Multilateral Development Banks: Overview and Issues for Congress

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Summary

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 in order 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. The MDBs provide non-concessional financial assistance to middle-income countries and some creditworthy low-income countries on market-based terms. They also provide concessional assistance, including grants and loans at below-market rate interest rates, to low-income countries.

Issues for Congress

- **Effectiveness:** Critics argue that the MDBs focus on "getting money out the door" (rather than delivering results), 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 assistance to developing 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 MDB assistance is important for leveraging funds from bilateral donors, tying policy reforms to financial assistance, and enhancing U.S. leadership.
- **Funding:** 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. The Administration requested U.S. participation in capital increases in the FY2011 budget (for the AsDB) and FY2012 budget (for several other MDBs).
- **Oversight:** 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 to vote on various issues at the MDBs. 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").
- **U.S. Commercial Interests:** 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. The World Bank has been discussing major changes in how companies bid on World Bank projects, and this could be an area for Congress to monitor given U.S. commercial interests in the bank.

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Introduction

Multilateral Development Banks (MDBs) are international institutions that provide financial assistance, typically in the form of 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.

Congressional interest in the MDBs has increased since the outbreak of the current global financial crisis. Following the onset of the crisis in the fall of 2008, the MDBs ramped up financial assistance to developing countries. As a consequence, each of the MDBs has requested increased funding from their member states in order 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. The Administration requested U.S. participation in these capital increases in the FY2011 and FY2012 budgets.

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, and their organization. The second section discusses issues of particular interest to Congress, including the effectiveness of the MDBs; congressional legislation authorizing and appropriating U.S. contributions to the MDBs; congressional oversight of the MDBs; and U.S. commercial interests in the MDBs.

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 in exchange for 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

[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, and they are not discussed in this report. This report also does not discuss the North American Development Bank (NADBank), a binational financial institution capitalized and governed by the United States and Mexico. The International Monetary Fund (IMF), whose mandate is to ensure international financial stability, is not an MDB.

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 provide financial assistance on market-based terms, typically in the form of loans, but also through equity investments and loan guarantees.[2] Non-concessional assistance is, depending on the MDB, extended to middle-income governments, some creditworthy low-income governments, and private sector firms in developing countries.[3] The other type of lending window is used to provide financial assistance at below market-based terms (concessional assistance), typically in the form of loans at below-market interest rates and grants, to 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 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 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.

[2] 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.

[3] Countries that are eligible for concessional and non-concessional assistance are often referred to as "blend" countries.

[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. ICSID provides facilities for conciliation and arbitration of disputes between governments and private foreign investors.

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 1966 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 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 1991. 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.

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

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 2009 or FY2010.[6] The World Bank accounted for more than half of total MDB financial assistance commitments to developing countries in 2009 or FY2010.[7] Also, more than 85% of the financial assistance provided by the MDBs to developing countries in 2009 or FY2010 was on non-concessional terms.

Table 1. Overview of MDB Lending Windows

MDB	Type of Financing	Type of Borrower	Year Founded	Commitments, 2009 or FY2010 (Billion $)
World Bank Group				
International Bank for Reconstruction and Development (IBRD)	Non-concessional loans and loan guarantees	Primarily middle-income governments, also some creditworthy low-income countries	1944	44.2
International Development Association (IDA)	Concessional loans and grants	Low-income governments	1960	14.5
International Finance Corporation (IFC)	Non-concessional loans, equity investments, and loan guarantees	Private sector firms in developing countries	1956	10.6
African Development Bank (AfDB)	Non-concessional loans, equity investments, and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1964	8.8
African Development Fund (AfDF)	Concessional loans and grants	Low-income governments in the region	1972	3.8
Asian Development Bank (AsDB)	Non-concessional loans, equity investments, and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1966	11.0
Asian Development Fund (AsDF)	Concessional loans and grants	Low-income governments in the region	1973	3.1
European Bank for Reconstruction and Development (EBRD)	Non-concessional loans equity investments, and loan guarantees	Primarily private sector firms in developing countries in the region, also developing-country governments in the region	1991	11.3

[6] World Bank commitments are for FY2010 (July 2009–June 2010). Regional bank commitments are for 2009 (calendar year).

[7] Including IBRD, IFC, and IDA.

