Leo can be found on page 50 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you, Mr. Leo.

Mr. Hardy, you are recognized for 5 minutes.

STATEMENT OF JOHN HARDY, PRESIDENT, THE COALITION FOR EMPLOYMENT THROUGH EXPORTS (CEE)

Mr. HARDY. Chairman Miller, Ranking Member McCarthy, and members of the subcommittee, the Coalition for Employment Through Exports thanks you for the opportunity to testify on the impact of the multilateral development banks on U.S. job creation.

CEE has a number of members who are actively engaged with the World Bank and other MDBs. We are also joined in this testimony by the National Foreign Trade Council. It is a strong supporter of the capital increase for the MDBs, and supports a broad pro-trade agenda.

As you have heard from the previous witnesses, the impact the MDBs have on U.S. job creation is significant for several reasons. And I will try and keep this brief. The World Bank and the regional MDBs reflect the continuing commitment of the developed world to eradicate poverty and give people, wherever they live, the opportunity for a better, healthier life.

It was not long ago that countries like China, India, Indonesia, the entirety of Sub-Saharan Africa, and much of Latin America were mired in poverty. After decades of work by the international community, through the MDBs, the situation for these countries has changed dramatically. These countries now have a growing and dynamic middle class that are potential customers of U.S. companies.

A second benefit of the MDBs we are seeing today—that is, as the most dynamic portion of the world's economy is located, to a significant degree, in the emerging economies—their success has created new trading partners for the developed world, but particularly for the United States.

The countries with which we are now trying to complete free trade agreements were all beneficiaries of loans from the MDBs. And many other emerging markets are even now recipients of MDB funding. A prime example is India, whose trade with the United States could well make its firm some of the largest users of the Ex-Im Bank.

The successful transformation of these countries is due in substantial part to the MDBs. These countries have become inextricable parts of the international economy, and increasingly significant participants in the global trading system.

The third benefit of the MDBs is reflected in the fact that the projects and activities themselves represent export opportunities for U.S. companies. MDB funding, coupled with resources contributed by the countries themselves, represent a vast opportunity for private business.

The needs are immense, not only in infrastructure and energy, but now in medical equipment, IT services, communication systems, and the like. And U.S. companies are ideally situated to pursue these opportunities. Let me provide you with the example of Philips Electronics North America, a prominent manufacturer in the health care and green energy sector which has partnered with the MDBs for over 15 years.

Philips provides high-quality medical equipment that they manufacture in the United States, such as MRIs, CT, and ultrasound machines, patient monitors, ventilators, ECG equipment, and cardiac defibrillators to developing countries through MDB programs.

A senior Philips representative had this to say about the company's experience work with MDBs: "Philips has witnessed firsthand the economic development benefits the MDB-funded projects confer on recipient countries, through our procurement experiences throughout the emerging markets." And they have listed, in the testimony, about 15 or more countries.

"This benefit does not inure solely to the developing country. However, as we also have recognized the role MDB projects play in helping to maintain our U.S. employee base of 25,000, and potentially to create new highly-skilled U.S. jobs through the promotion of exports, as U.S. markets have declined or remained stagnant over the last several years, developing countries have led the world with double-digit growth rates.

"MDB procurement programs offer U.S. manufacturers unique opportunities to enter these vibrant developing markets through a transparent and accountable procurement system that limits the commercial risk.

"Moreover, manufacturers gain from the ability to increase their exports and to establish themselves within these growing consumer markets and develop a strong market position. These opportunities help to expand the overall U.S. industrial export base, supporting President Obama's goal of doubling U.S. exports by 2014."

As reflected in the above statement from Philips, a significant attraction to MDB processes is the existence, over the long term, of strong procurement standards that ensure transparency of process and accountability in terms of outcome. These elements are vital to promote multilateral development goals, while maintaining the highest standards of integrity and transparency in global procurement.

We hope the subcommittee will monitor any dilution of these time-honored standards. Accordingly, we propose the following recommendations to the World Bank and the other MDBs to ensure a predictable and accountable procurement system for all bidders: maintain the current international competitive bidding procurement standards and bidding documents; maintain bank procurement oversight of projects involving complex solutions and projects over the current procurement thresholds; enhance mechanisms for dialogue with civil society; ensure that any innovation which involves substantial changes to the existing procurement standards and processes will be tested through a pilot phase; and ensure that any proposed procurement changes should continue to provide real-time effective recourse to bidders for procurement issues, including oversight by the integrity units of the MDBs.

We thank the subcommittee for the opportunity to submit this testimony regarding the important role of the MDBs, and I am happy to answer questions. Thank you.

[The prepared statement of Mr. Hardy can be found on page 38 of the appendix.]

Chairman MILLER OF CALIFORNIA. Thank you. I thank each of you for your testimony. It was very informative.

The goal of this subcommittee has been to focus on jobs. How do we create opportunity for American businesses, thereby creating jobs in this country? I think we did a very good bipartisan job on Ex-Im, and our goal is to accomplish that here.

And Chairman Kolbe, it is wonderful to have you back here with us again. It brings back a lot of memories, I know, for both of us. In your testimony, you talked about the important role that MDBs played in the global economic recovery.

Will you comment on how this fits into the broader efforts to stabilize and improve our economy here in this country?

Mr. KOLBE. Mr. Chairman, it does definitely fit into the broader stable of broader and more stable economy here at home. Because we live in a—it is trite, but we have said it before and we all know it is true—world that is increasingly a globalized economy, it is important for us to not only have access to markets abroad, which can be found through trade agreements, but also through investments which are being made abroad. We also increase our investments and our trade abroad when these economies grow.

You have heard many of the statistics that have been repeated here today about how it has happened in countries like India and Vietnam, how we have had a ninefold increase in our exports to those countries, while their economies have grown substantially.

Part of that growth comes about as a result of the investments that we make in these MDBs, not all it or even the major part of it, but it certainly is a piece of it. So that is why I said, in my last paragraph or so, my closing remarks, that we are not talking about charity here.

We are talking about investments. And I do understand the really difficult position that you find yourself in today, with the enormous debt that we are facing, and the difficulties of trying to match that with the revenues.

So I think it is important that as you do, you think about what things are really investments—investments in jobs, investments in the economy, investments that will help to grow this country. And, as a result, increase the revenues for the U.S. Government.

I think the MDBs clearly do that. There have been a lot of studies done that demonstrate that fact. I cannot tell you here today exactly what the different kinds of replenishments that are being talked about, exactly how many jobs it is going to create. But I do know that it is going to help the economy here in the United States. It is going to help jobs here.

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. Leo, and Mr. Harmon, you both talked about the situation with China. What do you think MDBs should do to become an attractive alternative to countries like China for developing finances?

Mr. Leo, then Mr. Harmon? Either one?

Mr. HARMON. May I add something to what was just said now?

Chairman MILLER OF CALIFORNIA. Sure.

Mr. HARMON. U.S. share of global consumption between 2002 and 2008 went from 38 percent to 28 percent—38 to 28 percent. That is U.S. share of global consumption. The emerging markets, including the BRICs and all the other frontier countries, went from 23 percent to 33 percent.

It is only a question of time before global consumption—emerging markets, all the markets that we are talking about today—will exceed 50 percent. So if the United States intends to export into that world, and to pick up this new consumption with the growth of the middle class, it needs the MDBs and the World Bank to continue to play the critical role that they have played.

Chairman MILLER OF CALIFORNIA. They share, as partners, with the Ex-Im Bank, in many cases.

Mr. HARMON. Yes. We just would not have done it unless we felt comfortable with what the World Bank was doing in all the major projects. I think it is still done. The World Bank takes the leadership role there in these major infrastructure-type transactions on projects.

Chairman MILLER OF CALIFORNIA. Okay.

Mr. Leo?

Mr. LEO. Mr. Chairman, just a couple of quick additional points. And I think Rob Mosbacher actually mentioned this a little bit previously.

There are a couple of things in terms of what the MDBs can do on the China issue and the influence issue. The first is the one that I mentioned briefly on the procurement standards. The procurement standards are a great equalizer and an opportunity-creator for U.S. firms.

So, the more money that is channeled through those types of systems, the better it is for U.S. business. And the MDBs not only are helping create those with their own dollars that they are allocating on the ground, but they are also playing very active roles in terms of trying to reform the countries' procurement standards themselves.

So non-MDB financed; it has a positive spillover effect, which I think is very important.

Chairman MILLER OF CALIFORNIA. They are modifying the system in large—

Mr. LEO. Exactly. The reform.

The other issue which has been mentioned a couple of times now, is if the MDBs are not in a couple of sectors—say, for example, hydropower in Africa—it is going to be the Chinese who build those dams, which means GE is not going to be selling turbines.

And it means that the impact on the local communities is going to be much more significant than it would be if an MDB was involved in the project. We are seeing this in Ethiopia. The African Development Bank got pushed out of a deal, and all of a sudden a number of the safeguards that were negotiated with the Ethiopian government are no longer there, including some assistance packages.

And I will be extremely surprised if any U.S. companies are able to win some procurement contracts from that particular project.

Chairman MILLER OF CALIFORNIA. Thank you. I have many more questions, but I ran out of time.

Ranking Member McCarthy, you are recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you. And I want thank everybody for their testimony. It was actually a pleasure reading everybody's testimony because you were all on the same page. So when the chairman says this is definitely a bipartisan issue for us, it is.

But there is one issue that I want to explore a little bit further, because we are in Congress. At times, we have to explain to our

Members why this is so important. I want to go back to the China issue, because I do not think people understand. If we do not pay our share into the World Bank, we lose a rating, which means someone who comes in will pay a higher share. I would appreciate it if anybody here would explain that to the panel.

