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Multilateral Development Banks: Overview and Issues for Congress

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Summary

Overview: The multilateral development banks (MDBs) include the World Bank and four smaller regional development banks: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). The United States is a member of each of the MDBs. The MDBs provide financial assistance to developing countries to promote economic and social development. They primarily fund large infrastructure and other development projects and, increasingly, provide loans tied to policy reforms by the government. Most of the MDBs have two facilities from which they make loans (loan windows): a non-concessional lending window that provides loans to middle-income countries at market-based interest rates, and a concessional lending window that provides loans at below-market interest rates and grants to low-income countries.

Debate over the effectiveness of MDB financial assistance is contentious. Critics argue that the MDBs focus on "getting money out the door" (rather than delivering results in developing countries), are not transparent, and lack a clear division of labor. They also argue that providing aid multilaterally relinquishes U.S. control over where and how the money is spent. Proponents argue that providing aid to poor countries is the "right" thing to do and has been successful in helping developing countries make strides in health and education over the past four decades. They also argue that providing foreign aid to the MDBs is important for leveraging funds from other donors, tying policy reforms to financial assistance, and enhancing U.S. leadership. Most U.S. aid for economic and social development is provided directly to projects and programs in developing countries (bilateral aid) rather than to multilateral organizations, like the MDBs (multilateral aid).

Issues for Congress: Congressional legislation is required for U.S. financial contributions to the MDBs. Replenishments of the concessional windows occur regularly; capital increases for the non-concessional windows happen more infrequently. Unusually, all the MDBs have currently requested capital increases, generally because MDB lending has increased following the global financial crisis. Any U.S. participation in capital increases are likely to be included in the FY2011 (for the AsDB) and FY2012 (for the other MDBs) budgets. See also CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY1998-FY2009*, by Jonathan E. Sanford.

In addition to congressional hearings on the MDBs, Congress exercises oversight over U.S. participation in the MDBs through legislative mandates. These mandates direct the U.S. Executive Directors to the MDBs to advocate certain policies and how they should vote at the MDBs on various issues. Congress also issues reporting requirements for the Treasury Department on issues related to MDB activities. Finally, Congress can withhold funding for the MDBs unless certain institutional reforms are met ("power of the purse").

More than $30 billion in contracts are awarded each year to complete projects financed by the MDBs. Some of these contracts are awarded to U.S. companies. Major changes are underway at the World Bank, the biggest MDB, that would alter how companies bid on World Bank projects. The World Bank argues that these changes will strengthen national institutions, while opponents argue that they will weaken existing procurement standards. Finally, the G-20 has proposed voting reform at the World Bank to reflect the increased role of emerging-markets in the world economy. While the voting power of the United States is unlikely to be affected, these proposals are likely to be a focus of discussion about the World Bank moving forward.

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Introduction

Multilateral Development Banks (MDBs) are international institutions that provide loans and grants to developing countries in order to promote economic and social development. The term MDBs typically refers to the World Bank and four smaller regional development banks:

- the African Development Bank (AfDB);
- the Asian Development Bank (AsDB);
- the European Bank for Reconstruction and Development (EBRD); and
- the Inter-American Development Bank (IDB).[1]

The United States is a member of each of these institutions.[2]

Congressional interest in the MDBs has increased since the outbreak of the current global financial crisis. Following the onset of the crisis in fall 2008, the MDBs ramped up financial assistance to developing countries, and each of the MDBs has requested increased funding from their member states to increase lending to middle-income countries. A capital increase for an MDB is unusual and simultaneous requests for capital increases by all the MDBs has not happened since the 1970s. Any U.S. financial contribution to the MDBs requires congressional authorization and appropriation legislation. Negotiations for increasing MDB resources are currently underway, and it is expected that any increases would be included in the FY2011 budget (for the AsDB) or FY2012 budget (for the other MDBs). Hearings may be held in 2010.

This report provides an overview of the MDBs and highlights major current issues for Congress. The first section discusses the history of the MDBs, their operations, major donor contributions, their organization, and debates about the effectiveness of MDB financial assistance. The second section discusses issues of particular interest to Congress, including congressional legislation authorizing and appropriating U.S. contributions to the MDBs, congressional oversight of the MDBs, and U.S. commercial interests in the MDBs. It also discusses recent proposals for increasing the voting power of emerging-markets at the World Bank.

[1] There are also several sub-regional development banks, such as, the Caribbean Development Bank and the Andean Development Corporation. However, the United States is not a member of these sub-regional development institutions. This report does not discuss the North American Development Bank (NADBank), a binational financial institution capitalized and governed equally by the United States and Mexico.

[2] The International Monetary Fund (IMF), whose mandate is to ensure international financial stability, is not an MDB. The IMF does lend to developing countries on concessional terms (defined on p. 2), but this lending is primarily used to address balance of payments problems. However, the IMF provides some financial assistance to low-income countries, and the MDBs provide some balance of payments support through policy-based loans. This has led to some criticism in recent years about duplication of IMF and MDB efforts. Broadly speaking, though, the IMF focuses on providing financial support to countries facing balance of payments difficulties, and the MDBs provide financial support for economic and social development.

Overview of the Multilateral Development Banks

The MDBs provide financial assistance to developing countries, typically in the form of loans and grants, for investment projects and policy-based loans. Project loans include large infrastructure projects, such as highways, power plants, port facilities, and dams, as well as social projects, including health and education initiatives. Policy-based loans provide governments with financing simultaneous with agreement by the borrower country government that it will undertake particular policy reforms, such as the privatization of state-owned industries or reform in agriculture or electricity sector policies. Policy-based loans can also provide budgetary support to developing country governments. In order for the disbursement of a policy-based loan to continue, the borrower must implement the specified economic or financial policies. Some have expressed concern over the increasing budgetary support provided to developing countries by the MDBs. Traditionally, this has been the province of the International Monetary Fund (IMF).

Most of the MDBs have two funds, often called lending windows or lending facilities. One type of lending window is used to make loans at market-based interest rates.[3] Such non-concessional loans are, depending on the MDB, extended to governments and private sector firms in middle-income and some creditworthy low-income countries. The other type of lending window is used to make loans at below-market interest rates (concessional loans) and grants to the governments of low-income countries.

Historical Background

World Bank

The World Bank is the oldest and largest of the MDBs. The World Bank Group comprises three sub-institutions that make loans and grants to developing countries: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).[4]

The famous 1944 Bretton Woods Conference led to the establishment of the World Bank, the IMF, and the institution that would eventually become the World Trade Organization (WTO). The IBRD was the first World Bank affiliate created, when its Articles of Agreement became effective in 1945 with the signatures of 28 member governments. Today, the IBRD has near universal membership with 186 member nations. Only Cuba and North Korea, and a few micro-states such

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[3] These carry repayment terms that are lower than those normally required for commercial loans, but they are not subsidized. See the discussion of financing below.

[4] In addition to the IBRD, IDA, and the IFC, the World Bank Group also includes the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The term "World Bank" typically refers to IBRD and IDA specifically. MIGA and ICSID are not covered in this report, even though they arguably play an important role in fostering economic development, because they do not make loans and grants to developing countries. MIGA provides political risk insurance to foreign investors, in order to promote foreign direct investment (FDI) into developing countries. The ICSID provides facilities for conciliation and arbitration of disputes between governments and private foreign investors.

as the Vatican, Monaco, and Andorra, are non-members. The IBRD lends mainly to the governments of middle-income countries at market-based interest rates.

In 1960, at the suggestion of the United States, IDA was created to make concessional loans (with low interest rates and long repayment periods) to the poorest countries. IDA also now provides grants to these countries. The IFC was created in 1955 to extend loans and equity investments to private firms in developing countries. The World Bank initially focused on providing financing for large infrastructure projects. Over time, this has broadened to also include social projects and policy-based loans.

Regional Development Banks

Inter-American Development Bank

The IDB was created in 1959 in response to a strong desire by Latin American countries for a bank that would be attentive to their needs, as well as U.S. concerns about the spread of communism in Latin America.[5] Consequently, the IDB has tended to focus more on social projects than large infrastructure projects, although the IDB began lending for infrastructure projects as well in the 1970s. From its founding, the IDB has had both non-concessional and concessional lending windows. The IDB's concessional lending window is called the Fund for Special Operations (FSO). The IDB Group also includes the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF), which extend loans to private sector firms in developing countries, much like the World Bank's IFC.

African Development Bank

The AfDB was created in 1964 and was for nearly two decades an African-only institution, reflecting the desire of African governments to promote stronger unity and cooperation among the countries of their region. In 1973, the AfDB created a concessional lending window, the African Development Fund (AfDF), to which non-regional countries could become members and contribute. The U.S. joined the AfDF in 1976. In 1982, membership in the AfDB non-concessional lending window was officially opened to non-regional members. The AfDB makes loans to private sector firms through its non-concessional window and does not have a separate fund specifically for financing private sector projects with a development focus in the region.

Asian Development Bank

The AsDB was created in 1965 to promote regional cooperation. Similar to the World Bank, and unlike the IDB, the AsDB's original mandate focused on large infrastructure projects, rather than social projects or direct poverty alleviation. The AsDB's concessional lending facility, the Asian Development Fund (AsDF), was created in 1973. Like the AfDF, the AsDB does not have a

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[5] Sarah Babb, *Behind the Development Banks: Washington Politics, World Poverty, and the Wealth of Nations* (Chicago: University of Chicago Press, 2009).

separate fund specifically for financing private sector projects, and makes loans to private sector firms in the region through its non-concessional window.

European Bank for Reconstruction and Development

The EBRD is the youngest MDB, founded in 1990. The motivation for creating the EBRD was to ease the transition of the former communist countries of Central and Eastern Europe (CEE) and the former Soviet Union from planned economies to free-market economies. The EBRD differs from the other regional banks in two fundamental ways. First, the EBRD has an explicitly political mandate: to support democracy-building activities. Second, the EBRD does not have a concessional loan window. The EBRD's financial assistance is heavily targeted on the private sector, although the EBRD does also extend some loans to governments in CEE and the former Soviet Union.

Table 1 summarizes the different lending windows for the MDBs, noting what types of financial assistance they provide, who they lend to, when they were founded, and how much financial assistance they committed to developing countries in 2008 or FY2009.[6] The World Bank accounted for more than 60% of total MDB financial assistance commitments to developing countries in 2008 or FY2009.[7] Also, more than 60% of the financial assistance provided by the MDBs to developing countries in 2008 or FY2009 was on non-concessional terms.

[6] World Bank commitments are for FY 2009 (July 2008 – June 2009). Regional bank commitments are for 2008 (calendar year).

[7] Including IBRD, IFC, and IDA.