MDB	Type of Financing	Type of Borrower	Year Founded	Commitments, 2009 or FY2010 (Billion $)
Inter-American Development Bank (IDB)	Non-concessional loans and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region	1959	15.3
Fund for Special Operations (FSO)	Concessional loans and grants	Low-income governments in the region	1959	0.2

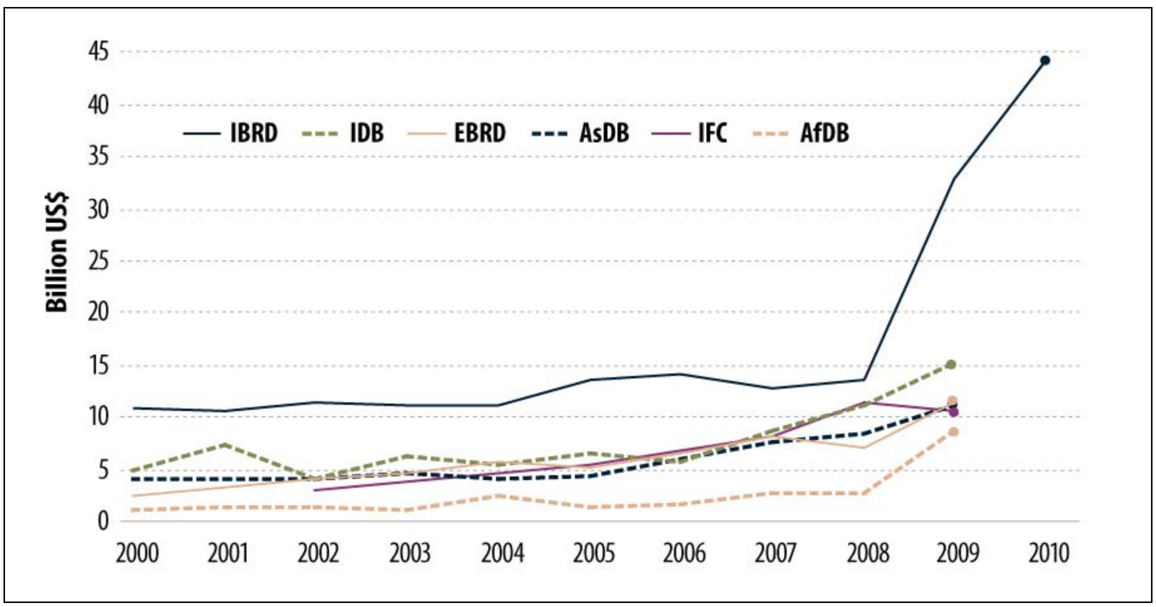
Source: MDB Annual Reports. World Bank data is for FY2010 (July 2009–June 2010). Regional development bank data is for 2009 (calendar year). AsDB data is for loans only (data on loan guarantees and equity investments funded out of ordinary capital resources not available). Most of the MDBs also have 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 stable in nominal terms until the 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 since FY2008. Regional development banks also had substantial upticks in lending between 2008 and 2009.