Mr. LEO. The MDB that I know the best that is relevant on this issue is the African Development Bank. If the United States does not provide its contribution for the general capital increase that creates an opportunity for other members of the institution to buy those shares.

So our voting share declines, and China could come in—or another country, but more likely it would be China—and pick up those shares.

Which means beyond just the symbolic effect, the message—which is very damaging for U.S. influence worldwide—has very direct institutional governance implications, as well, in terms of what the United States is able to push through, in terms of the institution, some of the kind of governance issues.

So it is a huge danger. And I hope it is one that does not come to pass.

Mrs. MCCARTHY OF NEW YORK. I guess I want to follow up on that. Because from what I understand from the reading that I have been doing, it puts our values on it. We have our values to be able to put on to the say on how we work with the money in the World Bank.

And I think that is important for people to know. With that, Mr. Harmon, with your experience in developing countries, I am interested in your thoughts on the positive involvement of MDBs, and how U.S. participation has impacted developments within these institutions.

I believe it was the Congressman's testimony that talked about how hard it is for us to go home and sell this to our constituents. I get yelled at all the time. And I try to explain to them, we only use basically 1 percent of our national budget to be able to do all the things that we do.

But again, this is about jobs, and how many jobs we can bring into this country. So if you could expand on that, I would appreciate it.

Mr. HARMON. Thank you. If I could just add one thing to the last point, I think the Chinese run as a non-member of the OECD. They do not have any environmental standards. They do not have any of the rules. So they are delighted to operate independently.

And even the representative from China, who was at the G20 panel with me, we have gotten to know each other a bit—recognizes this extraordinary advantage to be able to go to the countries in Africa, or anywhere—whether it be Pakistan or whether it be the Middle East—and propose projects which have no environmental standards. It gives them a big advantage in selling the product.

Also, the fact that they do not have to be concerned about interest rate factors. It is no wonder that China's export credit agency now supports $250-plus billion, and is heading towards a much larger number. We have to wake up to the fact that they are operating with a different set of rules.

The only way we can really continue, in my opinion, to even come close is by keeping the World Bank and the multilateral development banks strong. Because there, at least as Mr. Mosbacher has alluded to, you have a much better chance of winning business for the U.S. side.

Because in those areas where procurement involves the development banks, we have close to a level playing field, but still not a level playing field. So I am very concerned. Even if we support them, as I think we have to, we are still running against a very tough rival and competitor in China over the next 5 years.

Mrs. MCCARTHY OF NEW YORK. I agree.

Mr. Leo, in your testimony you recommend that government play a role in helping U.S. companies win more MDB procurement work. Could you go into a little bit more detail on how we might possibly do that?

Mr. LEO. Yes, I have some thoughts. And I think a lot more thinking needs to be done. My thoughts are more from experiences of going after some of these contracts for a couple of years.

I think there is a very strong role that the U.S. Government can play from a commercial advocacy side. Whether it is an MDB project that you are bidding for or some other type of contract, in certain circumstances, in particular an experience that I had in Nigeria, I was able to see how powerful it could be.

And it was not necessarily, or it was not at all, an issue of undue influence. It was more that when the U.S. Government got involved, it was to stress that we needed transparency, that we needed a competitive environment, and those types of equalizing messages.

And it gave me a fair shake to try and get business. So whether it is an MDB project or not, I think that this should be looked at much more closely. Now within that context, I think that there could be a fair amount of rationalization within the embassies in terms of their presence, where they are focused on growing certain embassies in this space, and moving others around.

I think there is probably a number of other pieces that could contribute to a broader strategy, which is a pro-export, pro-growth strategy in the MDB procurement space. But this is just one issue.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Chairman MILLER OF CALIFORNIA. Vice Chairman Dold, you are recognized for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

Chairman Kolbe, if I can just start with you, in your oral testimony you had mentioned, in wrapping up, that not all multilateral development banks are created equal. They are not all doing as well as some of the others. Do you have any in mind that are not performing as well right now that we should be looking at and focusing in on?

Mr. KOLBE. I thought I would not play the picking the winners and losers here today. But I do think that it is worth—and there is a good deal of data available that you can look at that can show which ones have been better stewards of the money, and which ones have projects that have suffered from more corruption and misuse, and have not been completed.

I think that some of this data can be put together and you can get a pretty good track record from them in terms of determining which ones have done the best. I want to make it clear that I think, in general, the MDBs have done a good job.

But I think there are some that do better than others.

Mr. DOLD. And I will certainly follow up with you to try to get more of that data. Because I would like to look deeper into that.

One of the things that I was actually surprised about—and I know this is really more focused in on jobs—is the fact that we did not really talk about national security and how the banks actually will help us in terms of our own security abroad, how we are able to influence those emerging markets and the like.

And I am sure we can get into that a little bit. Mr. Mosbacher, you talked about how supporting the banks is really supporting jobs. We are going to try to go back and sell this. Certainly, I think we are all pretty much on the same page. Can you give us some specific examples?

Mr. Hardy talked about exports and the statistics about how for every billion dollars we increase in exports, I think the statistic is we create about 6,250 jobs here in the United States. And that is something that I think that we ought to be focusing on.

But with the banks right now, can you give us some success stories that we can use, not only for our fellow colleagues, but back in our districts about wins that the development banks are doing for American business?

Mr. HARDY. You could take the area of our sector of infrastructure as a great example. And, beyond the sale of turbines by GE or sale of large pieces of equipment that American companies compete for, there are also an extraordinarily large number of smaller parts and controls and items that are manufactured in towns all over America.

What we do not do a good job of is tracking how those collectively all add up to jobs. And that is why some of the statistics, I think, are overwhelming in terms of the importance of growth in exports, growth in sale of services to growing our economy.

I just do not see the growth in the United States at a level or at a breadth that will drive the kinds of job creation or the kind of job creation that we are seeking. In the infrastructure field, it is not just the small parts or the big parts. It is also the management of these projects.

There are companies like AES. Or there is a little company out of New York called ContourGlobal that just built the first 100-megawatt project in Togo, for instance. And again, financed with support of international financial institutions. Commercial banks would not touch it.

And that is going to be the pattern you are going to see in so many of these developing countries is you just will not get commercial banks to take that risk without a backup from an MDB. So as we look at how do we sell more equipment, how do we sell more systems, how do we sell more management and controls, I think the MDBs are going to play an integral role.

Mr. DOLD. Certainly, I understand your point on the small businesses. We have 650 manufacturers back in the 10th District. It is the third-largest manufacturing district in the country, which is surprising to most, just north of Chicago. And we get that. We need to make sure that we are beefing up those parts that are getting sold.

Are we getting an advantage because of the MDBs? Does America have some sort of a competitive advantage in winning that business?

Mr. HARDY. I think we have a competitive advantage if there is a relatively level playing field. I am quite confident that we can compete effectively. But I have also seen playing fields that were not level at all, and the fields of the sort that Ben Leo has mentioned, for instance, or Jim Harmon has mentioned, which the Chinese have come in with.

And we have been negotiating to try to get them not only to do open, competitive, transparent bidding, but also to lay out specs on the bids that we can all comply with. The Chinese show up, decide, "No, we are just going to negotiate this situation with you. No reason to go through this open government thing." And the next thing you know, there is a big, front-end-loaded cash contract with all sorts of frills that the United States companies have absolutely no chance of competing with. So, level the playing fields.

The MDBs are the principal referee in a lot of these games. And where they are the designated referee, we have a chance. Where they are not, in markets where the Chinese are interested, it is a tough fight.

Mr. DOLD. I thank you.

Chairman MILLER OF CALIFORNIA. Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

I find this to be a really fascinating subject, and I really enjoy this subcommittee, because it is getting right to the heart of an area I care very much about. I think it is important to state just how significant you are, particularly in relationship to the fact that our contribution to foreign aid period is about 1 percent of our overall budget.

And the amount that we contribute to the MDBs is just 5 percent of that 1 percent, which amounts to 0.05 percent of our overall budget. We get great returns for that. But I think it is somewhat puzzling that in challenges we are measuring the success of what we want to do with an organization whose primary aim is international development, by how many jobs they create in our country.

Which is a challenge to all of us, as you were pointing out, Mr. Mosbacher. And I share that concern. It is sort of like measuring the success of a car by how well it floats. That is not the function of what this is. But it is noble, and it is what we all care about.

But I want you to explore that a little bit as we move forward on the difficulty of that. And our challenge is, how do we really make that happen? But I do want to mention something else. Mr. Kolbe and you, both, and I think Mr. Harmon, mentioned something that I am very, very concerned about.

And that is China. I especially feel like the real future area of the greatest magnitude of benefit and opportunity is on the continent of Africa. And so I went there, and went into the dark heart of Africa. If you are familiar with Africa, when I tell you I went to Goma, I think you will know I really went into serious Africa.

And an interesting thing happened. The natives over there would come up to us as we went from place to place—and this is a serious, serious, devastating place, with the lava and all of that and all of the fighting that is going on—and they kept saying to me that the Chinese are here, the Chinese are here.

And I would hear that where we are going. I was shocked. But come to find out, they are really there. And they are building railroads, they are building schools, they are building hospitals. And it seems that the only thing that they want in return for this, I found out is, their requirement is that they learn Chinese.

That is very interesting. And if that story does not motivate us in this country to understand that China is serious competition and we truly need to realize that we need to really step up to the plate and really become competitive in this in our efforts.

And we might want to change our measurement, or at least expand it, to not only just the jobs that we can get back in this country from this. But the measurement and our role in being competitive with China.