Table 1. Overview of MDB Lending Windows

MDB	Type of Financing	Type of Borrower	Year Founded	Commitments, 2008 or FY2009 (Billion US$)
World Bank Group				
International Bank for Reconstruction and Development (IBRD)	Non-concessional loans	Primarily middle-income governments, also some creditworthy low-income countries	1944	32.9
International Development Association (IDA)	Concessional loans and grants	Low-income governments	1960	14.0
International Finance Corporation (IFC)	Non-concessional loans and equity investments	Private sector firms in developing countries	1955	10.5
African Development Bank (AfDB)	Non-concessional loans	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1964	2.8
African Development Fund (AfDF)	Concessional loans and grants	Low-income governments in the region	1973	2.6
Asian Development Bank (AsDB)	Non-concessional loans	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1965	8.7
Asian Development Fund (AsDF)	Concessional loans and grants	Low-income governments in the region	1973	1.8
European Bank for Reconstruction and Development (EBRD)	Non-concessional loans and equity investments	Primarily private sector firms in developing countries in the region, also developing-country governments in the region	1990	7.4
Inter-American Development Bank (IDB)	Non-concessional loans	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1959	11.1
Fund for Special Operations (FSO)	Concessional loans and grants	Low-income governments in the region	1959	0.1

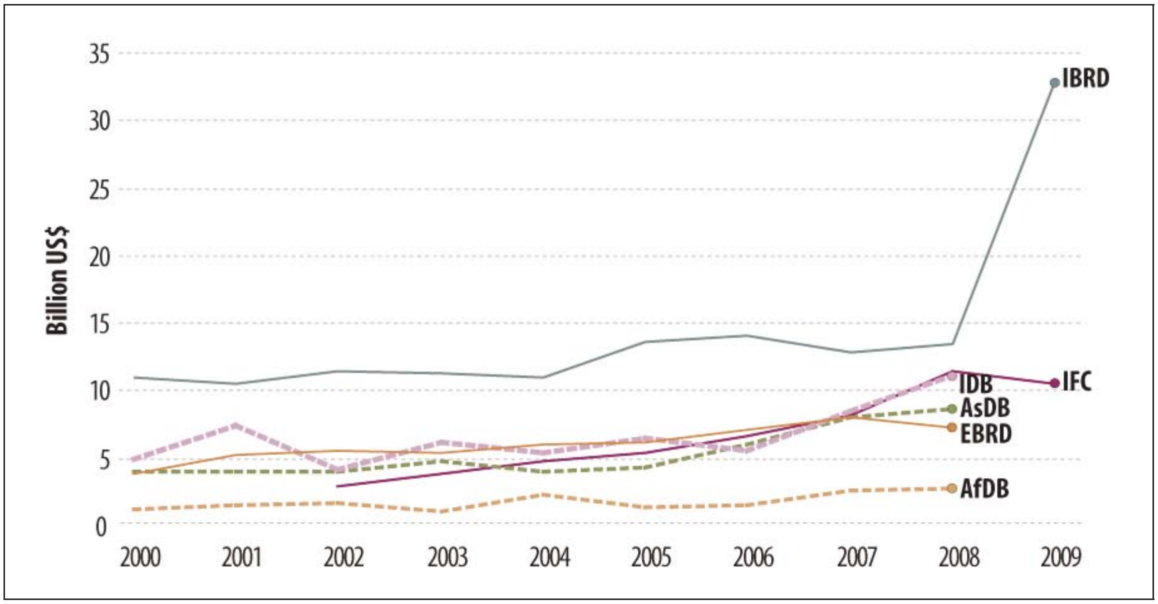
Source: MDB Annual Reports. World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year). Most of the MDBs also have additional funds that they administer, typically funded by a specific donor and/or targeted towards narrowly defined projects. These special funds tend to be very small in value and are not included in this report.

Operations: Financial Assistance to Developing Countries

Financial Assistance Over Time

Figure 1 shows MDB financial commitments to developing countries since 2000. As a whole, non-concessional MDB financial assistance was relatively flat until the current global financial crisis prompted major member countries to press for increased financial assistance. In response to the financial crisis and at the urging of its major member countries, the IBRD dramatically increased lending between FY2008 and FY2009. When the 2009 lending data for the regional development banks is released later this year (2010), they are also expected to show substantial upticks in lending.

Figure 1. MDB Non-Concessional Financial Assistance, 2000-2009

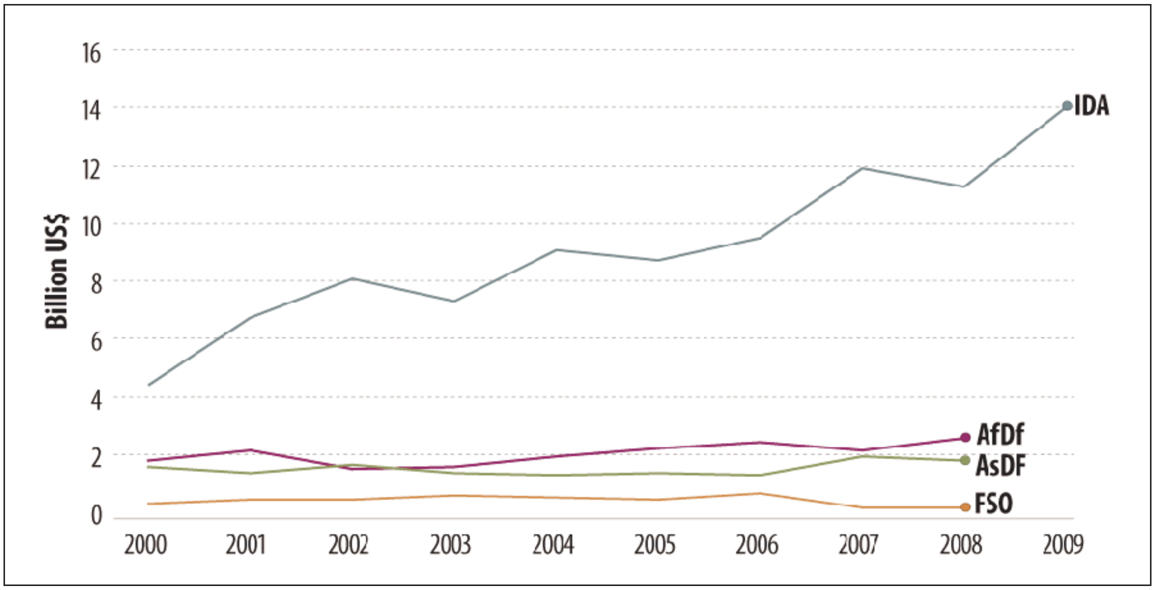


Source: MDB Annual Reports.

Notes: World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year).

Figure 2 shows concessional financial assistance provided by the MDBs to developing countries from 2000 to 2008-2009. The World Bank's concessional lending arm, IDA, has grown steadily over the decade in nominal terms, while the regional development bank concessional lending facilities, by contrast, have remained relatively stable in nominal terms over the past several years. When the 2009 data for the regional development banks becomes available, however, it is expected that these figures will show an increase in concessional assistance as the regional banks responded to the financial crisis.

Figure 2. MDB Concessional Financial Assistance, 2000-2009



Source: MDB Annual Reports.

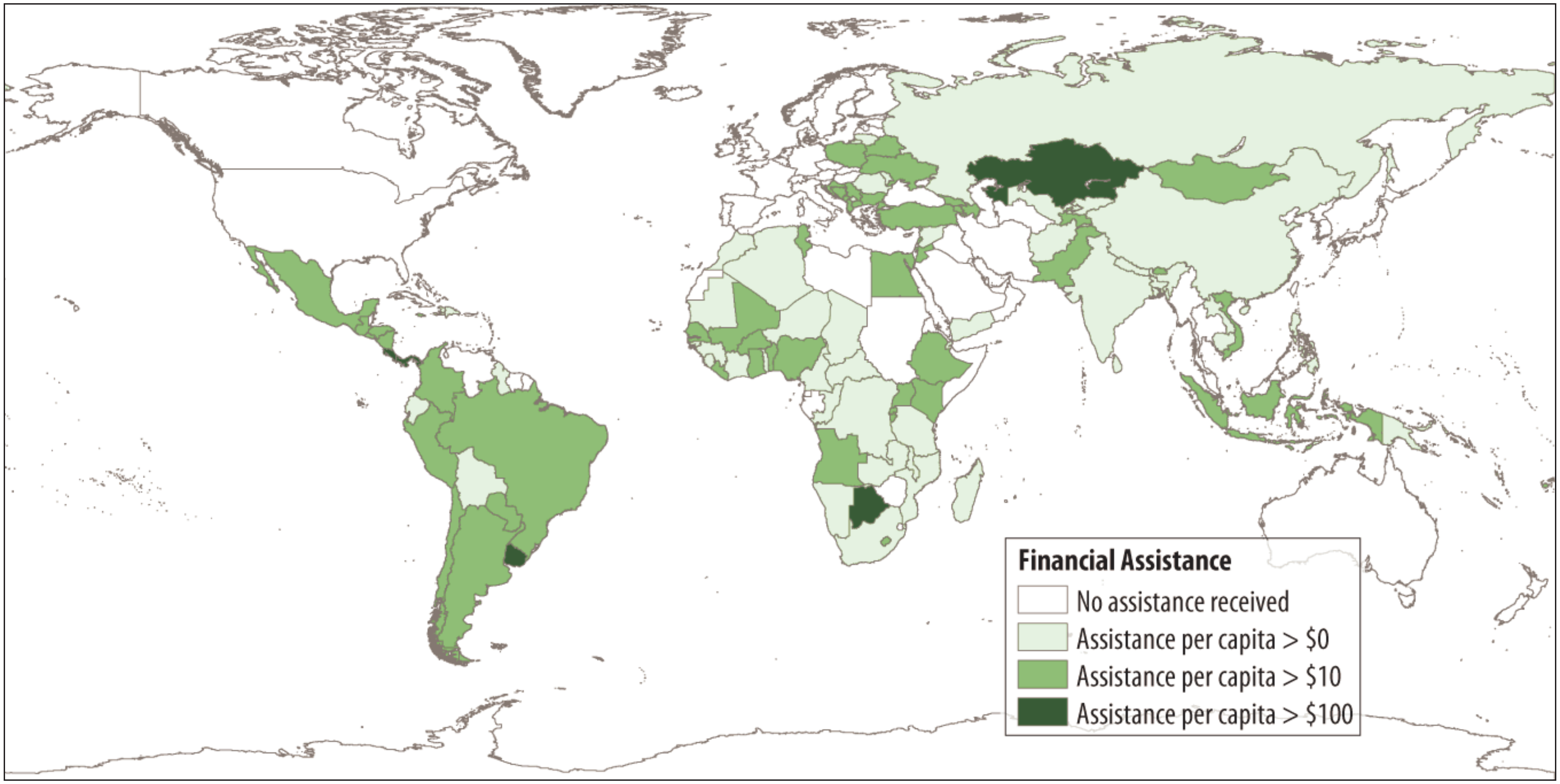
Notes: World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year).

Recipients of MDB Financial Assistance

Figures 3-7 show which countries received commitments for financial assistance from the MDBs in the most recent year available (FY2009 for the World Bank and 2008 for the regional development banks). Additionally, **Figure 3** shows how much, on a per capita basis, each country received. Darker regions in the graphs indicate higher levels of MDB financial assistance per capita. The data used is a sum of total financial assistance – concessional and non-concessional – for each MDB.