Figure 1. MDB Non-Concessional Financial Assistance, 2000-2010

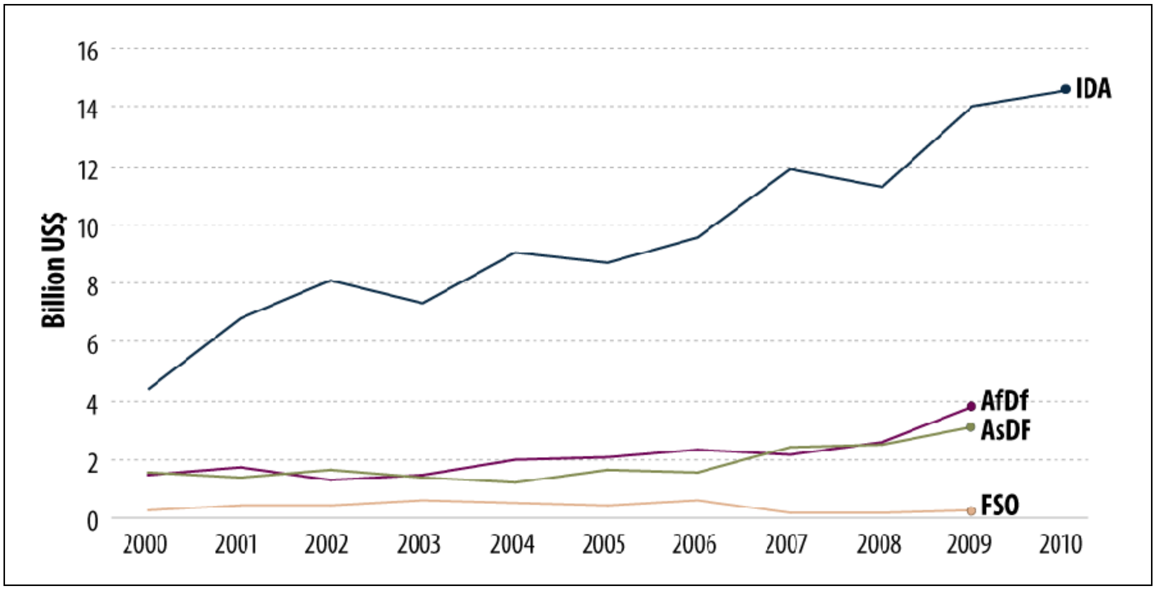


Source: MDB Annual Reports.

Notes: World Bank data is for fiscal years (July – June), while regional development bank data is for calendar years. AsDB data is loans only.

Figure 2 depicts concessional financial assistance provided by the MDBs to developing countries since 2000. 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 before increasing in 2009 in response to the financial crisis.

Figure 2. MDB Concessional Financial Assistance, 2000-2010



Source: MDB Annual Reports.

Notes: World Bank data is for fiscal years (July – June), while regional development bank data is for calendar years.

Recipients of MDB Financial Assistance

Table 2 lists the top recipients of MDB non-concessional financial assistance in FY2010 (for the World Bank) and 2009 (for the regional development banks). The table shows that several large, emerging economies, including the "BRICs" (Brazil, Russia, India, and China), receive a steady flow of financial assistance from the MDBs. For example, at least one of the BRIC countries is among the top three recipients of financial assistance from the IBRD, the IFC, the AsDB, the EBRD, and the IDB in 2009 or FY2010.

Table 2. MDB Non-Concessional Lending Windows: Top 10 Recipients, 2009 or FY2010

(New commitments)

World Bank, FY2010

IBRD	Bill. $	**IFC**	Bill. $
India	6.69	Brazil	8.16
Mexico	6.37	India	7.35
South Africa	3.75	Russia	5.57
Brazil	3.74	Turkey	5.12
Turkey	2.99	Mexico	4.41
Indonesia	2.99	Argentina	4.35
Egypt	2.16	China	3.95
China	1.41	Nigeria	3.22
Hungary	1.41	Regional	3.00
Poland	1.33	Pakistan	2.80

Regional Development Banks, 2009

AfDB	Bill. $	**AsDB**	Bill. $	**EBRD**	Bill. $	**IDB**	Bill. $
Somalia	2.72	Indonesia	2.18	Russia	3.41	Mexico	3.13
Botswana	1.74	China	1.96	Ukraine	1.46	Brazil	2.96
Mauritius	0.91	India	1.81	Romania	1.04	Argentina	1.60
Zimbabwe	0.72	Vietnam	1.40	Hungary	0.84	Colombia	1.35
Mauritania	0.69	Philippines	1.18	Serbia	0.64	Venezuela	1.00
Togo	0.43	Pakistan	0.70	Kazakhstan	0.63	Dominican Rep.	0.99
Niger	0.34	Kazakhstan	0.69	Poland	0.57	Panama	0.71
Mali	0.18	Bangladesh	0.60	Croatia	0.36	Guatemala	0.65
Ethiopia	0.16	Sri Lanka	0.22	Bulgaria	0.34	Ecuador	0.51
São Tomé & Principe	0.15	Thailand	0.08	Slovak Republic	0.33	Peru	0.45

Source: MDB Annual Reports.

Notes: AsDB data is for loans only.

Financial assistance from the MDBs to emerging economies 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 economies 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 economies might not otherwise have access. Finally, supporters argue that because MDB assistance to emerging economies takes the form of loans with market-based interest rates, rather than concessional loans or grants, this assistance is relatively inexpensive to provide.