But my question is, I wanted to ask if you could elaborate. This is kind of a difficult challenge here, measuring an institution whose basic aim and basic consequences—international aid and development—we measure success on the number of jobs it creates here.

Just how serious is this box that we are put into? Mr. Mosbacher, would you respond to that?

Mr. MOSBACHER. I think part of the problem is that many of the MDBs do so many different things that it is hard to identify job creation or opening a market distinctly with that MDB alone. It is a variety of factors. Some would argue that democracy and governance is every bit as important, and improvements in democracy and governance are every bit as important as economic development.

But I am convinced that the MDBs facilitate, enable, and in many ways actually drive investment into markets where there simply has been nothing going on. Until they get there, you do not see anything going on. And then all of a sudden, things start to happen. And then it has kind of a demonstration effect on other businesses who will come in and invest.

Jim Harmon is willing to go do private equity deals in places that would strike most Americans as extraordinarily challenging because he has been there and he knows high-risk, high-reward.

Mr. SCOTT. No, I want to just get one—

Chairman MILLER OF CALIFORNIA. Unanimous consent to give Mr. Scott an extra minute, because I know you missed out on opening statements.

Mr. SCOTT. Oh, you are mighty kind. Thank you. That is why you do such a great job as chairman. Thank you so much.

Let me ask you, Mr. Kolbe, or Mr. Harmon, any of you, how are the Chinese measuring their success? Are they measuring it with how many jobs that they are creating back in China on this? Or in other words, it might be wise for us to have a broader vision, to be very serious about this.

What do the Chinese say they get out of it? How do they measure their success in it? Jobs back home?

Mr. KOLBE. Mr. Chairman, others will, I am sure have a comment on this. Your comments, Mr. Scott, were very interesting. Because I was just in Malawi a couple of months ago, and I saw the same sort of thing that you were mentioning there, where the Chinese had moved in in a very large way.

They have built a stadium. That is typical of what they do. And they have built a very large hotel and conference center there. Not exactly things that help people an awful lot. But they have also, in the countryside, moved into a very large amount of agriculture development.

But the interesting thing is, their people are now scattered throughout the country. And they stay there after they finish these projects. They remain there. They have their own set of clinics, their own set of schools, their own set of stores and retail businesses.

And what they are doing is essentially spreading Chinese influence there. I think what they are looking for is, they understand that these markets may be very small right now but they know they are emerging and they are going to be much bigger.

And they expect that business will come their way. That these people, just as they have done in places like Malaysia and Singapore and Indonesia, where you have had for more than a hundred or several hundred years Chinese communities there that still have ties to the homeland, and business connections as a result of that, that is what they are looking for in Africa.

They are basically cleaning our clock in Africa right now, and Europe and the United States are both in the same boat in this.

Chairman MILLER OF CALIFORNIA. We should have time for another round of questioning so we can expand on that in the second round.

Mr. Campbell, you are recognized for 5 minutes.

Mr. CAMPBELL. Thank you, Mr. Chairman. You all speak with one voice. I hear you. What is unsaid here is that we are being asked, or will be asked, to authorize nearly a billion dollars of taxpayer money for the World Bank. You all know what is going on now, and this weekend.

And so as you have all alluded to, the pressures around that. And on the margin, obviously, any dollars we spend are 100 percent borrowed. And there is a little irony there that we would borrow this money from the Chinese, the Indians, and the Brazilians to put into a bank to loan to the Chinese, the Indians, and the Brazilians.

That irony is not lost on me. But my question is this: I heard a number of you use the term “investment” a number of times, and many times that is used as a euphemism for “spending.” But that is not the case here, and I get that, that the MDBs and the World Bank lend money and it gets paid back with interest, and that they make money.

But that then we take that money and put it in IDA, and then many times we loan it—“we,” the World Bank—and then it does not get paid back. The question I have for you is this. Is there a way to look at this, or to change this or whatever, so it is more of a true investment in the sense that we put money in and perhaps get a return on it.

Or at the very least, not eventually lose that money that we put in. But at least keep it reinvested. Because what you are all here to talk about is the non-direct, the indirect, return from this investment in the bank. And I get that

What I am asking is, is there a way to change the actual return, which currently is negative in terms of the U.S. taxpayer?

Mr. MOSBACHER. I would argue that some of it is a grant and, as you said, it is simply mitigating the impact of poverty. But you can look at from a national security standpoint and say, "Fine. To the extent that poverty becomes breeding grounds for violent extremism then maybe we ought to be mindful of that and try to prevent some of these things from deteriorating any further."

I think on the investment side, and by "investment," I mean things you get a return on—

Mr. CAMPBELL. Right.

Mr. MOSBACHER. —I think we could do a much better job of structuring transactions in which public sector players team up the private sector players so the public sector dollars are being used to catalyze or to leverage more private sector investment. What do I mean by that?

Like building a farm-to-market road that has to be built in order to get increased produce from an area that wants to sell under the international market to a market in a timely way. By the same token, I think, and this is a conversation we could have about foreign assistance, U.S. foreign assistance could be used much more strategically to enable private sector-driven economic growth.

And that conversation should take place. The same thing could take place with the MDBs.

Mr. CAMPBELL. Any other comments? Yes?

Mr. LEO. Yes, if I could, I just want to add another point. If you are looking for a way to think about this in terms of a direct return or a direct investment, I actually think when the general capital increase, or the GCIs, are the cleanest for trying to find that, frankly, if you are not talking about national security or or poverty or something like that, take the last GCI for the World Bank, the IBRD.

The United States contributed about $420 million over a set period of time. And that GCI lasted, I guess, 23 years or something along that. That is how long that capital lasted them before they needed to go back to the till and get more.

And so, the United States was probably paying in maybe a third of that time, and getting procurement contracts during that time, as well. Once they quit paying in, once the U.S. Government stopped having to pay in, they are still getting procurement contracts and you are still getting financial benefits.

So over the last 10 years, IBRD contracts, U.S. firms—and this is the issue that I was differentiating before—just direct procurement contracts were about $700 million. And I would argue it is much bigger are able to quantify, in some way, the indirect third-party sales, as well.

So this goes back to, on the GCIs, the leveraging issue. It is very big, and it is very powerful.

Mr. CAMPBELL. And in my last 11 seconds I will just, and I do not know how, and maybe but to Mr. Mosbacher's point, some of this stuff is grants and some of it is not grants. Maybe there are some ways we look at this to separate those.

I just happen to believe, not just in this case but in other cases of things we deal with here, when you know you are not going to get something back necessarily, this is true in housing and other things, if you sequester that, and you know what that is and you identify that, and you do not confuse it with the part which you do expect to get back, I think it is just better clarity in budgeting, or authorizing.

And I yield back. Thank you for your indulgence, Mr. Chairman.

Chairman MILLER OF CALIFORNIA. Ms. Moore, you are recognized for 5 minutes.

Ms. MOORE. Thank you, Mr. Chairman. And I want to thank the panel for appearing.

The hearing title is, "The Impact of the World Bank and Multilateral Development Banks on U.S. Job Creation." And certainly, we are all concerned about that. So I guess my question is, how do we track, how do the MDBs leverage U.S. commercial lending to, in fact, make sure that we are creating more exports?

I am really interested in the mechanics of this. Does a potential exporter approach the commercial bank? Because if they do, they are liable to be turned down, particularly in this environment. So how, really, does it operate that American businesses have the opportunity to interface with the MDBs?

If we are going to be making this investment, we want to make sure that this is accessible.

Mr. HARMON. If I may take a crack at that, the joint financing that was done for Ethiopian Airlines with the African Development Bank, together with the U.S. Ex-Im Bank, if the African Development Bank had not played a role, Ex-Im would not have done it.

Boeing was the beneficiary. Boeing is, sadly, not at this table. But if they were here, Boeing would be able to give you chapter and verse on the number of small and middle-sized companies in the United States that participate in every Boeing equipment. They have become very good at that.

And it is very important for jobs in small and middle-sized companies all over the United States. I have five other illustrations where I have followed, all of which are impressive. With regard to Africa, we could be discussing this in other parts of the world, too.

The African Development Bank was the lead arranger and financer of the Main One fiber cable project in West Africa with Tyco. They finance the Kivu Watt Power in Rwanda. That was particularly important for Rwanda. In the next few months, Rwanda will announce that they are buying equipment from Boeing for their airline now.

Again, each one of these—and I could give you three others that I have listed here that I have watched the African Development Bank work on—which, had they not done it, the United States would not have benefited as exporters and jobs would not have been created.

So I am frustrated a little bit that I cannot come up with an answer from the Congressman who raises what is the specific return that we can earn from this. It is an impossible question, in my judgment. We can show how, without the African Development Bank and the World Bank, certain jobs would not be created.

Mr. MOSBACHER. May I add to that?

Ms. MOORE. Yes, sir, Mr. Mosbacher?

Mr. MOSBACHER. I want to reemphasize a point I mentioned during my testimony because it is so critical. I do not know of a single business that I have ever been around where access to credit was not pretty important to your survival, much less your growth.

And yet, many of these SMEs in the developing world simply have not had access to that. That is changing. That is a sea change, and it is changing because MDBs are coming in alongside commercial banks and sharing the risk on loan portfolios that are not 12 months or 60 days, and 30 percent interest rates. They are 5-year and 7-year term limits.

Ms. MOORE. Who initiates it? What does the commercial lender do when a deal comes to them? Do they call the MDB, or does the MDB initiate the—

Mr. MOSBACHER. Usually, the borrower initiates how they are going to be able to finance the transaction. So, "borrower" is the person who wants to expand the business or make—

Ms. MOORE. But they do not necessarily know about the MDB.