Generally, Latin America and Eastern and Central Europe (CEE) received the highest levels of financial assistance per capita from the World Bank in FY2009, although there are notable instances in Asia and Africa, such as Kazakhstan and Botswana. For the AfDB, financial assistance per capita in 2008 was concentrated in Western and Eastern Africa, with some lending in Northern African (particularly Morocco and Egypt) and Southern Africa (particularly Botswana and South Africa). For the AsDB, Mongolia, Kazakhstan, Georgia, Papua New Guinea, and the Cook Islands were among the top recipients of financial assistance per capita in 2008. Regional economic powers China and India were also among the recipients of lower levels of financial assistance per capita from the AsDB in 2008. For the EBRD and the IDB, financial assistance per capita was spread fairly evenly throughout the region in 2008. For the EBRD, Bosnia and Herzegovina, Georgia, Moldova, and Albania received the highest levels of financial assistance per capita in 2008. Russia also received substantial assistance from the EBRD in 2008. For the IDB, the Bahamas, Costa Rica, Panama, and Barbados received high levels of financial assistance per capita. Mexico and Brazil also received lower levels of financial assistance from the IDB in 2008, among others.

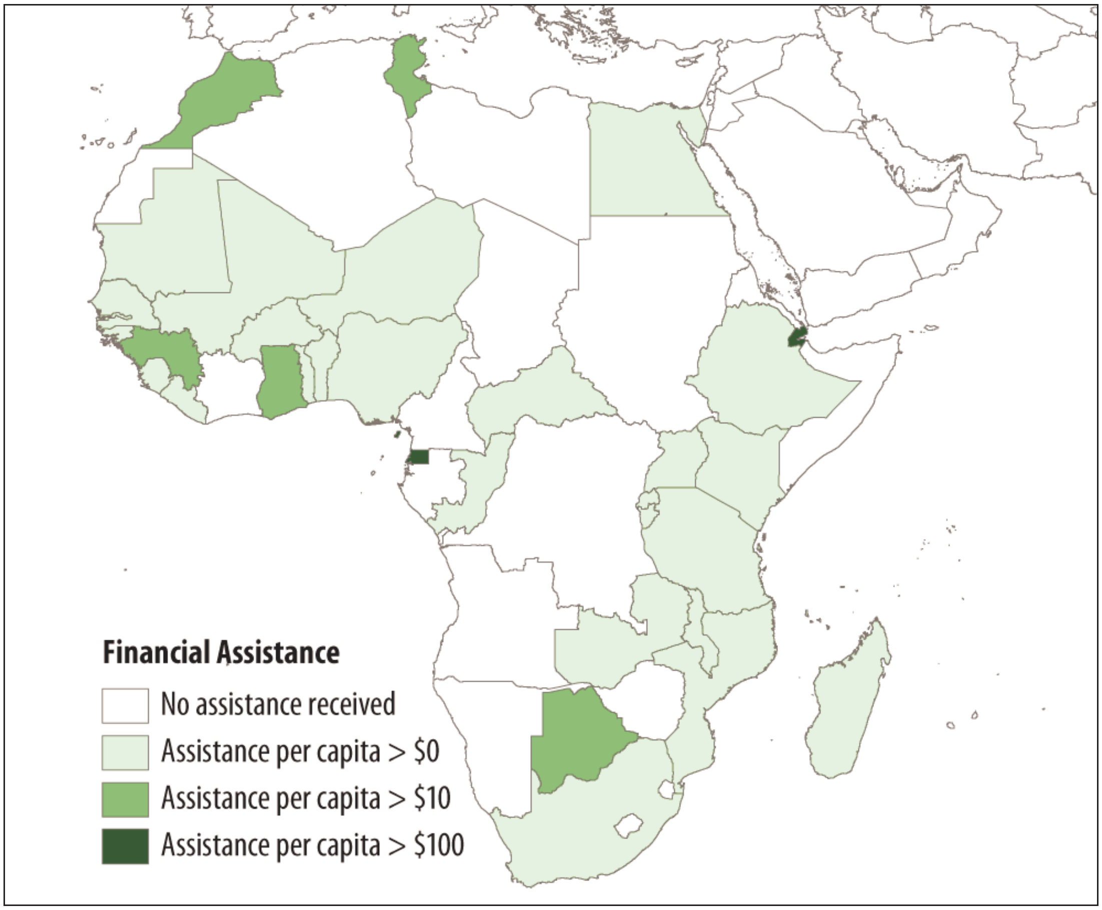
Figure 3. World Bank: Commitments of Financial Assistance, FY2009



Source: World Bank Projects & Operations Database, http://go.worldbank.org/0FRO32VEI0. IFC FY09 Project & Portfolio Information, http://www.ifc.org/ifcext/annualreport.nsf/Content/AR2009_Projects_Portfolio.

Notes: Includes concessional and non-concessional financial assistance from lending windows listed in **Table 1** (IBRD, IDA, and IFC). Excludes regional assistance, which is typically a small portion of the banks' lending portfolios.

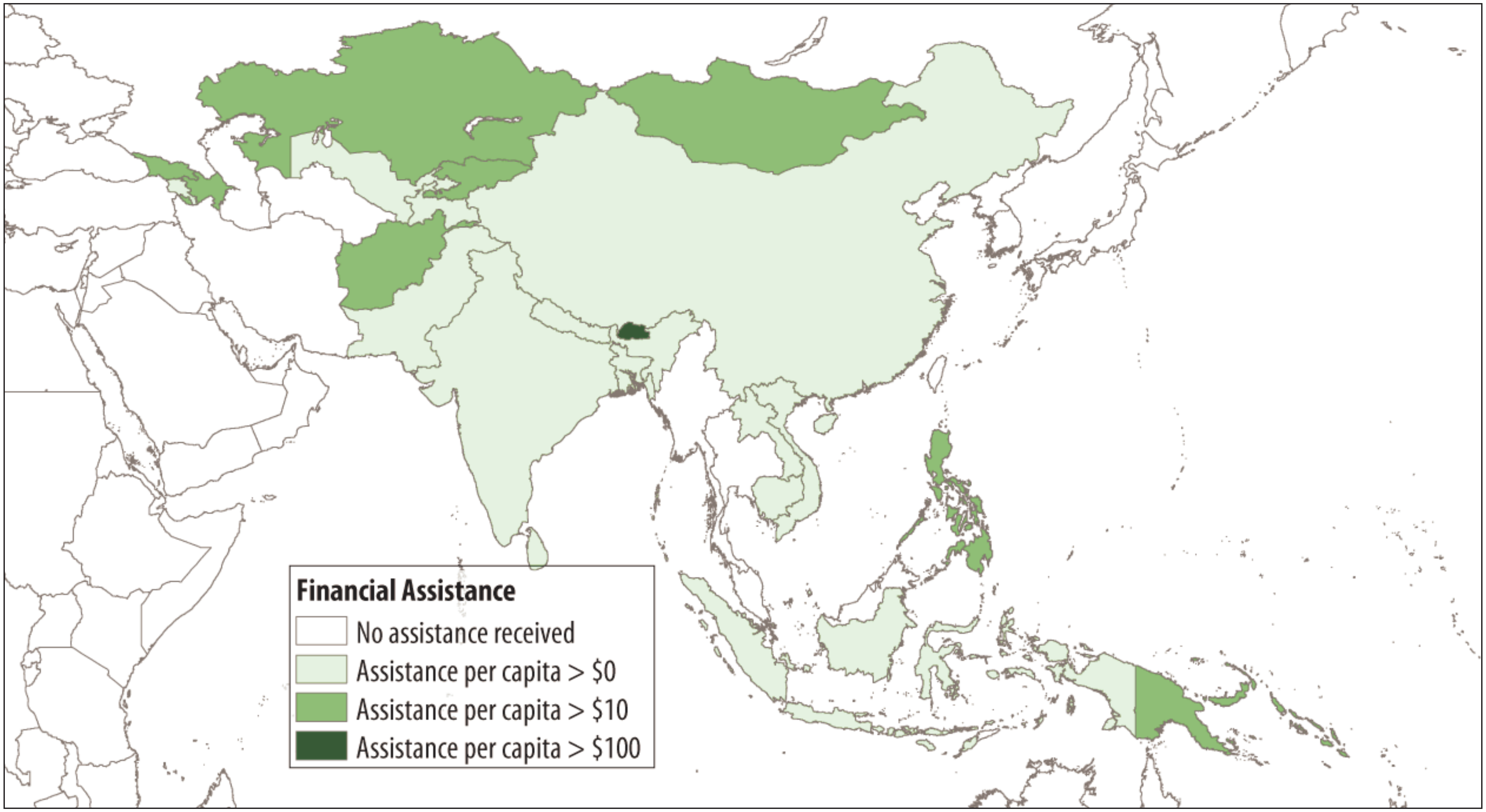
Figure 4. African Development Bank: Commitments of Financial Assistance, 2008



Source: African Development Bank Annual Report, 2008.

Notes: Includes concessional and non-concessional financial assistance from lending windows listed in **Table 1**. Excludes regional assistance, which is typically a small portion of the banks' lending portfolios.

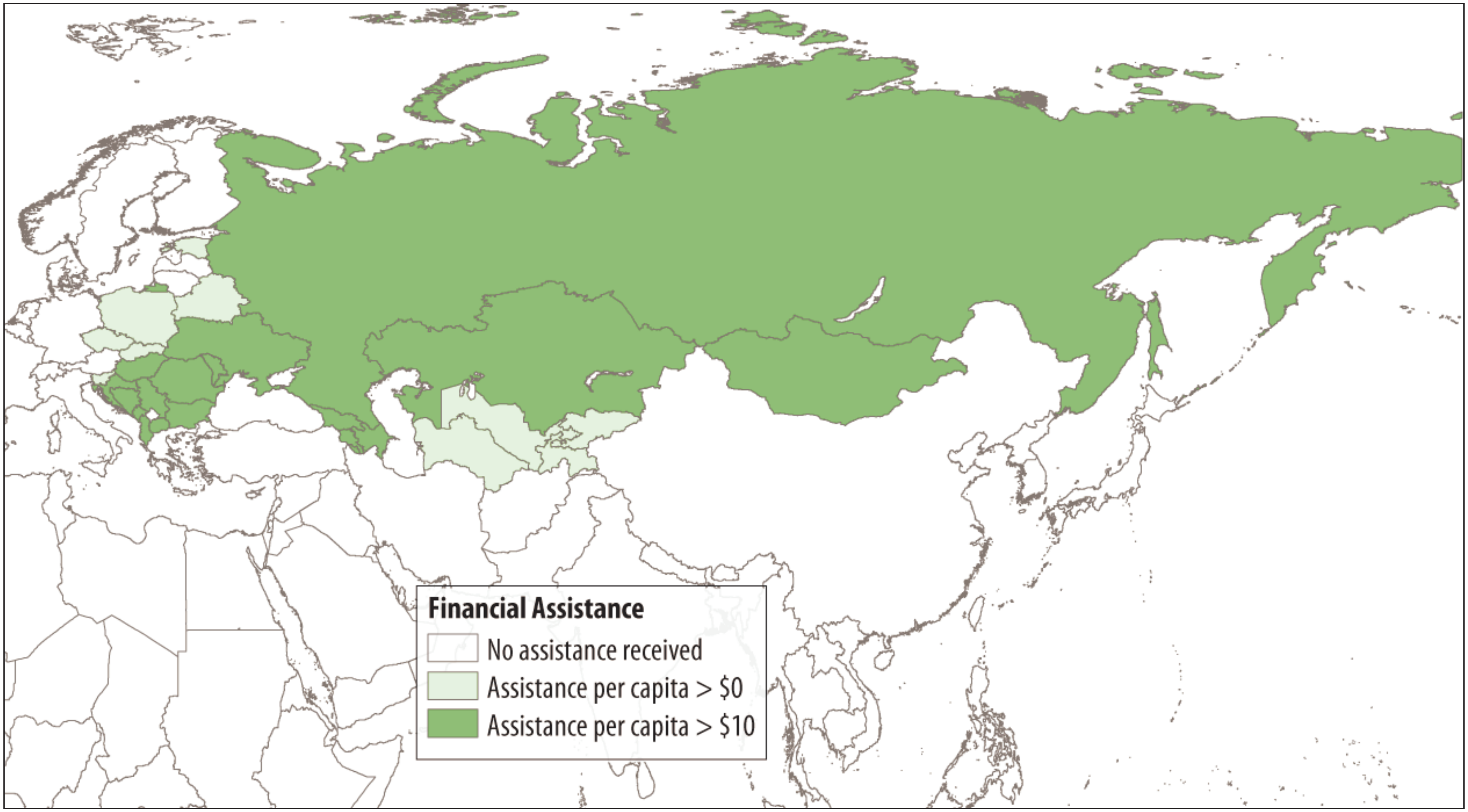
Figure 5. Asian Development Bank: Commitments of Financial Assistance, 2008