Table 3 shows the shows the top recipients of concessional financial assistance from the MDBs in FY2010 (for the World Bank) and 2009 (for the regional development banks). India and Vietnam were top recipients of financial assistance from IDA, the World Bank's concessional lending window, in FY2011. Among the regional development banks, the AfDF concentrated assistance on regional projects in 2009, as well as in a variety of sub-Saharan countries including Côte d'Ivoire, Tanzania, and Nigeria. For the AsDF, the top recipients of financial assistance in 2009 from the AsDF were Vietnam, Bangladesh, and Nepal, while the top recipients of aid from the IDB's concessional lending window, the Fund for Special Operations (FSO) were Peru and Colombia, as well as assistance targeted towards regional projects.

Table 3. MDB Concessional Lending Windows: Top 10 Recipients, 2009 or FY2010

(New commitments)

World Bank, FY2010		Regional Development Banks, 2009					
IDA	Mill. $	**AfDF**	Mill. $	**AsDF**	Mill. $	**IDB: FSO**	Mill. $
India	2,578	Multinational	890	Vietnam	523	Peru	65.0
Vietnam	1,429	Côte d'Ivoire	509	Bangladesh	428	Colombia	40.0
Tanzania	928	Tanzania	238	Nepal	336	Regional	9.8
Ethiopia	890	Nigeria	235	Afghanistan	333	Haiti	3.3
Nigeria	890	Kenya	212	Pakistan	245	Ecuador	2.9
Bangladesh	828	Uganda	202	Georgia	229	Bolivia	2.6
Africa (regional)	695	Senegal	118	Cambodia	145	El Salvador	2.4
Kenya	590	Congo, Dem.Rep.	102	Armenia	140	Guatemala	2.4
Congo, Dem.Rep.	460	Burkina Faso	97	Sri Lanka	115	Paraguay	1.8
Uganda	440	Rwanda	90	Laos	103	Guyana	1.6

Source: MDB Annual Reports.

Note: FSO is the Fund for Special Operations, the IDB's concessional lending window.

Funding: Donor Commitments and Contributions

MDBs are able to extend financial assistance 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 provided. 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 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 4 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%.

[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.

Table 4. MDB Non-Concessional Lending Windows: U.S. Financial Commitments

MDB	U.S. Paid-in Capital	U.S. Callable Capital	Total U.S. Commitment	U.S. Share
	Billion $	Billion $	Billion $	%
World Bank, as of FY2010				
IBRD	2.00	29.97	31.96	16.83
IFC	0.57	—	0.57	24.03
Regional Development Banks, as of 2009				
AfDB	0.23	2.03	2.26	6.61
AsDB	0.60	8.02	8.63	14.20
EBRD	0.76	2.12	2.88	5.05
IDB	1.30	29.01	30.31	28.87
Total	5.46	71.15	76.61	

Source: MDB Annual Reports.

Table 5 lists the top donors to the MDBs's 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 5. MDB Non-Concessional Lending Windows: Top 10 Donors, 2009 or FY2010

(Financial commitment, including callable and paid-in capital, as a % of total financial commitments)

World Bank, FY2010

IBRD	%	IFC	%
United States	16.83	United States	24.03
Japan	8.07	Japan	5.96
Germany	4.60	Germany	5.44
France	4.41	France	5.11
United Kingdom	4.41	United Kingdom	5.11
China	2.85	Canada	3.43
Russia	2.85	India	3.43
Canada	2.84	Italy	3.43
India	2.84	Russia	3.43
Italy	2.84	Netherlands	2.37

Regional Development Banks, 2009

AfDB	%	AsDB	%	EBRD	%	IDB	%
Nigeria	8.86	Japan	14.20	United States	5.05	United States	28.87
United States	6.61	United States	14.20	France	4.30	Argentina	10.34
Japan	5.47	Pakistan	5.95	Germany	4.30	Brazil	10.34
Egypt	5.13	China	5.86	Japan	4.30	Canada	7.70
South Africa	4.58	India	5.76	United Kingdom	4.30	Mexico	6.65
Germany	4.11	Australia	5.26	Italy	4.30	Venezuela	5.54
Algeria	3.99	Indonesia	4.95	Russia	2.02	Japan	4.81
Libya	3.83	Canada	4.76	Canada	1.72	Chile	2.84
Canada	3.74	S. Korea	4.58	Spain	1.72	Colombia	2.84
France	3.74	Germany	3.94	EIB[a]	1.52	France	1.82
				EU[b]	1.52	Germany	1.82
						Italy	1.82
						Spain	1.82

Source: MDB Annual Reports.