Mr. MOSBACHER. Oh, many do. Many do not. But the MDBs have actually taken the initiative in the last 3 to 5 years to go in and look at banking systems and seeing where they can partner with commercial banks to say, "All right, let us start lending to SMEs so they can buy more goods and services," which includes American goods and services.

Ms. MOORE. And so to mention goods and services, Mr. Mosbacher, in your testimony you articulated a truth, that 95 percent of the world's customers live outside our borders. And 80 percent of Sub-Saharan Africans have no infrastructure, do not have any electricity, and so on and so forth.

The United States is really struggling to have some kind of comeback in U.S. manufacturing, but there has been a real shift in providing services. So how do the MDBs support American service industries like banks and insurance companies?

And to what extent are there activities, or are there markets, for services in the way of exports?

Mr. HARMON. Yes, there are a number of financial services that are created throughout all these countries in terms of doing the arranging for the financing. Certainly, legal services. Even the small business that we run, with 14 people, is involved in investing throughout Africa.

To the extent that the African Development Bank and the World Bank are involved, that gets us involved. So there are many illustrations of financial services and legal services and engineering service companies. In fact, most of the services related to project finance benefit the United States.

Maybe not quite as dramatically as when they buy an aircraft or when they do a major pipeline type project but, certainly, services benefit.

Chairman MILLER OF CALIFORNIA. Mr. Manzullo, you are recognized for 5 minutes.

Mr. MANZULLO. Thank you. Jim, it is always good to see you here, and miss you. And then the great codels we used to take to Mexico and all the fun we had.

Mr. KOLBE. Thank you, Mr. Manzullo. It is a pleasure to be back with—

Mr. MANZULLO. I am sure you do not miss it.

Mr. KOLBE. —good friends like you.

Mr. MANZULLO. I miss you also.

Gwen and I serve on the manufacturing caucus, and she has a Harley Davidson, and we are big into grease in our congressional districts. And also we have, in our district, Rockford, Illinois, nothing less than 90 manufacturers that are involved in private jets.

I get very upset when President Obama talks about the people flying private jets, and I think about companies such as Skandia, with about 89 employees, that makes seats for these private jets. And the reason I bring that up is the lack of understanding in most of this country, especially in the White House, as to the basis of manufacturing.

I have a constituent who utilized the program that I set up in the Ex-Im Bank for small businesses, an $11,000 transaction so that she could afford to export. And I thought that was remarkable. We have worked with OPIC. I chair the Small Business Committee.

A lady by the name of Monique Matty, born in Liberia, became a U.S. citizen, got an OPIC guarantee, and went into business in Tanzania and Ghana. And it was at that point, with Danny Davis who was sitting on the committee with me, to see what OPIC was doing in Africa. And the bottom line is that both OPIC and Ex-Im programs make money for the United States.

We, of course, want to push OPIC and Ex-Im to concentrate. Not concentrate, but to make more money available for the small businesspeople. But the problem that we are having with the World Bank is the fact that Argentina defaulted on $81 billion in sovereign debt, has stuck many American investors.

Bond holders that won over 100 U.S. Federal court judgments, in excess of $7 billion. There has been $900 million in arbitration awards threat the ICSID arbitration process. And yet, the World Bank continues to give money to Argentina. And we are looking at a situation here where this Congress may decide to defund the World Bank.

I cannot impress on the people at the World Bank enough that they have to do something except, we will work with you, we will do this. We had a hearing here about 3 weeks ago, and the same thing happened again. World Bank turned around and gave $400 million more in loans to Argentina.

And my question to anybody who wants to tackle it is, why should the United States, why should this Congress, continue to support the World Bank when it does not back U.S. citizens who have been stuck with Argentina debt, and shoved it right in the face of American investors and bondholders and other world investors, and yet continue to be a recipient of the World Bank.

Mr. MOSBACHER. I guess—

Mr. MANZULLO. You got stuck.

Mr. MOSBACHER. —Mr. Manzullo, the World Bank is operating, as its title suggests, all over the world. And I think we ought to continue to put as much pressure as we can on them to help protect those who have been defrauded, or stiffed, by obligations that are held by sovereign governments.

But I personally do not believe that we would be doing ourselves a favor by cutting off the World Bank completely. I think we lose influence. In that situation, we would reduce our chances of being able to ultimately protect those who are impacted negatively by the failure of the Argentineans to pay their debts.

Mr. MANZULLO. But when you see that—go ahead, Mr. Harmon.

Mr. HARMON. First, I would like to say there have been, obviously, some defaults. There was a default in Russia, there was a default in Argentina. There could be further defaults in Europe at some point. The amount of profits that Americans have made in the emerging world far exceeds any losses that have been exceeded—

This is a very profitable area. In fact, one of the problems the United States had is increasing flow of capital from outside the United States to the emerging markets.

Mr. MANZULLO. But we could do that if we did not give any more money to Argentina. The World Bank will not even cut off the spigot to Argentina.

Mr. HARMON. I am not sure it is the World Bank that the criticism should be leveled at. I think that a number of other major departments in the United States Government could have acted with Argentina, or shortly thereafter, to have been sure that there was a fair resolution on that debt.

I do not think it was the World Bank who should have done it, myself. I think the State and Treasury Departments could have played a role there. But there are not too many experiences in the last 20 years. Argentina is one, granted, where there have been some losses. Clearly, there have been losses in Greece.

There were a few others that we all can think about. But they are modest compared to the total amount—

Mr. MANZULLO. But you have U.S. citizens, who are bondholders who have been stuck with debt from Argentina, who are being asked to use their taxpayer dollars to give more money to Argentina through the World Bank. That does not pass the sniff test.

Mr. HARMON. But I am not sure that the resolution is to thereby cut off the World Bank because of all the good the World Bank may do. I think that every multilateral institution is clearly going to do a few things that are not perfect. On balance, from my observation of the World Bank in the last 30 years, they have done a lot more good than the few illustrations that you could be critical of.

And I have some reservations about the Argentina illustration there. You will have other countries which are going to default on American investors. At least the Americans should have an investment agreement. We do not have an investment agreement with Russia, so Americans lost over a billion dollars on Yukos back in 2004 and 2005.

We should have done something about that. I can give you other illustrations having nothing to do with the World Bank, but I think it is more Treasury that should be involved in some of these areas rather than the World Bank, when you are looking for criticism.

Chairman MILLER OF CALIFORNIA. The gentleman's time has expired.

Mr. MANZULLO. Thank you.

Chairman MILLER OF CALIFORNIA. We are going to have a second round. Mr. Manzullo, we had a meeting with the Under Secretary of the Treasury last week on this specific issue. And Treasury is trying to move forward, see what they can do on this. So we took your concerns to heart the last time you brought them up, and we are trying to—

VOICE. [Off mic.]

Chairman MILLER OF CALIFORNIA. They are moving forward to see what they can do, yes, sir.

Mr. Perlmutter, you are recognized for 5 minutes.

Mr. PERLMUTTER. Thank you, Mr. Chairman. And I just have to say to my friend, Mr. Manzullo, about the corporate jets, I was hoping we would not get into a—firing across the bow for each other. But we want your people to work. I know I do.

I just want to make sure that before I take it out of grandma's hide on Medicare that millionaires and billionaires are paying their fair share as we put our fiscal house back in order. And I think that is where the President is coming from.

But having said that, speaking of jets, we now have the FAA shut down. Boeing, who was mentioned earlier, has several jets that are in the process of being tested—787s, big 747 cargo planes—that are to be sold in the international market that cannot be tested today because we basically do not fund the FAA completely.

I do not know how many millions of dollars that is to the commerce of the United States. So, these games that we are playing with the budget have to stop. I do agree with Mr. Campbell. And Mr. Harmon, I want to direct these to you and Mr. Leo. We really do have money going in that we are probably borrowing on the margin.

So we do need to know, generally, just like a bank gets money from its depositors and then lends it out and hopes to make a spread, hopefully I can show to my constituents, the people of the suburbs of Denver, that there is some real value here.

There is maybe the spread, I can show an interest spread, or the intangibles are valuable. And the intangible that is most important to Americans today are jobs. So how do I show them direct jobs coming from providing funds to the World Bank or to any of these other banks?

How do I show that? How do I quantify, you gave this amount of money to the World Bank. It provided this kind of return, or it helped us get this many jobs, and separate it from, say, USAID or Millennium Challenge Corporation or whatever?

Do you understand my question?

Mr. KOLBE. Yes, it is a good question. But I gave you, on the African Development Bank specifically, six financings—I just had to make notes to them before I came to the meeting here—where, in the last few years, if they were not involved, the financing would not have taken place.

They would not have bought the equipment from the United States. We have these GE turbines, or Boeing equipment, or other pumps that we saw. Those transactions would not have gotten done without the African Development Bank. You could actually go a step further.

I just did not have the staffing like I used to have when I was in the public service area to be able to do the calculation. But you could almost calculate the number of jobs created by each of those transactions. I have no question that part you could analyze.

Mr. PERLMUTTER. I am just saying we need to do that, and I am sure we can. And if we are going to continue to provide capital for these organizations, I have to go back to my area, because they are asking, "Why are we giving all this money to other countries? Why are we doing all this when we need to have people with good, long-lasting jobs here, where they got a chance to provide for their family, to have the American dream."

And I always say, it is just a tiny part. It helps us develop investments overseas and export. But for me, I really have to show them that this is 20,000 jobs. Boeing, right here, or Seattle, whatever. And you said we have made a lot of profit over time. We are definitely in a "what have you done for me lately" moment.

Okay? So you have to show us. Otherwise it is hard, whether you are a Democrat or a Republican, to sell this stuff.