Source: Asian Development Bank Annual Report, 2008.

Notes: Includes concessional and non-concessional financial assistance from lending windows listed in **Table 1**. Excludes regional assistance, which is typically a small portion of the banks' lending portfolios.

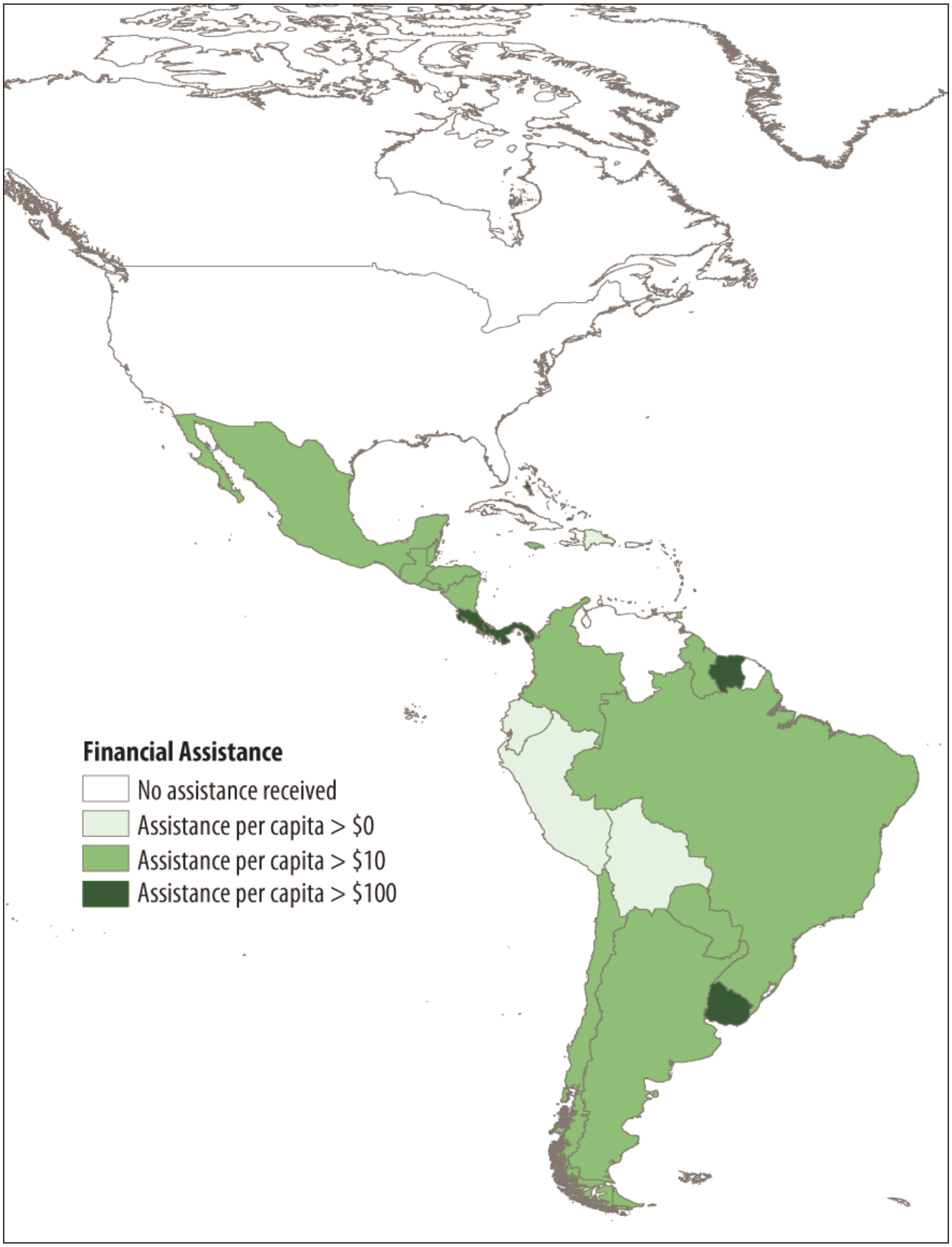
Figure 6. European Bank for Reconstruction and Development: Commitments of Financial Assistance, 2008



Source: European Bank for Reconstruction and Development Annual Report, 2008.

Notes: EBRD only provides non-concessional loans. Excludes regional assistance. Excludes regional assistance, which is typically a small portion of the banks' lending portfolios.

Figure 7. Inter-American Development Bank: Commitments of Financial Assistance, 2008



Source: Inter-American Development Bank Annual Report, 2008.

Notes: Includes concessional and non-concessional financial assistance from lending windows listed in **Table 1**. Excludes regional assistance, which is typically a small portion of the banks' lending portfolio.

The above Figures show that several large, emerging-market countries, such as the "BRICs" (Brazil, Russia, India, and China), receive a steady flow of financial assistance from the MDBs. This trend is somewhat controversial. Some argue that, instead of using MDB resources, these countries should rely on their own resources, particularly countries like China which has substantial foreign reserves holdings and can easily get loans from private capital markets to fund development projects. MDB assistance, it is argued, would be better suited to focusing on the needs of the world's poorest countries, which do not have the resources to fund development projects and cannot borrow these resources from international capital markets.

Others argue that MDB financial assistance provided to large, emerging-market countries is important, because these countries have substantial numbers of people living in poverty and MDBs provide financial assistance for projects for which the government might be reluctant to borrow. Additionally, MDB assistance helps address environmental issues, promotes better governance, and provides important technical assistance to which emerging-market countries might not otherwise have access. Finally, supporters point out that because MDB assistance to emerging-market countries takes the form of loans with market-based interest rates, rather than concessional loans or grants, this assistance is relatively inexpensive to provide.

Funding: Donor Commitments and Contributions

MDBs are able to make loans and grants to developing countries due to the financial commitments of their more prosperous member countries. This support takes several forms, depending on the type of assistance (non-concessional or concessional) provided to developing countries. The MDBs use money contributed or subscribed by their member countries to support their assistance programs. They fund their operating costs from money earned on non-concessional loans to borrower countries. Some of the MDBs transfer a portion of their surplus net income annually to help fund their concessional aid programs.

Non-Concessional Lending Windows

To offer non-concessional loans, the MDBs borrow money from international capital markets and then re-lend the money to developing countries. MDBs are able to borrow from international capital markets because they are backed by the guarantees of their member governments. This backing is provided through the ownership shares that countries subscribe as a consequence of their membership in each bank.[8] Only a small portion (typically less than 5-10%) of the value of these capital shares is actually paid to the MDB ("paid-in capital"). The bulk of these shares is a guarantee that the donor stands ready to provide to the bank if needed. This is called "callable capital," because the money is not actually transferred from the donor to the MDB unless the bank needs to call on its members' callable subscriptions. Banks may call upon their members' callable subscriptions only if their resources are exhausted and they still need funds to repay bondholders. To date, no MDB has ever had to draw on its callable capital. In recent decades, the

[8] In most cases, the banks do not use the capital subscribed by their developing country members as backing for the bonds and notes they sell to fund their market-rate loans to developing countries, but instead just use the capital subscribed by their developed country members.

MDBs have not used their paid-in capital to fund loans. Rather it has been put in financial reserves to strengthen the institutions' financial base.

Due to the financial backing of their member country governments, the MDBs are able to borrow money in world capital markets at the lowest available market rates, generally the same rates at which developed country governments borrow funds inside their own borders. The banks are able to relend this money to their borrowers at much lower interest rates than the borrowers would generally have to pay for commercial loans, if, indeed, such loans were available to them. As such, the MDBs' non-concessional lending windows are self-financing and even generate net income.

Periodically, when donors agree that future demand for loans from an MDB is likely to expand, they increase their capital subscriptions to an MDB's non-concessional lending window in order to allow the MDB to increase its level of lending. This usually occurs because the economy of the world or the region has grown in size and the needs of their borrowing countries have grown accordingly, or to respond to a financial crisis. An across the board increase in all members' shares is called a "general capital increase" (GCI). This is in contrast to a "selective capital increase" (SCI), which is typically small and used to alter the voting shares of member countries. The voting power of member countries in the MDB is determined largely by the amount of capital contributed and through selective capital increases; some countries subscribe a larger share of the new capital stock than others to increase their voting power in the institutions. GCIs happen infrequently. For example, the World Bank's main non-concessional lending window, the IBRD, has had only three GCIs since it was created in 1945. Since the onset the current international financial crisis in fall 2008, all the MDBs have been planning to seek new GCIs. Simultaneous requests for capital increases from all the MDBs is quite unusual and has not occurred since the mid-1970s.

Table 2 summarizes current U.S. capital subscriptions to the MDB non-concessional lending windows. The largest U.S. share of subscribed MDB capital is with the IDB at 30% while its smallest share among the MDBs is with the AfDB at 6%.

Table 2. MDB Non-Concessional Lending Windows: U.S. Share of Capital Subscriptions

Current subscriptions, including paid-in capital and callable capital, as of 2008 or FY2009.

MDB	U.S. Subscription	Total Subscription	U.S. Share
	Billion US$	Billion US$	%
IBRD	32.0	189.9	17
IFC	0.6	2.4	24
AfDB	2.2	33.5	6
AsDB	8.5	54.9	16
EBRD	2.9	28.7	10
IDB	30.3	100.9	30
Total	**76.5**	**410.3**	**19**

Source: MDB Annual Reports.

