



Talking Points in Support of the Multilateral Development Banks

Summary

General Capital Increases (GCI) for the multilateral development banks (MDBs) are a fiscally responsible way to advance U.S. interests because they

- Advance U.S. economic opportunities by creating markets for U.S.-made goods and services and multiplying our investment
- Promote national security interests by promoting stable, prospering societies and providing some of the infrastructure and programs that our troops rely on, such as in Afghanistan
- Sustain U.S. leadership and influence to ensure that the U.S. agenda is advanced over the agendas of other nations who do not share the U.S. vision Congress' continued support will ensure the U.S.' ability to influence and lead on MDBs' policy directions, as well as prioritize global humanitarian initiatives in areas [the U.S. deems] critical, including consolidating new democracies, reducing poverty, and improving governance.

• Background

- The MDBs pool the resources of contributing countries and lend – not donate – funds to countries. They also provide technical assistance to promote reforms and stability. Their capital comes from shareholder governments and enables them to lend against this capital.
- A request for general capital increases has not occurred since 1988.
- The current situation is unusual. During the recent global financial crisis, at the request of the G20, the MDBs intensified support for affected countries to help maintain the growth and stability of their economies. As a result, the banks now face a resource shortfall and need to replenish their funds to avoid drops in lending in the future.
- GCIs are different from replenishments, bi-lateral aid, and other forms of contributions.
- All of the multilateral development banks maintain AAA credit ratings.
- The MDBs have two main lending windows: *hard* for middle-income countries and *soft* (or concessional) for lower-income countries. The GCI increases the amount of money that MDBs can borrow on commercial markets and relend through hard windows.
- Most MDBs are based on a shareholder system. If the US does not contribute, others will have the ability to purchase its shares.
- One in three U.S. manufacturing jobs depends on exports, according to the US Chamber of Commerce. In 2010, more than half of U.S. exports went to developing countries.

• Advances U.S. Economic Opportunities

- **Creating Markets for U.S. goods**
 - The World Bank has directly-sourced 2,500+ procurement contracts from US firms, totaling \$1.6+ billion over the last decade, plus indirect procurement and sales.
 - IBRD directly-sourced procurement from US firms is \$700 million, plus indirect procurement and sales.
 - U.S. exports to some nations have increased 200% with the help of the work done by the MDBs.
 - After the last GCI in 1988, MDB funds underwrote the successful transition of the Eastern Bloc into the world economy. Since 2000, exports from the United States to the former Soviet countries increased by 215%.



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- MDB-supported contracts in developing countries were much more stable for U.S. companies, such as Cisco, following the economic crisis than those supported by national governments.
 - The MDBs fund projects that private sector lenders typically will not.
 - On top of the manufacture of equipment by U.S. companies, project management and financial sector jobs are also created for U.S. companies when the MDBs fund projects.
 - The MDBs foster rules of the game in export markets which are more consistent and transparent for U.S. companies than those initially created by national governments or advanced by other national donors.
 - MDB-driven procurement is more transparent than many national procurement processes, enabling U.S. firms to compete in situations to which they would not otherwise have access.
 - **Bottom line:** By improving stability and economic conditions in MDB recipient countries, we stimulate greater demand for U.S. exports, which in turn drives the need for more U.S. jobs.
- **Investment Multiplier**
 - For every \$1 the US contributes, the MDBs leverage \$25-30.
 - For every \$1 invested by the U.S. in the IDB, \$1.35 is returned to the United States in disbursements to U.S. companies.
 - The last capital contribution by the U.S. in 1988 was leveraged at a ratio of 800:1, turning \$420 million dollars into \$325 billion.
 - The MDBs pool monies together to achieve more than the U.S. government or private companies could on their own.
 - Banks lend – not donate - funds, so as funds are repaid, they can usually be lent again without additional U.S. contributions.
 - Some former MDB loan recipients are now donors, such as France and South Korea, or are about to become donors, such Chile and Brazil.
- **Promotes National Security Interests**
 - **Providing Basic Infrastructure for U.S. Troops to Use**
 - The Asian Development Bank and the World Bank built the Ring Road and the Afghan-Uzbek Railroad which are used by U.S. and Afghan troops to access remote regions of Afghanistan.
 - **Supporting stability operations in weak states**
 - Best wars are the ones you don't have to fight.
 - MDB funding supports good governance, anti-corruption efforts, infrastructure, and other elements which promote stability in weak states and contribute to the prevention of conflict. The DOD calls the MDBs a complementary effort to their work which enables the DOD to do its actual job and bring soldiers home sooner.



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- Conflict is more expensive than these capital increases. Stability prevents countries from becoming havens for crime and terrorism with which the U.S. must deal later on, such as has happened in Somalia.
- **Strong Support from military leaders**
 - Gen. Petraeus, Gen. McNabb, Adm. Stavridis, and Secretary Panetta each wrote to Congress in support of the MDBs, saying that “U.S. engagement...contributes to our strategic interests,” particularly the Asian Development Bank in Afghanistan.
- **Sustains U.S. Leadership and Influence**
 - **If not the U.S, others will take our place**
 - If U.S. does not meet its commitments to the World Bank, we could lose our veto over the Articles of Agreement, including influence over the composition of the board, and leadership and membership in the Bank.
 - If U.S. does not meet its commitments to the African Development Bank, we could forfeit our single seat on the Board.
 - With a voice at the MDBs, the U.S. has and can continue to push forward its objectives by influencing the direction of funding towards projects of strategic importance to the U.S. If U.S. influence declines, other countries, such as China, have expressed an interest in purchasing U.S. shares and would undoubtedly use their increased influence in the MDBs to pursue their objectives.
 - **Drive Reforms at the MDBs**
 - The MDBs are not perfect, but significant changes are underway. In the process of negotiating these capital increases, the U.S. is pursuing changes to the way the Banks operate:
 - Increased transparency. For example, US negotiating pushed the World Bank to publish nearly every operational document online;
 - Stronger financial accountability ensures that loans are properly priced and influences the directing of funds;
 - Greater information sharing, particularly on contractor debarring, ensures that bad actors cannot move from one funder to the other;
 - Enhanced impact evaluation mechanisms and compliant mechanisms for communities create greater accountability on the ground;
 - Preparations for long-term stability. For example, the IDB would be required to generate 90% of their administration costs from loan charges and 20% of its lending would have to go towards private sector development; and
 - Higher standards on the environment, anti-corruption, gender inclusion, and other issues which may not be prioritized if other nations assumed the U.S. leadership role at the MDBs.
 - Since capital increases are long term, MDBs can plan their programs, build capacity, and follow through with their efforts to ensure programs have a greater impact.