Mr. KOLBE. Mr. Perlmutter, may I just respond to this? I share your frustration at wanting to be able to quantify this very precisely. But I think, as you know, in many of these areas it is very difficult to quantify very precisely because it is not as though it is a completely controlled experiment where you can isolate one thing.

There are a lot of things that go into this. But I take to heart what you are saying, and I am going to go back and take a look. There have been some studies that I know that have been done that I think have quantified some of this. And I am going to see what we can find, and make that available to you.

Mr. MOSBACHER. Congressman, I would recommend that you find a few exporters in your district. They may be manufacturers, they may be farmers who are selling into these markets and whose purchases are being financed through lines of credit through local banks, or through trade finance, that exist in the purchasing country solely because of the MDBs.

In other words, there is connectivity there.

Mr. PERLMUTTER. And I want to support this. I just want to be able to show it. Because this is an uphill battle right now.

So with that, I appreciate the chairman—

Chairman MILLER OF CALIFORNIA. Thank you.

Mr. PERLMUTTER. —letting me take a shot at Mr. Manzullo. And I will move on.

Chairman MILLER OF CALIFORNIA. You guys get boxing gloves. We will figure this out.

I ask unanimous consent to place a statement in the record from Philips Electronic North America. Without objection, it is so ordered.

Mr. Hardy, would you you please comment on that relationship with multilateral development banks and Philips Electronic?

Mr. HARDY. I think it is reflective—and this is why I wanted to include it in our testimony—of the fact that in a variety of sectors, U.S. firms are doing extremely well in terms of being able to market their goods and services within the MDBs.

I think that the World Bank actually has an agreement focused on the IT sector. And so that companies like Cisco, Oracle, and others are very heavily engaged in terms of being able to expand their access into the emerging markets by being able to work through the MDBs.

I certainly understand the concern the Congressman has raised. And I think that there are a number of issues around it. For example, the Department of Commerce has for years had commercial support officers actually in the banks who act to be able to assist exporters as they came in.

They would not necessarily know their way around or who to contact. And because of limitations, Commerce is now thinking about withdrawing those individuals right at the time when we really need to be be doing more. So it is really an issue across the government in terms of being able to keep the pieces in place so that we have a system.

But it is very clear that in particular sectors, such as with Philips, that they have a 15-year relationship with the MDBs. And as these markets have grown, as the middle class has developed, their market has only expanded. And so it has been, I think, very fruitful for them.

But if I can add one element, and that is an element that actually they focused upon in the statement that they made, was it about the security of the procurement system? And in a way, this goes back in my mind to what Congressman Manzullo was talking about, which is that the MDBs need to understand that there are standards they absolutely need to comply with. And in terms of bankruptcy situations, in terms of people losing money, that there be consequences to that.

There are clearly concerns within the business community about potential erosion in procurement standards. And I think that is very clearly an issue that needs to be monitored. Very clearly, if there is an erosion in the procurement strategies, then, very clearly, you are going to see American, European, and Canadian firms begin to back away from—

Chairman MILLER OF CALIFORNIA. That is the United States maximizing the financial benefits of MDBs that they create.

Mr. HARDY. I think we are, as long as the pieces are in place. That needs to continue, so that it is difficult to be saying, on the one hand, we need to continue to expand the role that the MDBs are playing, and then at the same time for Commerce to be pulling out individuals who have a concrete role in terms of assisting exporters and U.S. companies in terms of getting work and understanding how the procurement process works and how they can maximize the benefits of that.

Chairman MILLER OF CALIFORNIA. And you talked about the growing middle class in Vietnam, Indonesia, countries like that, and how that is a benefit for the American workers. I have seen some of the tariffs placed on some of our exports to Vietnam that are quite outrageous. How are we dealing with a lot of those?

Mr. HARDY. Trade rules an ongoing negotiating process. There is no question that everybody is looking to take advantage of the system, to try and work the system in a way that most supports their own particular situation, which means that the USTR and the Department of Commerce need to continue to be aggressive in protecting U.S. exporters and supporting rules of fair trade.

And even as we continue to pursue free trade and FTAs—because that is a necessary and, indeed, a critical part of the process, we cannot just enter in agreements, and then let them slide and not pursue, and ensure that the rules are being followed.

Chairman MILLER OF CALIFORNIA. Mr. Harmon, you painted quite a scary picture of what might result from reduced contributions for the MDBs from the United States, and the specific role China is trying to backfill. You argue in favor of spending funds over the years that go to directly to American jobs.

Do you think that the picture you have painted is going to become a reality should we lose our position with the MDBs?

Mr. HARMON. Yes, I do. I think this is almost a no-brainer in my mind. Because if we drop back, we are going to lose our leadership position.

Chairman MILLER OF CALIFORNIA. I agree with that. I would like to hear you expand on it.

Mr. HARMON. Right. I have watched the G20 now in these meetings I have been attending for the last 8 months, and the other countries are constantly asking about what is happening in the United States. What is happening not only in our politics—because they do not fully understand that—but the role of the World Bank and the African Development Bank and the other development banks, too—who come to all of our meetings, by the way—are so important to all these other countries.

If we take a position which says that we are not fully supporting them, someone else is going to fill the position that we are not. China is already at our throats, as far as I can see, on a competitive basis—

Chairman MILLER OF CALIFORNIA. [Off mic.].

Mr. HARMON. And so it is so clear to me that this would just add fuel to a fire that we are having trouble controlling right now. I do not think the American people fully understand what this means long term for jobs in the United States.

Chairman MILLER OF CALIFORNIA. And it is our job to explain that. Thank you.

Ranking Member McCarthy, you are recognized for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you. And again, I want to thank everybody for their testimony. This is actually my first year on this particular subcommittee. I had an awful lot to learn, and I had to read a lot, and I had to ask a lot of questions to find out.

Because I was probably like—Members of Congress, we know a little bit about everything, but we do not know a lot about some things. I went back to Long Island, and I wanted to find out because the first thing we were going to be working on was our exporting.

I went to the Long Island Business Association, which is the largest business association on Long Island for small businesses.

And the numbers that I received on how much we were making for Long Island on exporting blew my mind—$10 billion.

So to answer some of the questions that my colleagues asked, those companies are all paying taxes. That, to me, is a way that, again, we are getting money back into the system. And the more I started digging in and educating a lot of small businesses on the island, they are third contractors, subcontractors.

But with that being said, those are jobs. Those are hundreds and hundreds of jobs that would not have been there if they had not been exporting. And the Export Bank helped them a lot. Same as all of you, when we were talking about the economy that we have been going through, and everybody has been doing it, it was the MDBs that covered those loans.

The Export Bank did the same thing. So in my opinion, for the amount of money that we owe, hopefully we will pay and this Congress will okay that. Our returns, in my opinion, are extremely strong and a good reason why, because we are getting back, and it is certainly having an effect as far as jobs here in this country with large corporations, but very also small corporations.

And people have to understand that. I know it is hard because we still have to do an awful lot for jobs here in this country. But to me, it is a good deal. When I see a return, as Mr. Leo has said and others have said on what the returns are coming back into this country, it is a good deal, especially if you look at what you are getting on some of your accounts right now as far as whether it is savings or money management. I know we all think that way, but it is a good deal as far as the government goes. So with that being said, I do want to ask one other question.

As we came through, and as the MDBs have covered the loans that were given out to other countries that we are helping, what do you think? What do you see, I should say? Do you see the support shifting back to more traditional infrastructure and development projects?

Because right now, the MDBs were helping the banks, helping the countries just kind of get through this with loans to do what they had to do to get through everything. With the global economy recovering, where do you see that these countries are going to be going to stabilize their own country a little bit better, and to do the infrastructure

So large roads. Afghanistan, gosh, I called that the land of dirt the couple of times I have been there. But you give that country some roads. We know they have minerals. We know that they have products.

They have a lot of water. They can grow. They can be part of that part of the country as far as supplying food. But if you do not have roadways or trains, if you do not have refrigeration at the end, it is not going to go anywhere. So where do you see the world, on the whole, going forward as we get out of this recession?

And we will get out, by the way. I feel confident on that.

Mr. MOSBACHER. I might say on Afghanistan that the World Bank and the MDBs have been absolutely instrumental in helping finance infrastructure there beyond what the United States Government pays for. The MDBs have played an integral role there.

Second, the Inter-American Development Bank has taken a very aggressive posture in trying to finance infrastructure additions throughout Latin America. This is a continent, actually, that relatively speaking is doing pretty well. There are obviously countries, just like there are in Africa, that are going backwards.

But there is an awful lot of growth. Even beyond Brazil, look at Colombia. And so the MDBs financing of projects on infrastructure—roads, water sanitation, electricity plants—are having a tremendous impact on improving the competitiveness of those countries.

The same thing goes for Africa and Asia. So I think they are stepping up. I think they are, frankly, the only game in town once we went through the financial crisis of 2008. And as you said, as well—very important point, and Ben Leo made this case—when things started to fall apart they could have fallen even worse apart around the rest of the world.

But for the staunching of the building, if you will, that many of these MDBs did. A role that was little-sung, little-understood, but had a huge impact on how free the fall was that we were going through.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Chairman MILLER OF CALIFORNIA. In fact, our next hearing will be on the MDBs' impact on national security.

Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you. Just a few quick questions. What, in a nutshell, would each of you say to the question, what are the Chinese really up to? What are they up to in Africa?

I just was so amazed with my trip there, and I want to come back to that. I tend to think they are up to more than what the surface is showing. And if you had any figures on how much the Chinese are spending on foreign aid, and how much they are spending in Africa, for example.

And just to try to get a good little quick handle on how we sum up Africa, I mean China, right quick. I would like to just—yes, Mr. Harmon?