Notes: a. European Investment Bank. b. European Union.

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 6 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 (49.6%) and lowest to the AfDB's concessional lending window (10.6%).

Table 6. MDB Concessional Lending Windows: Cumulative U.S. Contributions

MDB	U.S. Contribution	U.S. Share
	Billion $	%
World Bank, as of FY2010		
IDA	42.87	21.53
Regional Development Banks, as of 2009		
AfDF	3.52	11.95
AsDF	3.78	10.59
EBRD	—	—
IDB: FSO	4.84	49.57
Total	55.01	

Source: MDB Annual Reports.

Notes: EBRD does not have a concessional lending window. FSO is the Fund for Special Operations, the IDB's concessional lending window. World Bank data is for FY2010 (July 2009–June 2010). Regional development bank data is for 2009 (calendar year).

Table 7 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 7. MDB Concessional Lending Windows: Top 10 Donors, 2009 or FY2010

(Cumulative contributions)

World Bank, FY2010		Regional Development Banks, 2009					
IDA	**%**	**AfDF**	**%**	**AsDF**	**%**	**IDB: FSO**	**%**
United States	21.53	United States	11.95	Japan	48.21	United States	49.57
Japan	19.85	Japan	11.71	United States	10.59	Japan	6.06
Germany	10.93	France	10.25	Germany	6.39	Brazil	5.58
United Kingdom	9.95	Germany	10.08	Canada	5.78	Argentina	5.18
France	7.14	United Kingdom	7.65	Australia	5.56	Mexico	3.37
Canada	4.49	Canada	7.47	France	4.31	Venezuela	3.23
Italy	4.23	Italy	5.78	United Kingdom	3.18	Canada	3.18
Netherlands	3.54	Sweden	5.09	Italy	2.63	Germany	2.36
Sweden	3.04	Norway	4.41	Netherlands	2.56	France	2.26
Belgium	1.74	Netherlands	3.95	Spain	1.43	Spain	2.21
						Italy	2.21

Source: MDB Annual Reports.

Note: FSO is the Fund for Special Operations, the IDB's concessional lending window. World Bank data is for FY2010 (July 2009–June 2010). Regional development bank data is for 2009 (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 8**.

Table 8. U.S. Executive Directors

MDB	U.S. Executive Director
World Bank	Ian Solomon
AfDB	Walter Crawford Jones
AsDB	Robert M. Orr
EBRD	James Hudson
IDB	Gustavo Arnavat

Source: MDB websites.

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 9** shows the current 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 9. U.S.Voting Power in the MDBs

MDB	U.S. Voting Share (%)
IBRD	16.36
IDA	11.24
IFC	23.59
AfDB	6.50
AsDB	11.66
IDB	30.01
EBRD	10.15

Source: MDB Annual Reports.

Issues for Congress

This section provides an overview of MDB issues of particular interest to Congress, including the effectiveness of the MDBs; authorizing and appropriating legislation for U.S. contributions to the

[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.

MDBs, congressional oversight of the MDBs; and U.S. commercial interests in the MDBs. For more details on U.S. policy-making at the MDBs, see CRS Report R41537, *Multilateral Development Banks: How the United States Makes and Implements Policy*, by Jonathan E. Sanford.

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. Most academic, peer-reviewed studies of foreign aid effectiveness typically examine the effects 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

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

foreign aid "best practices."[15]) Many of these criticisms and proposals for change are discussed in 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; they argue it 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 giving aid bilaterally or multilaterally.[20] 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 more goodwill from the recipient country towards the donor 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 conditionality that may be politically sensitive to attach to bilateral loans. Finally, many believe

[15] Ibid.

[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.