Notes: World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year).

Table 3 shows the top donor countries to the MDB non-concessional facilities. Cumulatively, the United States has the largest financial commitments to the non-concessional lending windows at the IBRD, the IFC, the IDB, and the EBRD. At the AfDB, the United States has the second largest financial commitment after Nigeria. At the AsDB, the United States is tied with Japan for the largest financial commitment.

Other top donor states include Western European countries, Japan, and Canada. Additionally, several regional members have large financial stakes in the regional banks. For example, among the regional members, China and India are large contributors to the AsDB; Egypt and South Africa are large contributors to the AfDB; Argentina, Brazil, and Venezuela are large contributors to the IDB; and Russia is a large contributor to the EBRD.

Table 3. MDB Non-Concessional Lending Windows: Top Donors

Current subscriptions to capital, including paid-in capital and callable capital, as of 2008 or FY2009.

World Bank

IBRD	%	IFC	%
United States	16.83	United States	24.03
Japan	8.07	Japan	5.96
Germany	4.60	Germany	5.44
United Kingdom	4.41	United Kingdom	5.11
France	4.41	France	5.11
Canada	2.85	Canada	3.43
China	2.85	India	3.43
India	2.85	Italy	3.43
Russia	2.85	Russia	3.43
Saudi Arabia	2.85	Netherlands	2.37

Regional Development Banks

AfDB	%	AsDB	%	EBRD	%	IDB	%
Nigeria	8.88	Japan	15.57	United States	10.10	United States	30.03
United States	6.44	United States	15.57	France	8.61	Argentina	10.76
Japan	5.49	China	6.43	Germany	8.61	Brazil	10.76
Egypt	5.14	India	6.32	Italy	8.61	Mexico	6.92
South Africa	4.56	Australia	5.77	Japan	8.61	Venezuela	5.76
Germany	4.12	Indonesia	5.43	United Kingdom	8.61	Japan	5.00
Algeria	3.97	Canada	5.22	Russia	4.04	Canada	4.00
Libya	3.84	S. Korea	5.03	Canada	3.44	Chile	2.95
Canada	3.75	France	4.32	Spain	3.44	Colombia	2.95
France	3.75	Malaysia	2.72	EC[a]	3.03	France	1.90
				EIB[b]	3.03	Germany	1.90
						Spain	1.90

Source: MDB Annual Reports.

Notes: World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year). a. European Community. b. European Investment Bank.

Concessional Lending Windows

Concessional lending windows do not issue bonds; their funds are contributed directly from the financial contributions of their member countries. Most of the money comes from the more prosperous countries, while the contributions from borrowing countries are generally more symbolic than substantive. The MDBs have also transferred some of the net income from their non-concessional windows to their concessional lending window in order to help fund concessional loans and grants.

As the MDB extends concessional loans and grants to low-income countries, the window's resources become depleted. The donor countries meet together periodically to replenish those resources. Thus, these increases in resources are called replenishments, and most occur on a planned schedule ranging from three to five years. If these facilities are not replenished on time, they will run out of lendable resources and have to substantially reduce their levels of aid to poor countries.

Table 4 summarizes cumulative U.S. contributions to the MDB concessional lending windows. The U.S. share of total contributions is highest to the IDB's concessional lending window (50%) and lowest to the AfDB's concessional lending window (11%).

Table 4. MDB Concessional Lending Windows: U.S. Share of Cumulative Contributions

Cumulative contributions as of 2008 or FY2009.

MDB	U.S. Contribution	Total Contribution	U.S. Share
	Billion US$	Billion US$	%
IDA	42.7	199.4	21
AfDF	3.0	28.3	11
AsDF	3.8	23.3	16
EBRD	---	---	---
IDB: FSO	4.8	9.6	50
Total	**54.3**	**260.6**	**21**

Source: MDB Annual Reports.

Notes: EBRD does not have a concessional lending window. World Bank data is for FY2009 (July 2008 – June 2009). Regional development bank data is for 2008 (calendar year).

Table 5 shows the top donor countries to the MDB concessional facilities. The United States has made the highest cumulative contributions to IDA and the IDB's FSO, and the second highest cumulative contributions to the AfDF and the AsDF, after Japan. Other top donor states include the more prosperous member countries: Japan, Canada, and those in Western Europe. Within the FSO, Brazil, Argentina, and Mexico have also made substantial contributions. In recent years, the U.S. contributions to IDA have been well below its historical share on some occasions and other countries (notably the United Kingdom) have played a predominant role.

Table 5. MDB Concessional Lending Windows: Top Donors

Cumulative contributions as of 2008 or FY2009.

IDA	%	AfDF	%	AsDF	%	IDB: FSO	%
United States	21.40	Japan	11.96	Japan	36.94	United States	50.22
Japan	19.44	United States	10.54	United States	16.18	Japan	6.14
Germany	11.04	France	10.47	Canada	6.79	Brazil	5.65
United Kingdom	10.16	Germany	10.29	Australia	6.57	Argentina	5.24
France	7.29	United Kingdom	7.81	Germany	6.35	Mexico	3.41
Italy	4.41	Canada	7.63	France	4.71	Canada	3.21
Canada	4.37	Italy	5.91	United Kingdom	4.51	Germany	2.39
Netherlands	3.70	Sweden	5.21	Italy	3.93	France	2.29
Sweden	2.99	Norway	4.50	Netherlands	2.52	Spain	2.24
Switzerland	1.61	Netherlands	4.04	Spain	1.27	Italy	2.24

Source: MDB Annual Reports.

Note: FSO is the Fund for Special Operations, the IDB's concessional lending window. World Bank data is for FY2009. Regional development bank data is for 2008 (calendar year).

Structure and Organization

Relation to Other International Institutions

The World Bank is a specialized agency of the United Nations. However, it is autonomous in its decision-making procedures and its sources of funds. It also has autonomous control over its administration and budget. The regional development banks are independent international agencies and are not affiliated with the United Nations system. All the MDBs must comply with directives (for example, economic sanctions) agreed to (by vote) by the U.N. Security Council. However, they are not subject to decisions by the U.N. General Assembly or other U.N. agencies.

Internal Organization

The MDBs have similar internal organizational structures. Run by their own management and staffed by international civil servants, each MDB is supervised by a Board of Governors and a Board of Executive Directors. The Board of Governors is the highest decision-making authority, and each member country has its own governor. Countries are usually represented by their Secretary of the Treasury, Minister of Finance, or Central Bank Governor. The United States is currently represented by Treasury Secretary Timothy Geithner. The Board of Governors meets annually, though may act more frequently through mail-in votes on key decisions.

While the Boards of Governors in each of the Banks retain power over major policy decisions, such as amending the founding documents of the organization, they have delegated day-to-day authority over operational policy, lending, and other matters to their institutions' Board of Executive Directors. The Board of Executive Directors in each institution is smaller than the Board of Governors. There are 24 members on the World Bank's Board of Executive Directors, and fewer for some of the regional development banks. Each MDB Executive Board has its own schedule, but they generally meet at least weekly to consider MDB loan and policy proposals and oversee bank activities. The current U.S. Executive Directors to the MDBs are listed in **Table 6**.

Table 6. U.S. Executive Directors

MDB	U.S. Executive Director
World Bank	Ian Solomon
AfDB	Walter Crawford Jones
AsDB	Curtis S. Chin[a]
EBRD	James Hudson
IDB	Gustavo Arnavat

Source: MDB websites.

Notes: a. Robert M. Orr has been nominated by the Obama Administration to be the U.S. Executive Director to AsDB, pending approval by the Senate (see p. 28).

Decisions are reached in the MDBs through voting. Each member country's voting share is weighted on the basis of its cumulative financial contributions and commitments to the organization.[9] **Table 7** shows the U.S. voting power in each institution. The voting power of the United States is large enough to veto major policy decisions at the World Bank and the IDB, such as amending the World Bank's Articles of Agreement. However, the United States cannot unilaterally veto more day-to-day decisions, such as individual loans.

Table 7. U.S.Voting Power in the MDBs

MDB	U.S. Voting Share (%)
IBRD	16.36
IDA	12.16
IFC	23.59
AfDB	6.34
AsDB	12.76
IDB	30.00
EBRD	10.15

Source: MDB Annual Reports.

[9] This is not necessarily the case with the MDBs' concessional windows, though. In order to insure that borrower countries have at least some say in these organizations, the contributions of donor countries in some recent replenishments have not given the donor countries additional votes. In all cases, though, the donor countries together have a comfortable majority of the total vote.

Debates about Effectiveness of the MDBs

Effectiveness of Foreign Aid

The effectiveness of foreign aid, including the aid provided by MDBs, in spurring economic development and reform in developing countries is hotly debated. The most prominent academic, peer-reviewed studies of foreign aid effectiveness typically attempt to examine the effect of total foreign aid provided to developing countries, including both bilateral aid and multilateral aid. With bilateral aid, most U.S. resources go directly to programs and projects in developing countries. With multilateral aid, multilateral organizations, like the MDBs, pool money from different donors and then provide money to fund programs and projects in developing countries. The results of these studies that examine the effectiveness of bilateral and multilateral aid are mixed, with conclusions ranging from (a) aid is ineffective at promoting economic growth[10] to (b) aid is effective at promoting economic growth[11] to (c) aid is effective at promoting growth in some countries under specific circumstances (such as when developing-country policies are strong).[12] The divergent results of these academic studies make it difficult to reach firm conclusions about the overall effectiveness of aid.

Beyond the debates about the overall effectiveness of foreign aid, there are also criticisms of the providers of foreign aid. Many of these criticisms are made broadly about multilateral aid organizations and government aid agencies, and are not targeted at the MDBs specifically. For example, it is argued that the national and international bureaucracies that dispense foreign aid focus on "getting money out the door" to developing countries, rather than on delivering services to developing countries; emphasize short-term outputs like reports and frameworks but do not engage in long-term activities like the evaluation of projects after they are completed; and put enormous administrative demands on developing-country governments.[13] Bilateral and multilateral foreign aid agencies have also been criticized for their lack of transparency about their operating costs and how they spend their aid money; the fragmentation of foreign aid across many small aid bureaucracies that are not well coordinated; and the proportion of foreign aid that goes to corrupt leaders or is spent ineffectively.[14] (However, some analysts contend that among government and international foreign agencies, MDBs ranked among the best for adhering to foreign aid "best practices."[15]) Many of these criticisms and proposals for change are discussed in

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[10] E.g., see William Easterly, "Can Foreign Aid Buy Growth?," *Journal of Economic Perspectives*, vol. 17, no. 3 (Summer 2003), p. 23–48.

[11] E.g., see Carl-Johan Dalgaard and Henrik Hansen, "On Aid, Growth, and Good Policies," *Journal of Development Studies*, vol. 37, no. 6 (August 2001), pp. 17-41.

[12] E.g., see Craig Burnside and David Dollar, "Aid, Policies, and Growth," *American Economic Review*, vol. 90, no. 4 (September 2000), p. 847–868.