Mr. HARMON. I will start, just briefly. The Chinese need to maintain a growth rate of probably north of 7 percent. They are at 9 percent now, but 8 or 9 percent in order to keep their own country stable. Because at a lower growth rate, they will have serious problems with their own people.

In order to—

Mr. SCOTT. But let me ask you about that, because that is where my mind was taking me. I figure there is something else. When you say a problem with their own people, are we talking about the rapid population growth of the Chinese?

Mr. HARMON. If you have unemployment in China, you will have disruption. There is a history in China that you would have those problems. The Chinese are a very capable people. They know what they are doing. There is nothing that I have seen yet that puzzled me about what they are doing.

They have to maintain a growth rate in order to maintain stability in their whole system. And that growth rate is much higher than most of us in the United States are used to. So when we talk about numbers like 8 and 9 percent, this an enormous growth rate for a country the size of China.

In order to maintain that growth rate, they have to continue to be very active in exporting product. They also have to transition into more of a consumption society. But what they are up to in the developing world, in Africa specifically, is resources, natural resources.

So short-term, or medium-term, they negotiated as they could in Zimbabwe for certain natural resource products. They have done the same over and over and over again. So it is natural resources. When you operate outside the rules of the OECD, it is enormously difficult competition for the rest of the world.

China does not have to be worried about that. In fact, in this particular G20 panel that I am on, the Chinese are hoping that we are going to encourage more infrastructure in Africa, which would be good for the African people, good for commerce.

But they intend, when the project preparation gets completed appropriately, they are going to go in and bid for that infrastructure project themselves. They will take control of that infrastructure, and they will build it. Some people in Africa think it is colonialization again—by the Chinese coming in and not taking much time, as the World Bank will tell you or the IFC will tell you, as they got through their process, and all the procurement obligations that we have at the World Bank, the IFC is at a disadvantage.

Because the Chinese have moved in and said, "We do not need to check any of that. We will do the following for you." And so, they take off with a project. Over and over again, you are seeing that. We are competing against a much larger entity.

Now in real numbers, in the year 2000 the Chinese came to me, as chairman of the Ex-Im Bank and said, "We would like to secund a few people to Ex-Im Bank so we can learn more about export credit agencies." I thought they were going to do two or three people. And it was a joke at the Bank because the number of full-time employees of the Ex-Im Bank is about 440.

And they said, "We would like to secund 40." I said, "Forty people? That is 10 percent of our whole staff. We could never do such a thing as that." But at that time, they were supporting, literally I think the number was something like $5 billion of exports from China. And today we think they are doing something like $250 billion.

Mr. KOLBE. Mr. Scott, could I just add very quickly to that? It not about political colonialism. It is about economic colonialism. They do have to have a very rapid growth rate. And it is about resources in Africa. Clearly, they are looking for resources.

But in a country like Malawi, which does not have a lot of natural resources, it is something else. And it is about markets. So they take a very long-term view of this thing. They have a very long-term view, and it is about expanding their markets and being able to maintain that growth rate.

And that is what they are doing in a very effective way.

Mr. SCOTT. Thank you.

Chairman MILLER OF CALIFORNIA. I would like to thank each of you for your testimony. It was very, very informative. It helps us to undertake the goal we have sought after to complete this process. And you have given us a lot of very, very good information. I mean that from my heart. You did a great job.

Thank you for your time, your expertise, and your talents. And Chairman Kolbe, it was very good to have you back with us today. Without objection, I would like submit for the record a letter in support of the MDBs signed by the following organizations: the Business Roundtable; the Coalition for Employment Through Exports; the Emergency Committee for American Trade; the National Foreign Trade Council; the U.S. Council for International Business; and the U.S. Chamber of Commerce.

The letter states that: "MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods. And over half of all U.S. exports now go to developing countries that have received assistance from the MDBs."

The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

This meeting is adjourned.

[Whereupon, at 4:08 p.m., the hearing was adjourned.]

A P P E N D I X

July 27, 2011

TESTIMONY

Of

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE COMMITTEE ON FINANCIAL SERVICES

Regarding

THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON U.S. JOB CREATION

July 27, 2011

Chairman Miller, Ranking Member McCarthy, and Members of the Subcommittee, the Coalition for Employment through Exports (CEE) thanks you for the opportunity to testify on the impact of the Multilateral Development Banks (MDBs) on U.S. job creation. CEE comprises large exporters, commercial banks and insurerers focused on the provision of export and trade finance and a number of our members are actively engaged with the World Bank and others of the MDBs. We are also joined in this testimony by the National Foreign Trade Council which is a strong supporter of the capital increase for the MDBs and supports a broad pro trade agenda.

The impact of the MDBs on U.S. job creation is significant for several reasons:

1. The World Bank and the regional MDBs reflect the continuing commitment of the developed world to eradicate poverty and give people wherever they live the opportunity for a better, healthier life. The MDBs have been instrumental in advancing a developmental agenda in the less developed countries and their continued role will enable that progress to continue.

It was not long ago that countries like China, India, Indonesia, Vietnam, the entirety of Sub Saharan Africa and much of Latin America were mired in poverty, a substantial portion of their populations subsisting on $1-2 dollars a day. Now, after decades of work by the international community through the MDBs, the situation for these countries has changed dramatically. These countries now have a growing and dynamic middle class and while there are still significant pockets of abject poverty, year by year these continue to shrink. These new members of a global middle class are now customers of U.S. companies.

2. A second benefit of the MDBs we are seeing today, as the most dynamic portion of the world's economy is located to a significant degree in the emerging economies. Their success has created new trading partners for the developed world, but particularly for the United States, which is better positioned than any other country in the world to partner with these growing countries, by investing in and trading with these countries and benefiting from these new markets.

The countries with which we are now trying to complete Free Trade Agreements were all beneficiaries of loans from the MDBs and many other emerging markets are even now recipients of MDB funding even while they are rapidly becoming major trading partners of the U.S. A prime example is India, whose trade with the U.S. could well make its firms some of the largest users of the Ex-Im Bank. What is certain is that without the support of the MDBs, certainly in funding but also guidance and technical support, they would not be the sort of trading and business partners that they have become.

The successful transformation of these countries is due in substantial part to the MDBs; in that sense these international agencies have substantially transformed the global economy and brought into the global economic system literally billions of people who several decades before were not participants in that system in any meaningful way. These countries have become inextricable parts of international economy and increasingly significant participants in the global trading system.

3. A third benefit of the MDBs is reflected in the fact the projects and activities themselves represent export opportunities for U.S. companies. The MDBs in 2010 were engaged in close to $100 billion of projects and programs. Those funds, coupled with resources contributed by the countries themselves represent a vast opportunity for private business. The needs are immense. Not only in infrastructure and energy but now in medical equipment, IT services, communication systems and the like. U.S. companies are ideally situated to pursue these opportunities though, somewhat like small business, there is a necessary learning curve that companies need to go through to understand how to market into these projects. Increasingly, companies need to market in the host country and for some that is a new experience. Nevertheless, the opportunities are real and U.S. companies that have made the effort have been successful doing so. The opportunities now are in sectors where U.S. firms are highly competitive.

Philips Electronics Relationship With Multilateral Development Banks (MDBs)

Let me provide you with the example of Philips Electronics North America a prominent manufacturer in the healthcare and green energy sector which has partnered with the MDBs for over fifteen years:

Philips provides high quality medical equipment that they manufacture in the US, such as MRI, CT, and ultrasound machines, patient monitors, ventilators, ECG equipment and cardiac defibrillators to developing countries through MDB programs. More recently, Philips Lighting has engaged with the MDBs in support of their efforts to promote energy efficiency policies through the procurement of energy efficient lighting products. A senior Philips representative had this to say about the company's experience working with the MDBs:

"MDB Programs Promote US Jobs Through Exports

"Philips has witnessed firsthand the economic development benefits that MDB funded projects confer on recipient countries through our procurement experiences in markets including Albania, Argentina, Azerbaijan, Brazil, Bulgaria, Ethiopia, India, Indonesia, Kenya, Lesotho, Lithuania, Mexico, Nigeria, Peru, Poland, Romania, Russia, Tanzania, Uganda, and Vietnam. This benefit does not inure solely to the developing country, however, as we also have recognized the role MDB projects play in helping to maintain our US employee base of 25,000 and potentially to create new highly skilled US jobs through the promotion of exports.

"As US markets have declined or remained stagnant over the last several years, developing countries have led the world with double digit growth rates. MDB procurement programs offer US manufacturers unique opportunities to enter these vibrant developing markets through a transparent and accountable procurement system that limits the commercial risk. Moreover, manufacturers gain from the ability to increase their exports and to establish themselves within these growing consumer markets and develop a strong market position. These opportunities help to expand the overall US industrial export base, supporting President Obama's goal of doubling US exports by 2014."

As reflected in the above statement from Philips, a significant attraction to MDB processes is the existence over the long term of strong procurement standards that ensure transparency of process and accountability in terms of outcome. The strong MDB procurement practices and standard bidding documents developed over the past several decades reflect strong procurement, transparency and accountability standards on which private sector bidders depend. These elements are vital to promote multilateral development goals, while maintaining the highest standards of integrity and transparency in global procurement. And we hope the Subcommittee will monitor any dilution of these time-honored standards.