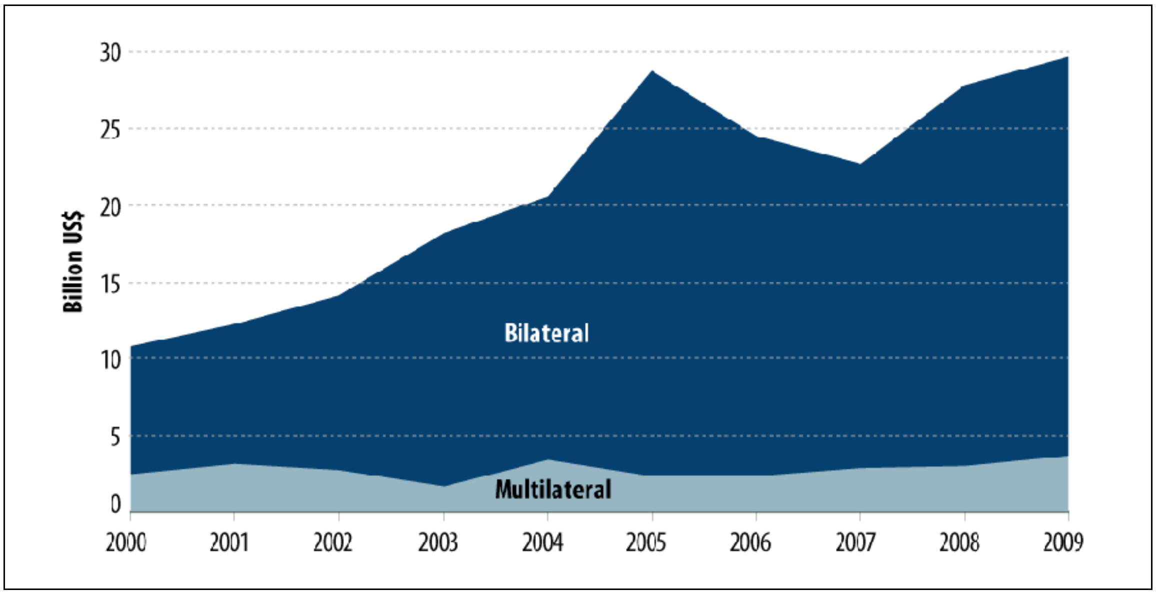
that providing funds to multilateral organizations is important for enhancing and symbolizing U.S. leadership in the world economy.

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 2009, 12% of U.S. foreign aid disbursed to developing countries with the purpose of promoting economic and social development was provided through multilateral institutions, while 88% was provided bilaterally.[21] **Figure 3** shows that the level of multilateral aid disbursed by the United States has remained fairly constant between 2000 and 2009, 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 typically disburse a higher proportion of their development assistance through multilateral institutions than the United States does. For example, 21% of Japan's, 37% of Germany's, and 33% of the United Kingdom's foreign aid for economic and social development in 2009 was disbursed to multilateral organizations.[22]

Figure 3. U.S. Bilateral and Multilateral Official Development Assistance, 2000-2009

(Billion $)



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

Notes: DAC reports data on gross disbursements at current prices of official development assistance (ODA). ODA 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 disbursements of ODA, and would not include, for example, the callable capital committed by the

[21] See the note in **Figure 3** 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.

[22] Gross disbursements at current prices.

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).[23] This publication is commonly referred to as "the Greenbook." According to this publication, 6.9% of U.S. economic assistance in 2009 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 OECD-DAC and the Greenbook.

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. 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, and for several other MDBs 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 are included in the annual foreign operations appropriations act or a larger omnibus appropriations act.

Data on U.S. contributions (including requests and appropriated funds) to the MDBs can be found in CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY2000-FY2011*, by Jonathan E. Sanford.

FY2012 Budget Request

The status of the FY2011 budget request for the MDBs and appropriations legislation is tracked in CRS Report R41228, *State, Foreign Operations, and Related Programs: FY2011 Budget and Appropriations*, by Marian Leonardo Lawson, Susan B. Epstein, and Tamara J. Resler. This

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

section focuses on the Administration's FY2012 request for authorizations and appropriations for the MDBs.[24]

Authorizations

The Administration's request for authorization of appropriations for FY2012 has four major components: (1) authorization for U.S. contributions to the general capital increases of the non-concessional lending windows at some MDBs; (2) authorization for replenishments of the concessional lending windows at some MDBs; (3) authorization for contributions to debt relief provided by the MDBs; and (4) authorization for participation in voting reform initiatives at the IBRD and IFC.