[13] William Easterly, "The Cartel of Good Intentions," *Foreign Policy*, vol. 131 (July-August 2002), pp. 40-49.

[14] William Easterly and Tobias Pfutze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," *Journal of Economic Perspectives*, vol. 22, no. 2 (Spring 2008). For more on foreign aid reform, also see: CRS Report R40102, *Foreign Aid Reform: Studies and Recommendations*, by Susan B. Epstein and Matthew C. Weed and CRS Report R40756, *Foreign Aid Reform: Agency Coordination*, by Marian Leonardo Lawson and Susan B. Epstein.

[15] Ibid.

a March 2010 report by the Senate Foreign Relations Committee on the international financial institutions (IFIs).[16]

Proponents of foreign aid argue that, despite some flaws, such aid at its core serves vital economic and political functions. With 1.4 billion people in the developing world (one in four people in the developing world) living on less than $1.25 a day in 2005,[17] some argue that not providing assistance is simply not an option; providing aid to the world's poorest countries is the "right" thing to do and part of "the world's shared commitments to human dignity and survival."[18] These proponents typically point to the use of foreign aid to provide basic necessities, such as food supplements, vaccines, nurses, and access to education, to the world's poorest countries. Additionally, proponents of foreign aid argue that, even if foreign aid has not been effective at raising overall levels of economic growth, foreign aid has been successful in dramatically improving health and education in developing countries over the past four decades. For example, it is argued that foreign aid contributed to rising life expectancy in developing countries from 48 years to 68 years over the past four decades, and lowering infant mortality from 131 out of every 1,000 babies born in developing countries to 36 out of every 1,000 babies.[19] It is also argued that providing foreign aid is an important component of U.S. national security policy and U.S. leadership in the world.

Bilateral vs. Multilateral Aid

There are also policy debates about the merits of bilateral versus multilateral aid.[20] There are different advantages to each approach. Bilateral aid gives donors more control over where the money goes and how the money is spent. For example, donor countries may have more flexibility to allocate funds to countries that are of geopolitical strategic importance, but not facing the greatest development needs, than might be possible by providing aid through a multilateral organization. By building a clear link between the donor country and the recipient country, bilateral aid may also garner the donor country more goodwill from the recipient country than if the funds had been provided through a multilateral organization.

Providing aid through multilateral organizations offers different benefits for donor countries. Multilateral organizations pool the resources of several donors, allowing donors to share the cost of development projects (often called burden-sharing). Additionally, donor countries may find it politically sensitive to attach policy reforms to loans or to enforce these policy reforms. Multilateral organizations can usefully serve as a scapegoat for imposing and enforcing

[16] U.S. Congress, Senate Committee on Foreign Relations, *The International Financial Institutions: A Call for Change*, 111th Cong., 2nd sess., March 10, 2010, http://foreign.senate.gov/imo/media/doc/55285.pdf.

[17] World Bank, *New Data Show 1.4 Billion Live On Less Than US$1.25 A Day, But Progress Against Poverty Remains Strong*, August 26, 2008, http://go.worldbank.org/F9ZJUH97T0.

[18] Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time* (Penguin Books, 2006), p. xvi.

[19] William Easterly, *The White Man's Burden* (New York: Penguin Press, 2006), pp. 176-177.

[20] For more on the choice between bilateral and multilateral aid, see, for example: Helen Milner and Dustin Tingley, "The Choice for Multilateralism: Foreign Aid and American Foreign Policy," Working Paper, February 10, 2010 and Helen Milner, "Why Multilateralism? Foreign Aid and Domestic Principal-Agent Problems," in *Delegation and Agency in International Organizations*, eds. Darren Hawkins et al. (New York City: Cambridge University Press, 2006), pp. 107-139.

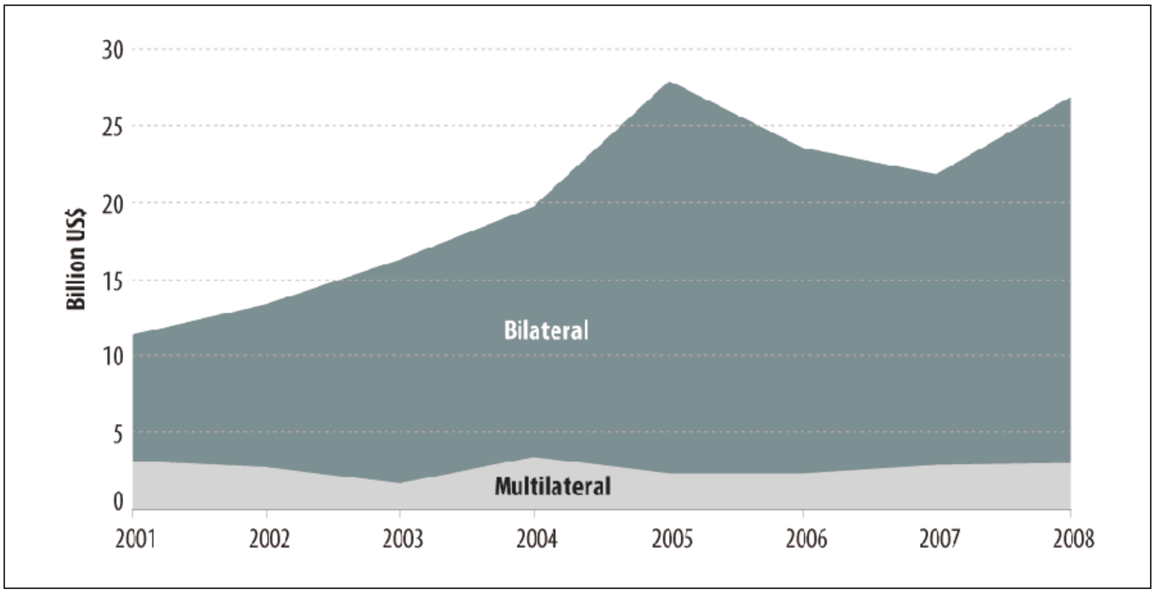
conditionality. Finally, many believe that providing funds to multilateral organizations is important for enhancing and symbolizing U.S. leadership in the world economy.

The United States provides most of its foreign aid for promoting economic and social development bilaterally rather than multilaterally. Data from the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) reports that in 2008, 11% of U.S. foreign aid disbursed to developing countries with the purpose of promoting economic and social development was provided through multilateral institutions, while 89% was provided bilaterally.[21] **Figure 8** shows that the level of multilateral aid disbursed by the United States has remained fairly constant between 2001 and 2008, although U.S. bilateral aid for development has increased.

OECD-DAC data allows comparison of the United States with other developed countries. Generally, other developed countries disbursed a higher proportion of their foreign aid through multilateral institutions than the United States did in 2008. For example, 29% of Japan's, 33% of Germany's, and 36% of the United Kingdom's foreign aid for economic and social development in 2008 was disbursed to multilateral organizations. One exception is Australia, who disbursed only 10% of foreign aid through multilateral organizations in 2008.

Figure 8. U.S. Bilateral and Multilateral Official Development Assistance, 2001-2008

Billion US$ (Current)



Source: OECD Development Assistance Committee (DAC) (www.oecd.org/dac/stats).

Notes: DAC reports data on disbursements of official development assistance (ODA), which is defined as flows to developing countries and multilateral institutions which are administered with the promotion of economic development and is concessional in character and conveys a grant element of at least 25%. DAC data does not include, for instance, other official flows including military assistance. DAC data also focuses on the

[21] See the note in **Figure 8** for explanation of OECD DAC data. DAC data does not, for example, include military assistance provided by the United States or the callable capital committed by the United States to the MDBs.

disbursements of ODA, and would not include, for example, the callable capital committed by the United States to the MDBs, because this money has never actually been disbursed from the United States to the MDBs. Also, multilateral organizations not only include the MDBs but also U.N. agencies.

An alternative data source for U.S. multilateral and bilateral economic assistance to developing countries is *U.S. Overseas Loans and Grants: Obligations and Loan Authorization*, published by U.S. Agency for International Development (USAID).[22] This publication is commonly referred to as the Greenbook. According to this publication, 6.7% of U.S. economic assistance in 2008 was provided to multilateral organizations. The data is drawn from the same source as the data provided by the United States to the OECD-DAC, but the totals are different due to differences between the definitions of economic assistance used by the OECD-DAC and by the Greenbook.

Issues for Congress

This section discusses current issues of particular interest to Congress, including authorizing and appropriating legislation for U.S. contributions to the MDBs, congressional oversight of the MDBs, U.S. commercial interests in the MDBs, and proposed voting reforms at the World Bank.

Authorizing and Appropriating U.S. Contributions to the MDBs

Frequency and Process

Replenishments of the MDB concessional windows happen regularly, while capital increases for the MDB non-concessional windows occur much more infrequently. Quite unusually, all the MDBs are currently requesting capital increases, primarily to address the increase in demand for loans that resulted from the financial crisis, prepare for future crises, and, in the case of the IDB, recover from financial losses resulting from the financial crisis. Simultaneous capital increases for all the MDBs has not happened since the 1970s. Negotiations over the capital increases are ongoing, and hearings may be held as early as Spring 2010. Any U.S. participation in the capital increases would require legislation. The Administration has requested that U.S. contributions to the Asian Development Bank (AsDB) capital increase be included in the FY2011 budget. Capital increases for the other MDBs, if agreed to, would likely be included in the FY2012 budget.

Authorizing and appropriations legislation is required for U.S. contributions to the MDBs. The Senate Committee on Foreign Relations and the House Committee on Financial Services are responsible for managing MDB authorization legislation. During the past several decades, authorization legislation for the MDBs has not passed as freestanding legislation. Instead, it has been included through other legislative vehicles, such as the annual foreign operations appropriations act, a larger omnibus appropriations act, or a budget reconciliation bill.

The Foreign Operations Subcommittees of the House and Senate Committees on Appropriations manage the relevant appropriations legislation. MDB appropriations is included in the annual foreign operations appropriations act or a larger omnibus appropriations act. For FY2010

[22] Available at http://gbk.eads.usaidallnet.gov/.

appropriations legislation for the MDBs, see CRS Report R40693, *State, Foreign Operations, and Related Programs: FY2010 Budget and Appropriations*, by Susan B. Epstein, Kennon H. Nakamura, and Marian Leonardo Lawson.

Administration's Request for FY2011

The Administration has requested authorizations and appropriations for U.S. contributions to the MDBs for FY2011.[23]

Authorizations

The Administration's request for authorization of appropriations for FY2011 has three major components: authorization for U.S. contributions to the AsDB general capital increase, authorization for U.S. contributions to the replenishments of the AsDF, and authorization for U.S. contributions to a variety of smaller funds associated with the World Bank.