Accordingly, we propose the following recommendations to the World Bank and other MDBs to ensure a predictable and accountable procurement system for all bidders:

- Maintain the current International Competitive Bidding (ICB) procurement standards and bidding documents

- Maintain Bank procurement oversight of projects involving complex solutions and projects over the current (2010) procurement thresholds

- Enhance mechanisms for dialogue with civil society (NGOs and private sector)

- Ensure that any innovation which involves substantial changes to the existing procurement standards and processes will be tested through a pilot phase

- Ensure that any proposed procurement changes should continue to provide real time effective recourse to bidders for procurement issues (this is one of the most valuable aspects of the current procurement program) including oversight by the integrity units of the MDBs

We thank the Subcommittee for the opportunity to submit this testimony regarding the important role of the Multilateral Development Banks and I will be happy to answer any questions.

U.S. Support for the World Bank and Multilateral Development Banks

Testimony before the House Subcommittee on International Monetary Policy and Trade

James A. Harmon
Chairman, Caravel Management LLC,
Chairman, World Resources Institute and
former President, Export-Import Bank of the United States

July 27, 2011

Thank you Chairman Miller, Ranking Member McCarthy, and other members of the Subcommittee. I am honored to appear here today and to have the opportunity to testify on the importance of strong, clear, and reliable support from the United States for the multilateral development banks.

Even in these very difficult fiscal times, U.S. leadership and contributions are essential investments in both promoting global economic growth and the health of the American economy. Balancing the U.S. budget on the back of cutting U.S. contributions to the multilateral development banks would be a terribly short-sighted decision and counterproductive to the U.S. economic recovery and our future prosperity.

I would urge the Committee and your colleagues to look favorably upon both the soft loan window replenishments and general capital increases for the multilateral development banks, especially the African Development Bank and the World Bank.

In support of this position, I will make just three points today.

First, the multilateral development banks are absolutely critical to building new markets abroad—and thus to future U.S. prosperity. Expanding markets in the developing world is of course a key driver in reducing global poverty, something I think we can all agree is consistent with American values and interests. The number of people worldwide living in dire poverty has plunged over the past decade, but wiping out the remaining pockets of deprivation affecting some 900 million people will require strong and well-resourced multilateral development banks.

But more directly related to U.S. economic interests than poverty reduction is the rise of the global middle class that will expand demand for American goods, services, and know-how. This will drive the future of U.S. production and the next wave of job creation here at home.

I say this not in theoretical terms, but from the perspective of a private investor in these markets. After a career on Wall Street, I had the honor to serve as President of the U.S. Export Import Bank for 4 years 1997- 2001. That was when I first saw the enormous opportunities for growth in the emerging and frontier markets. The potential for expanding finance and exports, even at that time in the wake of the Asian financial crisis, was tremendous. In just four years, we increased ExIm support of U.S. exports to sub-Saharan Africa by some 25 times.

After leaving public service, I still saw the unrealized potential and chaired a Commission on Capital Flows to Africa that made recommendations for how to leverage public policy to increase investment in the continent.[1]

In 2004 I launched the Caravel Fund to invest directly in frontier and emerging markets. The premise was that growing middle classes and rising consumption would be key drivers of economic growth and would generate healthy returns for investors. The idea also was that greater returns could be found, not just in Brazil and India and other well-known emerging markets, but also in Pakistan, Zambia, Lebanon, and Indonesia. After seven years of investing in these kinds of markets, the Caravel Fund has returned approximately 20 percent per annum.

I now see similar opportunities today in countries like Rwanda and Nigeria. Most people, if they think about these places at all, still associate Rwanda with genocide and Nigeria with fraud scams. But I see invigorated leadership combined with sensible economic policies that are creating enormous new opportunities, both for the people in these countries but also for the American economy.

In Africa alone, I have observed a number of important projects during the past few years that directly benefitted American companies, both large and small. Without financing and leadership from the multilateral development banks, these opportunities might not have existed. The deals include for example:

- Ethiopian Airlines recent purchase of new Boeing aircraft
- The Main One Fiber Cable project in West Africa, with Tyco
- The Kivu Watt Power project in Rwanda, led by Contour Global
- The Dibamba and Kiribi Power projects in Cameroon, led by AES Corporation
- Tema Power in Ghana, using GE turbines

The African Development Bank and the World Bank are crucial partners for countries like Nigeria and Rwanda, helping to make sound investments and to make the environmental changes that will enable the private sector to grow. This leads to my next point.

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[1] *A Ten-Year Strategy for Increasing Capital Flows to Africa*, Commission on Capital Flows to Africa, June 2003. http://www.iie.com/publications/papers/africa-report.pdf

Second, infrastructure is the critical sector for the next decade and the multilateral development banks are our best tools for making such investments. Studies have shown that the single largest constraint to growth in Africa is the cost and reliability of infrastructure, especially power, transportation, and water.[2] This means not only finding new sources of capital, but also working on the regulatory and business climate constraints. The multilaterals are central to both: they make major financial investments in infrastructure projects and also work with countries to set high standards for transparency, procurement, and environmental and social impact.

Without MDB support for infrastructure, the only alternative is Chinese financing, which comes without any of these safeguards.

Many of the most impactful projects, such as Inga 3, a hydroelectric project on the Congo River that could add up to 4,000 megawatts of low cost renewable energy for the entire southern African subregion, simply cannot happen without the multilateral development banks.

Earlier this year I was appointed to represent the United States on the G-20 High Level Panel to find ways to fill the gaps in financing infrastructure in Africa. Through this experience over the past four months, I have seen both how important this issue is and how the multilateral development banks are central to filling the gap. This leads to my final point today.

Third, the multilateral development banks are highly effective, professional, and impressive organizations. Some on Capitol Hill view the World Bank and other multilateral development banks as big, inefficient bureaucracies. However, the quality of the human capital that I have met with, at all levels of the World Bank and African Development Bank, has been exceptional. There is first-class talent in these organizations, with deep understanding of the macro-economic, social and political challenges facing the developing world. What has impressed me most as a private businessman is that the information that they have shared is based in practical, on-the-ground, experience, rather than just theoretical development economics.[3]

The World Bank and AfDB teams that I have interacted with have been on every side of an infrastructure deal. They have faced every conceivable political, bureaucratic, logistical and funding challenge. They have worked across all sectors and have decades of experience in nearly every country. Their relationships on the ground are irreplaceable.

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[2] See e.g., Vijaya Ramachandran, Alan Gelb and Manju Kedia Shah, *Africa's Private Sector: What's Wrong with the Business Environment and What to Do About It*, Center for Global Development, 2009.
[3] See e.g., Vivien Foster and Cecilia Briceno-Garmendia (eds.), *Africa's Infrastructure: A Time for Transformation*, World Bank, 2010.

And, crucially, their proposals have struck me as practical, real-world suggestions that reflect out-of-the-box thinking, without losing sight of the complexity of the challenges. It is clear that the MDBs have moved beyond traditional aid-heavy, "throw money at the problem" solutions and fully embrace the role of the private sector. There is a level of pragmatism and open-mindedness that is refreshing.

Let me end by painting a blunt picture of what reduced U.S. contributions to the multilaterals would mean: lost American leadership, a steep reduction in U.S. leverage of scare resources, fewer economic opportunities for American companies, and an acceleration of Chinese influence.

Thank you.

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.

Center for Global Development

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
July 27, 2011

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.

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[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 wwwr.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.

REMARKS OF ROBERT MOSBACHER, JR., BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE'S SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE, JULY 27, 2011

Chairman Miller, Ranking Minority Member McCarthy, and distinguished members of the Committee, I appreciate the opportunity to testify before the House Financial Services Committee, Subcommittee on International Monetary Policy and Trade, regarding the impact of the World Bank and Multi-Lateral Development Banks (MDBs) on US job creation.

As our country struggles with massive budget deficits and tragically high unemployment, it is only natural that some would question the wisdom of United States contributions to the World Bank and Multi-Lateral Development Banks. Given the fact that the MDBs focus on middle and low-income countries, and not the United States, the temptation of some might be to cut back on our contributions and refocus those resources elsewhere. And yet, such a decision would be extremely shortsighted, in my judgment, because it would negatively impact job creation in the United States at the very time that we are trying to rebuild our economy.

I have spent 28 years helping run a family energy business that is based in Houston, Texas, and operates primarily along the Gulf Coast. However, we have also done business in Latin America, North Africa, Asia, and the Asian Subcontinent. Starting in 2005, I served for over three years as President and CEO of the Overseas Private Investment Corporation, an independent agency of the U. S. Government that operates profitably and helps facilitate U. S. private capital investment in the developing world. I have had the opportunity to witness first-hand the emergence of an interdependent global economy and observe the critical role that the MDBs have played in that growth.

I believe the United States, in general, and American businesses, in particular, derive significant economic benefits from our contributions to the MDBs, and I urge the Congress to continue that support. A few statistics, which this Subcommittee has no doubt heard, help provide the context for my argument.

Nearly 95 percent of the world's customers live outside our borders, and three-fourths of the world's purchasing power. One in three acres of American farmland is planted for consumers overseas, and one in every five American jobs is related to trade. For every 10 percent increase in US exports, there is a 7 percent increase in employment. Over 280,000 small and medium-sized businesses export, and that amount is nearly one-third of all merchandise exports.

One might ask what role do the MDBs play in this scenario, and why should American taxpayers continue to support them? The answer, very simply, is jobs and our own enlightened self-interest in gaining access to new markets and new customers, and competing on a level playing field.

Half of US exports go to developing countries, and those export markets are growing three times faster than exports to other countries. In addition to the huge markets in Brazil, India, and China, the African continent, with its 54 countries, will soon represent a consumer class of over one billion people.

The MDBs are the most effective players in opening new markets and creating more favorable environments for business growth and investment. Using their leverage with governments derived from the loans and financial expertise they provide, the MDBs have been instrumental in helping establish better governance, promoting more transparency in decision-making and bidding, and building stronger structures for the rule of law. Make no mistake about it, corruption has been, and remains a plague in developing world economies, but real progress has been made.