First, the Administration has requested authorization for U.S. contributions to the general capital increases at several MDBs. Specifically, the Administration is seeking authorization for $9.8 billion ($0.6 billion paid-in capital, $9.2 billion callable capital) for the IBRD general capital increase; $4.3 billion ($0.3 billion paid-in capital, $4.1 billion callable capital) for the AfDB general capital increase; and $21.0 billion ($0.5 billion paid-in capital, $20.5 billion callable capital) for the IDB general capital increase; and $1.3 billion (all callable capital) for the EBRD general capital increase.[25] Since 1981, only paid-in capital, not callable capital, has been appropriated. The Administration is requesting that the paid-in capital be appropriated over a five- to eight-year period, depending on the institution.

Second, the Administration is seeking authorization for replenishments of two concessional lending facilities: IDA and AfDF. Specifically, the Administration is requesting $4.1 billion for the sixteenth replenishment of IDA (IDA-16) to be appropriated over a three-year period, and $585 million for the twelfth replenishment of the AfDF (AfDF-12), also to be appropriated over a three-year period.

Third, the Administration is seeking authorization for U.S. commitments to debt relief associated with IDA and AfDF. Specifically, the Administration is seeking $474 million for the U.S. commitment to multilateral debt relief provided through IDA, and $62 million for the U.S. commitment to debt relief provided through the AfDF.

Fourth, voting reforms were agreed to by IBRD member countries in 2008. To meet this commitment, the Administration is seeking authorization to vote in favor of a "selective capital increase," which is a small increase in the capital base typically used to alter the voting shares of member countries. The Administration is also seeking authorization for funding for the selective capital increase at the IBRD. The request is for $4.6 billion ($0.3 billion paid-in capital, $4.4 billion callable capital). The Administration is also requesting authorization to vote in favor of a selective capital increase at the IFC, even though the Administration is not seeking to commit funds to this initiative.

[24] For the Administration's request for FY2011, see U.S. Department of Treasury, *International Programs: Justification for Appropriations, FY2012 Budget Request*, http://www.treasury.gov/about/organizational-structure/offices/Documents/FY2012CPD508.pdf.

[25] Figures may not add due to rounding.

Appropriations

The Administration's request for appropriations to the MDBs for FY2012 is listed in **Table 10**.[24] There are four major components to the Administration's appropriations request: (1) appropriations for paid-in capital in conjunction with the general capital increases at some of the non-concessional lending; (2) appropriations for the replenishment of some concessional lending windows; (3) appropriations for contributions to a variety of smaller funds associated with the MDBs; and (4) appropriations for U.S. commitments for multilateral debt relief initiatives.

The FY2012 request is higher than the funds appropriated in FY2010, primarily due to the general capital increases at several of the MDBs, as well as greater funding for multilateral funds focused on the environment and food security.[26]

Table 10. Administration Request for Appropriations to the MDBs, FY2012

(Million US$)

	FY2010 appropriated	FY2012 request
Paid-in capital for non-concessional lending windows		
International Bank for Reconstruction and Development (IBRD, part of the World Bank)	0	117.4
African Development Bank (AfDB)	0	32.4
Asian Development Bank (AsDB)	0	106.6
Inter-American Development Bank (IDB)	0	102.0
Replenishments for concessional lending windows		
International Development Association (IDA, part of the World Bank)	1,262.5	1,358.5
African Development Fund (AfDF)	155.0	195.0
Asian Development Fund (AsDF)	105.0	115.3
Contributions to funds administered by or affiliated with an MDB, or where an MDB serves as the trustee		
Multilateral Investment Fund (MIF)[c]	25.0	25.0
Inter-American Investment Corporation (IIC)[c]	4.7	20.4
Global Agriculture and Food Security Program (GAFSP)	0[a]	308.0
Clean Technology Fund (CTF)	300.0	400.0
Strategic Climate Fund (SCF)	75.0	190.0
Global Environment Facility (GEF)	86.5	143.8

[26] FY2010 is used as the baseline comparison, because a full FY2011 foreign operations appropriations legislation has not been passed to date.

Debt Relief		
Bilateral debt reduction/Heavily Indebted Poor Country (HIPC) trust fund	40.0	0
Multilateral debt relief initiative (MDRI)	0	174.5

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 $15 million for debt relief through the Tropical Forest Conservation Act (TFCA), or the $30.1 million for the Treasury Office of Technical Assistance. These programs are not strictly related to the MDBs, and are not covered in this report. This table also 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. IFAD is not typically grouped with the MDBs, and not covered in this report.

a. In FY2010, the U.S. Agency for International Development (USAID) transferred $67 million in development assistance funds to Treasury for payment to the Global Agriculture and Food Security Fund.