First, the Administration has requested authorization for U.S. contributions to AsDB's capital increase. This includes a request to authorize $532 million paid-in capital and $12.79 billion callable capital. The Administration has requested that these funds be appropriated over a five-year period. Second, the Administration is seeking authorization of $461 million for the most recent replenishment of the ADF, to be appropriated over a four year period. Third, the Administration has requested authorization for U.S. contributions to a new Multilateral Food Security Fund (to be established at the World Bank); authorization of $1,625 million for the Climate Investment Funds (of which the World Bank serves as the trustee); and an extension of authorization for U.S. contributions to the Heavily Indebted Poor Country (HIPC) Initiative and HIPC Trust Fund (administered by the World Bank).

Appropriations

The Administration's request for appropriations to the MDBs for FY2011is listed in **Table 8**.[24] There are three major components to the Administration's appropriations request: appropriations for U.S. contributions to a capital increase at the AsDB, appropriations for U.S. contributions to the replenishments of IDA, the AfDF, and the AsDB, and appropriations for U.S. contributions to a variety of smaller funds associated with the MDBs.

First, for FY2011, the Administration has requested appropriations for the capital increase of the AsDB's non-concessional lending window. General capital increases entail paid-in and callable capital. Since 1981, only paid-in capital has been appropriated. For callable capital, Congress has annual program ceilings in the annual Foreign Operations Appropriations legislation specifying

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[23] For the Administration's request for FY2011, see U.S. Department of Treasury, *International Programs: Justification for Appropriations, FY2011 Budget Request*, http://www.treas.gov/offices/international-affairs/intl/fy2011/FY%202011%20CPD%20for%20web.pdf.

[24] For the Administration's requests for appropriations to the MDBs and the final appropriations to the MDBs since 1999, see CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY1998-FY2009*, by Jonathan E. Sanford.

the amount of callable capital the United States may be subscribed to in each MDB during the current fiscal year. The Administration has requested $106.6 million paid-in capital and roughly $5 billion callable capital for FY2011 as the first of five annual U.S. contributions to the AsDB general capital increase.[25]

Table 8. Administration Request for Appropriations to the MDBs, FY2011

Million US$

	Amount
Capital increases for non-concessional lending windows	
Asian Development Bank (AsDB), paid-in capital	106.6
Asian Development Bank (AsDB), callable capital	5,000.0 [a]
Replenishments for concessional lending windows	
International Development Association (IDA)	1,285.0
African Development Fund (AfDF)	155.9
Asian Development Fund (AsDF)	115.3
Contributions to funds administered by or affiliated with an MDB, or where an MDB serves as the trustee	
Multilateral Investment Fund (MIF)[b]	25.0
Inter-American Investment Corporation (IIC)[b]	21.0
Multilateral Food Security Fund [c]	408.4
Clean Technology Fund (CTF)[d]	400.0
Strategic Climate Fund (SCF)[d]	235.0
Global Environment Facility (GEF)[d]	175.0
Heavily Indebted Poor Countries (HIPC) Initiative[e]	75.0

Source: U.S. Department of Treasury, *International Programs: Justification for Appropriations, FY2011 Budget Request*, http://www.treas.gov/offices/international-affairs/intl/fy2011/FY%202011%20CPD%20for%20web.pdf.

Notes: Does not include the $30 million request for the International Fund for Agricultural Development (IFAD). IFAD is a multilateral organization focused on reducing rural poverty and hunger. The IFAD is not covered in this report.

a. Since 1981, the United States no longer appropriates money to back its callable capital subscriptions to the MDBs. Rather Congress sets annual program ceilings in the annual Foreign Operations Appropriations Act specifying the amount of callable capital the United States may subscribe in each MDB during the current fiscal year.

b. Affiliate of the Inter-American Development Bank (IDB).

[25] The World Bank (IBRD), the IFC, the AfDB, and the EBRD have also requested capital increases for their non-concessional lending windows. Any U.S. participation in these capital increases are expected to be included in the FY2012 budget, although hearings on the capital increases could be held as early as 2010.

c. Administered by the World Bank.

d. The World Bank serves as the trustee for this fund.

e. The Administration has proposed using the requested funds for the Heavily Indebted Poor Countries (HIPC) Trust Fund, which is administered by the World Bank.

Second, the United States has previously committed to replenishments of IDA, the AfDF, and the AsDF, and these payments were scheduled in the replenishment agreements to occur over a period of three to four years. To meet these previous commitments, the Administration has requested appropriations for $1,285 million for the second of three payments for the 15th replenishment of IDA (IDA-15), $155 million for the third and final payment for the 11th replenishment of the AfDF (AfDF-11), and $115.3 million for the second of four payments to the 10th replenishment of the AsDF (AsDF-10).

Third, the Administration has also requested appropriations for U.S. contributions to several smaller funds. These include funds that are administered by or affiliated with an MDB, or funds where an MDB servers as the trustee. These appropriations requests include:

- $25 million for the Multilateral Investment Fund (MIF), an affiliate of the IDB that promotes small-and medium-size enterprise growth in the Western Hemisphere. This funding would be for the fifth of six installments of the first replenishment of the MIF.
- $21 million for the Inter-American Investment Corporation (ICC), an affiliate of the IDB that supports small- and medium-sized enterprises in Latin America and the Caribbean. This funding would be used to clear arrears for the U.S. payment of subscribed shares from the 1999 capital increase.
- $408.4 million for a new Multilateral Food Security Fund to be administered by the World Bank. The Fund will finance developing country efforts to create and sustain improvements in their food security by strengthening agricultural productivity, nutrition, and access to food.
- $400 million for the Clean Technology Fund (CTF), for which the World Bank serves as the trustee. The CTF seeks to reduce the growth of greenhouse gas emissions in developing countries by financing the additional costs of cleaner technologies.
- $235 million for the Strategic Climate Fund (SCF), for which the World Bank servers as the trustee. It seeks to pilot new approaches to address climate change challenges in developing countries, such as scaling-up renewable energy in low-income countries. The Administration proposes using the funds for three programs within the SCF: the Pilot Program for Climate Resilience ($90 million), the Forest Investment Program ($95 million), and the Program for Scaling-Up Renewable Energy in Low Income Countries ($50 million).

- $175 million for the Global Environment Facility (GEF), for which the World Bank serves as the trustee.[26] The GEF finances projects that aim to improve the environment. The Administration proposes $170 million for the first payment of the GEF replenishment and $5 million to pay off a portion of U.S. arrears to the GEF.
- $50 million for the Enhanced HIPC Initiative. The Administration proposes using the funds to meet the $75.4 million in U.S. pledges to the HIPC Trust Fund, administered by the World Bank. For qualifying countries, the HIPC Trust Fund will either prepay or purchase a portion of the debt owed to a multilateral creditor and cancel such debt or pay debt service as it comes due.[27]

Congressional Oversight

As international organizations, the MDBs are generally exempt from U.S. law. The President has delegated the authority to manage and instruct U.S. participation in the MDBs to the Secretary of Treasury. Within the Treasury Department, the Office of International Affairs has the lead role in managing day-to-day U.S. participation in the MDBs. The President appoints the U.S. Executive Directors, and their alternates, with the advice and consent of the Senate. Thus, the Senate can exercise oversight through the confirmation process.

Over the years, Congress has played a major role in U.S. policy towards the MDBs. In addition to congressional hearings on the MDBs, Congress has enacted a substantial number of legislative mandates that oversee and regulate U.S. participation in the MDBs. These mandates generally fall into one of four major types. More than one type of mandate may be used on a given issue area.

First, numerous legislative mandates direct how the U.S. representatives at the MDBs can vote on various policies. Examples include mandates that require the U.S. Executive Directors to oppose: (a) financial assistance to specific countries, such as Burma, until sufficient progress is made on human rights and implementing a democratic government;[28] (b) financial assistance to broad categories of countries, such as major producers of illicit drugs;[29] and (c) financial assistance for specific projects, such as the production of palm oil, sugar, or citrus crops for export if the financial assistance would cause injury to United States producers.[30] Some legislative mandates require the U.S. Executive Directors to support, rather than oppose, financial assistance. For example, a current mandate allows the Treasury Secretary to instruct the U.S. Executive Directors to vote in favor of financial assistance to countries that have contributed to U.S. efforts to deter and prevent international terrorism.[31]

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[26] For more on the GEF, see CRS Report R41165, *Global Environment Facility (GEF): An Overview*, by Richard K. Lattanzio.

[27] For more on HIPC, see CRS Report RL34644, *Debt Relief for Poor Countries*, by Jonathan E. Sanford and Martin A. Weiss.

[28] Sec. 570(a)(2) of the Omnibus Consolidated Appropriations Act, 1997 (P.L. 104-208). Also on human rights more broadly, see 22 USCS § 262d.

[29] 22 USC § 2291j(a)(2).

[30] 22 USC § 262g.

[31] 22 USC § 262p-4r(a).

Second, legislative mandates direct the U.S. representatives at the MDBs to advocate for policies within the MDBs. One example is a mandate that instructs the U.S. Executive Director of the IBRD to urge the IBRD to support an increase in loans that support population, health, and nutrition programs.[32] Another example is a mandate that requires the U.S. Executive Directors to take all possible steps to communicate potential procurement opportunities for U.S. firms to the Secretary of Treasury, the Secretary of State, the Secretary of Commerce, and the business community.[33] Mandates that call for the U.S. Executive Director to both vote and advocate for a particular policy are often called "voice and vote" mandates.

Third, Congress has also passed legislation requiring the Treasury Secretary to submit reports on various MDB issues (reporting requirements). Some legislative mandates call for one-off reports; other mandates call for reports on a regular basis, typically annually. For example, current legislation requires the Treasury Secretary to submit an annual report to the appropriate congressional committees on the actions taken by countries that have borrowed from the MDBs to strengthen governance and reduce the opportunity for bribery and corruption.[34]

Fourth, Congress has also attempted to influence policies at the MDBs through "power of the purse" – that is, withholding funding from the MDBs or attaching stipulations on the MDBs's use of funds. For example, the FY2010 Consolidated Appropriations Act stipulates that 10% of the funds appropriated to the AsDF will be withheld until the Treasury Secretary can verify that the AsDB has taken steps to implement specific reforms aimed at combating corruption.[35]

U.S. Commercial Interests and "Country Systems"

Billions of dollars of contracts are awarded to private firms each year in order to acquire the goods and services necessary to implement projects financed by the MDBs. **Table 9** shows that this figure was above $30 billion in 2008. MDB contracts are awarded through international competitive bidding processes, although most MDBs allow the borrowing country to give some preference to domestic firms in awarding contracts for MDB-financed projects in order to help spur development.

Among the regional development banks, only a very small fraction (less than 1.5%) of these contracts are known to have been awarded to U.S. companies. Data on contracts awarded by the World Bank by firm nationality is not available,[36] nor is data on the nationality of subcontractors that participate in carrying out projects financed by the MDBs.

[32] 22 USC § 262p-4m.

[33] 22 USC § 262s-1.

[34] 22 USC § 262r-6(b)(2).

[35] Sec. 7086 of the Consolidated Appropriations Act, 2010 (P.L. 111-117).

[36] World Bank Contracts Award website (http://go.worldbank.org/GM7GBOVGS0) reports firm nationality for only a fraction of total contracts awarded.