As an example of the impact of MDB engagement in certain countries, the US exports to the ten largest recipients of World Bank support have averaged 8.2 percent over the last ten years, compared to a total US export growth of only 5.1 percent per year. One of the most impressive examples of this growth is Vietnam. Thanks to the World Bank's focus on helping Vietnam create a market economy, US exports to that country have risen 26 percent per year for the past 10 years.

I would like to focus my remaining remarks on two specific sectors in which the World Bank, the IDB, the African Development Bank, and the Asian Development Bank have been absolutely critical to facilitating growth. The first is the financial services sector, and the second relates to infrastructure.

With respect to financial services, credit for most businesses in the developing world, particularly SMEs, has been largely nonexistent. There are rare exceptions, but in most cases, an SME could not get a loan or a line of credit at a commercial bank without meeting such onerous collateral requirements that it made the whole proposition impossible. As a result, SMEs were, and often still are, severely constrained in terms of their capacity to grow. That means that their ability to purchase American goods and services is limited, because so many are so thinly capitalized.

In recent years, that has begun to change. Each of the MDBs mentioned, and others, have launched major initiatives in cooperation with local banks to increase access to credit and capital on terms that businesses can afford. This includes expanded trade finance, which helps the businesses pay for imports in advance of actual sales in country.

While at OPIC, I focused much of my attention on helping US financial institutions expand into more emerging markets. Working with the International Finance Corporation (IFC) of the World Bank, and the Multi-lateral Investment Fund (MIF) of the IDB, I saw how transformational an impact greater access to credit can have on local SMEs. Those same SMEs now have the resources to expand their businesses, hire more people, and buy more American goods and services.

To the extent that the MDBs help local banks develop conventional mortgage products that give rise to housing construction and home ownership, US companies compete very effectively for the sale of building materials and home fixtures. There are countless other examples of additional economic benefits to US businesses that will emerge from this newfound access to credit and capital that has been unleashed as a result of the concerted efforts of the MDBs and other international financial institutions, including OPIC.

With respect to infrastructure, the absence of sufficient electricity, water sanitation, and roads remains one of the greatest needs of the developing world. For instance, of the 1.5 billion people living in the world without electricity, 80 percent live in Sub-Saharan Africa. While hydropower represents 45 percent of Sub-Saharan Africa power generation, only 4 percent of the continent's commercially exploitable potential has been tapped. As various countries in Sub-Saharan Africa, Latin America, and Asia continue to grow, investment in infrastructure on a massive scale will need to take place. The MDBs are the principal source of project financing for these investments. The African Development Bank, and the IDB in particular have made financing of infrastructure projects a very high priority.

This represents an excellent opportunity for American construction companies, equipment manufacturers, and system operators to bid on these major projects. If the MDBs do not take a lead in financing these projects, which most commercial banks are unwilling to finance by themselves, the playing field will be left primarily to the Chinese. With Chinese investment and finance, come Chinese approaches on transparency and governance, as well as Chinese political influence.

I have not spent much time on the leadership and influence that the US is able to exercise through the MDBs as a result of our contributions, because the focus of this hearing is the relationship between the MDBs and US job creation. However, I consider that leadership and influence extraordinarily important, as I do the assistance the US Government has received from the MDBs in tackling challenges such as violent extremism and global poverty.

In conclusion, I urge continued US support of the MDBs for a host of reasons, not the least of which is the critical role they play in helping American businesses sell more goods and services to that 95 percent of the world's customers that live outside our borders. More exports, more investments, and freer trade are the only ways we will generate the kind of broad-based economic growth and prosperity for our citizens that we all desire.

June 6, 2011

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned business organizations urge you to support authorizing and appropriations measures for capital increases for these multilateral development banks (MDBs), including the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD).

Over the years, the World Bank and the regional banks have funded successful programs to get boys and girls into school; build infrastructure to allow entrepreneurs and farmers to transport their goods to market; strengthen judiciaries and the other governance institutions; support private sector job creation; and combat measles, diarrhea, malaria and other preventable illnesses. These efforts helped developing countries add two decades to life expectancy, cut the mortality rate of children under age five by 50 percent, and reduce by half the proportion of people living in poverty.

American businesses understand these institutions' vital role in fostering prosperity. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods, and over half of all U.S. exports now go to developing countries that have received assistance from the MDBs. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

The United States plays a significant role in helping to shape these policies as the largest shareholder at the World Bank and the IDB and one of the largest at the AfDB and the ADB. Failure to support the capital increase would undermine U.S. leadership and the ability to shape development priorities.

The MDBs provide vital financial assistance to developing countries with minimal U.S. investment but significant impact. For instance, the United States has invested only $2 billion in the World Bank's capital base since its creation in 1944. The U.S. funding has leveraged contributions from other donors, allowing the World Bank to provide nearly $500 billion in financing and invaluable expertise to developing countries. Every U.S. taxpayer dollar invested in the World Bank leverages $25 in additional contributions from other countries. A similar multiplier effect is achieved by the other MDBs.

While the MDBs benefit from sound financial management, they will face serious lending constraints and U.S. influence at these institutions will diminish without a capital increase. In the context of the fiscal challenges facing our nation, this investment will strengthen our economy by shoring up vital export markets, promoting economic development and good governance, and reaffirming U.S. leadership. We urge you to fully fund the U.S. pledge for general capital increases for the multilateral development banks.

Sincerely,

Business Roundtable
Coalition for Employment through Exports
Emergency Committee for American Trade
National Foreign Trade Council
U.S. Council for International Business
U.S. Chamber of Commerce

STATEMENT FOR THE RECORD

From

PHILIPS ELECTRONICS NORTH AMERICA

Before the

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE COMMITTEE ON FINANCIAL SERVICES

Regarding

THE IMPACT OF THE WORLD BANK AND MULTILATERAL DEVELOPMENT BANKS ON US JOB CREATION

July 27, 2011

Chairman Miller, Ranking Member McCarthy, and Members of the Subcommittee, Philips Electronics North America applauds the Subcommittee for highlighting the important role of the World Bank and other Multilateral Development Banks (MDBs) in today's hearing and we appreciate the opportunity to submit this statement for the record.

Philips Relationship With Multilateral Development Banks (MDBs)

As a manufacturer who has partnered with the MDBs for over fifteen years, Philips supports the worthy objectives of the MDBs to promote economic development and the eradication of poverty through open and transparent funding programs. Philips Healthcare has provided high quality medical equipment that we manufacture in the US, such as MRI, CT, and ultrasound machines, patient monitors, ventilators, ECG equipment and cardiac defibrillators to developing countries through MDB programs. More recently, Philips Lighting has engaged with the MDBs in support of their efforts to promote energy efficiency policies through the procurement of energy efficient lighting products.

MDB Programs Promote US Jobs Through Exports

Philips has witnessed firsthand the economic development benefits that MDB funded projects confer on recipient countries through our procurement experiences in markets including Albania, Argentina, Azerbaijan, Brazil, Bulgaria, Ethiopia, India, Indonesia, Kenya, Lesotho, Lithuania, Mexico, Nigeria, Peru, Poland, Romania, Russia, Tanzania, Uganda, and Vietnam. This benefit does not inure solely to the developing country, however, as we also have recognized the role MDB projects play in helping to maintain our US employee base of 25,000 and potentially to create new highly skilled US jobs through the promotion of exports.

As US markets have declined or remained stagnant over the last several years, developing countries have led the world with double digit growth rates. MDB procurement programs offer US manufacturers unique opportunities to enter these vibrant developing markets through a transparent and accountable procurement system that limits the commercial risk. Moreover, manufacturers gain from the ability to increase their exports and to establish themselves within these growing consumer markets and develop a strong market position. These opportunities help to expand the overall US industrial export base, supporting President Obama's goal of doubling US exports by 2014.

Strong Procurement Standards Must be Maintained

However, to ensure the participation of US manufacturers in MDB procurement systems, there must be an appropriate level of predictability and accountability in their operations to maintain strong business sector support. We commend the strong procurement practices and standard bidding documents developed over the past several decades which have led to strong procurement, transparency and accountability standards on which private sector bidders depend. These elements are vital to promote multilateral development goals, while maintaining the highest standards of integrity and transparency in global procurement.

Philips proposes the following recommendations to the World Bank and other MDBs to ensure a predictable and accountable procurement system for all bidders:

- Maintain the current International Competitive Bidding (ICB) procurement standards and bidding documents

- Maintain Bank procurement oversight of projects involving complex solutions and projects over the current (2010) procurement thresholds

- Ensure mechanisms for dialogue with civil society (NGOs and private sector)

- Reject efforts to implement sweeping changes in procurement policies that have previously been tried and failed within some of the Multilateral Development Banks (MDBs)

- Ensure that any innovation which involves far reaching changes to the existing procurement standards and processes will be tested through a pilot phase

- Similarly, any proposed procurement changes should continue to provide real time effective recourse to bidders for procurement issues (this is one of the most valuable aspects of the current procurement program)

- Continue to fully fund the World Bank's and other MDB's Integrity units and assure that no program be initiated without that unit's full and legal right to procurement oversight

- Assure that the protection of the MDB's assets and reputation from charges and instances of fraud and corruption take precedence over any proposals which might put them at risk such as Program for Results (scheduled to begin Fall 2011) which would comingle World Bank funds leaving them untraceable and subject to misuse by a host of entities

Conclusion

Once again, we thank the Subcommittee for the opportunity to submit this statement regarding the important role of the Multilateral Development Banks. Philips has derived significant benefits from our longstanding engagement with the MDBs and we look forward to continuing our active partnership for many more years.