Table 9. MDB Contracts Identifiably Awarded to U.S. Companies

Calendar Year 2008, Million US$

MDB	Contracts Awarded to U.S. Companies	Total Contracts Awarded	Percent of Contracts Awarded to U.S. Firms
World Bank	n.a.[a]	20,000.0[b]	n.a.
AsDB[c]	40.5	4,487.0	0.9%
AfDB[c]	36.0	2,866.3	1.3%
EBRD[d]	0.7	1,730.0	0.0%
IDB[d]	12.6	2,529.8	0.5%

Source: World Bank Contracts Award website (http://go.worldbank.org/GM7GBOVGS0); ADB Annual Report; AfDB Annual Report; IDB Procurement Portal website http://www5.iadb.org/idbppi/aspx/ppProcurement.aspx; EBRD Procurement Department, *Annual Procurement Review*, 2008.

Notes: In some cases, contracts have been awarded to firms in one country that intend to subcontract major elements of the work to firms in other countries. It is not clear to what extent the data capture subcontracting.

a. n.a. denotes not available. World Bank Contracts Award website (http://go.worldbank.org/GM7GBOVGS0) reports firm nationality for only a fraction of total contracts awarded.

b. Estimate of annual contracts awarded by the World Bank from World Bank Contracts Award website (http://go.worldbank.org/GM7GBOVGS0).

c. Contracts awarded by country of origin (where the goods are mined, produced, grown, assembled and/or manufactured).

d. Contracts awarded by nationality of firm (where the primary contractor is located).

As the largest MDB, the World Bank awards the biggest number and the highest volume of contracts each year. Major policy changes are currently underway at the World Bank that would alter how companies bid on World Bank projects. Currently, the World Bank has one centralized procurement system for awarding World Bank contracts, regardless of which country the project is being implemented in. The new system being proposed would award contracts using systems devised by the borrowing governments, provided that the system meet certain standards and criteria. The emphasis on the borrowing country's design and implementation of procurement, unique to each country, has led this system of procurement to be termed "country systems."

The World Bank has not implemented country systems yet, but it has been in the process of moving towards country systems over the past several years. In 2005, Congress stipulated that 20% ($31 million) of the funds appropriated to IDA would be withheld unless the Treasury Secretary could verify that the Bank had, among other things, withdrawn its proposal on increasing the use of country systems in procurement.[37] The World Bank did not withdraw the country systems proposal, and Congress withheld the funds. Currently, the World Bank has plans to launch pilot programs of country systems in eight developing countries, possibly as soon 2010.[38] The Bank has completed assessments of the country procurement systems in 18 countries,

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[37] Sec. 299d of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 (P.L. 109-102).

[38] Christopher L. Pallas and Jonathan Wood, "The World Bank's Use of Country Systems for Procurement: A Good (continued...)

although getting beyond the benchmarking exercise has been slower than initially hoped by the Bank.[39]

Scholars have argued that "although little discussed... the World Bank's planned use of country systems for public procurement has the potential to be one of its most significant policy changes in the next ten years."[40] The World Bank argues that country systems will strengthen national institutions in developing countries for public expenditures, whether they come from World Bank funds, taxes, or other donors.[41] It is also argued that country systems would help harmonize aid flows, streamline the disbursement of funds, reduce donor overhead costs, and return control over aid flows to borrowing countries.[42]

Others, particularly among the business community that bids on World Bank contracts, have been skeptical of the World Bank's use of country systems. Critics note that harmonization of procedures within countries would likely come at the expense of harmonization of uniformity in the overall activities funded by the MDBs. Additionally, there is concern that standards used by the World Bank to evaluate a country's procurement policies and overall eligibility for country systems have been watered down over time, especially since the country systems idea was first seriously floated by the Bank in 2005. Lowering standards, it is argued, increases the scope for corruption in the procurement process. Also, since the use of country systems allows each country to have a unique procurement process as long as that process meets certain standards and criteria, there is concern that country systems would disadvantage small- and medium-sized businesses in bidding on World Bank contracts, since smaller businesses are less likely to have the resources to invest in learning dozens of different procurement processes. Finally, there is concern that weak bureaucracies in developing countries simply lack the capacity to administer the procurement process and would be better suited to remain in the purview of the World Bank, even if transitioning to country systems would reduce the overhead costs of the Bank.[43]

Proposals for Voting Reform at the World Bank

At the September 2009 G-20 meeting in Pittsburgh, leaders of the G-20 nations pledged to reform the voting shares of member states at the World Bank.[44] In particular, the G-20 leaders called for

(...continued)

Idea Gone Bad?," *Development Policy Review*, vol. 27, no. 2 (2009), pp. 215-230.

[39] World Bank, *Strengthening World Bank Group Engagement on Governance and Anticorruption: Second-Year Progress Report*, October 20, 2009, p. viii, http://go.worldbank.org/CJL9TZH330.

[40] Christopher L. Pallas and Jonathan Wood, "The World Bank's Use of Country Systems for Procurement: A Good Idea Gone Bad?," *Development Policy Review*, vol. 27, no. 2 (2009), pp. 215-230.

[41] World Bank, Operations Policy and Country Services, *Use of Country Procurement Systems in Bank-Supported Operations: Proposed Piloting Program*, R2008-0036/5, May 20, 2008, http://siteresources.worldbank.org/INTPROCUREMENT/Resources/UseOfCountrySystemsFinalApprovedVersionForDisclosure-June20-2008.pdf.

[42] Christopher L. Pallas and Jonathan Wood, "The World Bank's Use of Country Systems for Procurement: A Good Idea Gone Bad?," *Development Policy Review*, vol. 27, no. 2 (2009), pp. 215-230.

[43] Ibid.

[44] The G-20 nations include 19 large developed and emerging-market countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, (continued...)

"adopting a dynamic formula at the World Bank which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates an increase of at least 3% of voting power for developing and transition countries, to the benefit of under-represented countries."[45] The G-20 leaders pledged to reach an agreement by the IMF and World Bank's 2010 Spring Meetings, which are to be held April 24-25, 2010. No agreement has yet been announced.

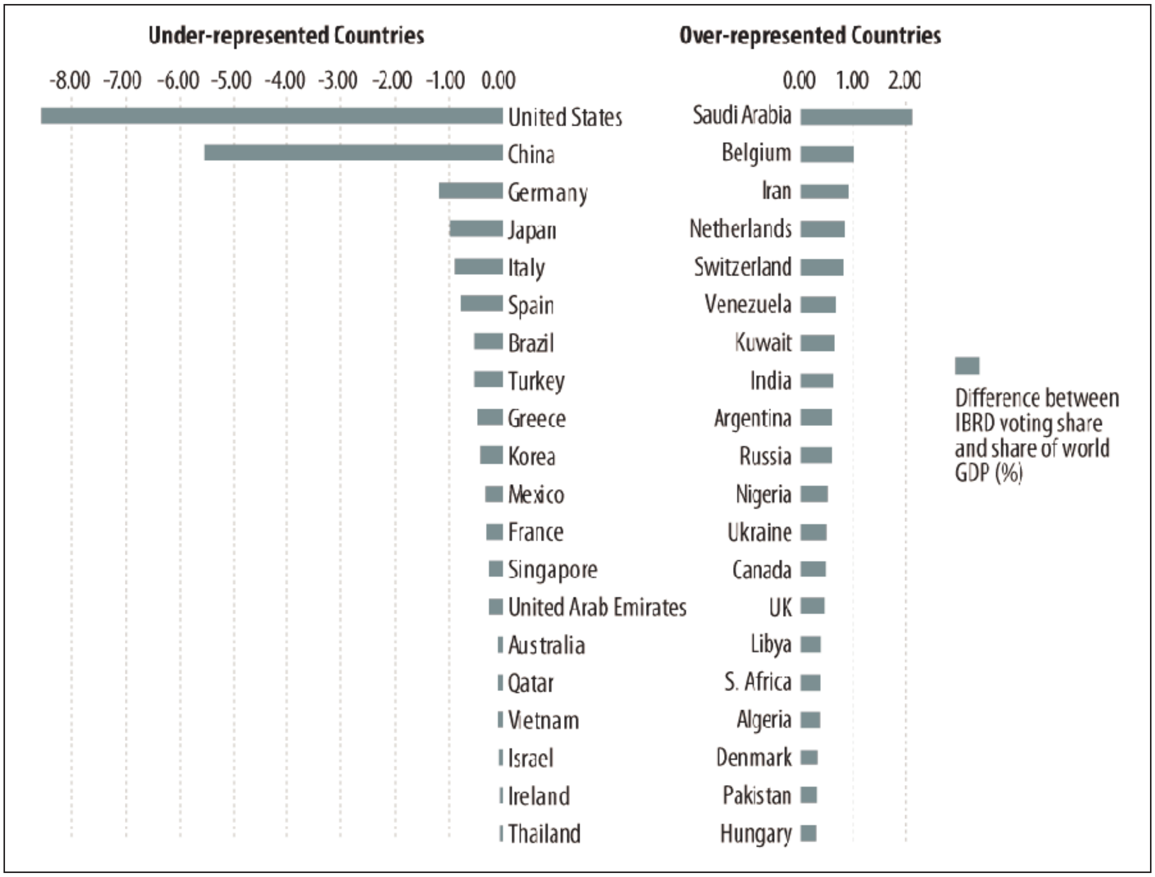
Negotiations are expected to be contentious, particularly among European countries which are largely expected to lose voting power if any voting reform is enacted. **Figure 9** shows that Belgium, the Netherlands, and Switzerland, for example, have voting power at the IBRD that is larger than their economic weight in the world economy, suggesting that these countries are over-represented at the World Bank. By contrast, voting at the World Bank has not been reformed to reflect the increased weight in the world economy of large-emerging market countries. Voting power at the World Bank is tied closely to the financial commitments of countries, so presumably any increase of voting power for large emerging-market countries would also come with increased financial commitments.

(...continued)

Turkey, the United Kingdom, and the United States), as well as the European Union. For more on the G-20, see CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by Rebecca M. Nelson. The report also discusses the G-20 proposal to reform voting at the IMF.

[45] G-20, *Leaders' Statement: The Pittsburgh Summit*, September 24-25, 2009, http://www.pittsburghsummit.gov/mediacenter/129639.htm.

Figure 9. Comparison of IBRD Voting Share and Share of World GDP



Source: IMF World Economic Outlook; World Bank Annual Report.

Notes: The 20 IBRD members with the smallest and largest differences between share of world GDP (2009 data at current prices) and voting share in the IBRD. These calculations are for illustrative purposes only. Alternative calculations could be made, for example, using voting power at IDA or GDP adjusted for differences in price levels among countries. These alternative calculations would likely produce different results.

The United States is considered to be an under-represented country at the World Bank, as its current voting share at the IBRD, for example, is smaller than its weight in the international economy (**Figure 9**). The United States has lowered its share over time to allow new countries to join and reduce its financial commitment to the institution. It is unlikely the United States would lose or gain voting power if the G-20 proposals to shift voting power to under-represented countries are implemented. However, the G-20's calls for voting reform at the World Bank are likely to be a central focus of debates about the World Bank moving forward.

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