First, for FY2012, the Administration has requested appropriations to support the general capital increases at several of the MDBs. The appropriated funds are for paid-in capital only; as mentioned above, callable capital has not been appropriated since the early 1980s. The Administration has requested for the first of five to eight (depending on the institution) annual payments, $117 million for the IBRD, $32 million for the AfDB, $107 million for the AsDB, and $102 million for the IDB.

Second, the United States has made commitments to replenishments of IDA, the AfDF, and the AsDF, and the replenishment agreements scheduled payments to occur over a period of three to four years. To meet these previous commitments, the Administration has requested appropriations for $1,359 million for the first of three payments for the sixteenth replenishment of IDA (IDA-16), $195 million for the first of three payments of the twelfth replenishment of the AfDF (AfDF-12), and $115 million for the third of four payments to the ninth replenishment of the AsDF (AsDF-10).

Third, the Administration has also requested appropriations for U.S. contributions to several other related 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 sixth and final installment of the first replenishment of the MIF.
- $20.4 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.
- $308 million for the Global Agriculture and Food Security Program (GAFSP), a multilateral trust fund for which the World Bank serves as the trustee. The GAFSP invests in the agricultural sectors of the world's poorest countries.
- $400 million for the Clean Technology Fund (CTF), for which the World Bank serves as the trustee. The CTF aims to reduce global emissions growth and combat climate change by helping to close the price gap in developing countries

between commercially available clean technologies and conventional alternatives.

- $190 million for the Strategic Climate Fund (SCF), for which the World Bank servers as the trustee. The Administration proposes using the funds for three programs within the SCF: the Pilot Program for Climate Resilience ($40 million), the Forest Investment Program ($130 million), and the Program for Scaling-Up Renewable Energy in Low Income Countries ($20 million).
- $143.75 million for the Global Environment Facility (GEF), for which the World Bank serves as the trustee. The GEF finances, mostly through grants, projects that provide global environmental benefits. The request is for the second of four payments of the fifth replenishment of the GEF (GEF-5).

Fourth, the Administration is seeking $174.5 million for U.S. participation in the Multilateral Debt Relief Initiative (MDRI). The Administration has requested $91 million for the U.S. commitment to MDRI under the fifteenth replenishment of IDA (IDA-15), $76 million for the U.S. commitment to MDRI under the sixteenth replenishment of IDA (IDA-16), and $7.5 million to MDRI under the twelfth replenishment of the AfDF (AfDF-12).

Congressional Oversight of U.S. Participation in the MDBs

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 the 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;[27] (b) financial assistance to broad categories of countries, such as major producers of illicit drugs;[28] 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.[29] 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

[27] 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.

[28] 22 USC § 2291j(a)(2).

[29] 22 USC § 262g.

to vote in favor of financial assistance to countries that have contributed to U.S. efforts to deter and prevent international terrorism.[30]

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 to urge the IBRD to support an increase in loans that support population, health, and nutrition programs.[31] 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 the Treasury, the Secretary of State, the Secretary of Commerce, and the business community.[32] 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.[33]

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.[34]

U.S. Commercial Interest in the MDBs

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 11** shows that more than $30 billion in contracts were awarded in 2009. 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,[35] nor is data on the nationality of subcontractors that participate in carrying out projects financed by the MDBs.

[30] 22 USC § 262p-4r(a).

[31] 22 USC § 262p-4m.

[32] 22 USC § 262s-1.

[33] 22 USC § 262r-6(b)(2).

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

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

Table 11. MDB Contracts Identifiably Awarded to U.S. Companies, 2009

(Million $)

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[b]	n.a.
AsDB[c]	29.8	5,815	0.51%
AfDB[c]	20.9	6,402	0.33%
EBRD[c]	0.0	588	0.00%
IDB[d]	22.1	3,761	0.59%

Source: World Bank Procurement 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 Procurement 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 Procurement website (http://go.worldbank.org/GM7GBOVGS0).

c. Nationality of where the goods are mined, produced, grown, assembled and/or manufactured.

d. Nationality of firm (where the primary contractor is located).

U.S. commercial interest in the MDBs has been and may continue to be a subject of Congressional attention, particularly if the banks expand their lending capacity for infrastructure projects through the GCIs. One area of focus may be the Foreign Commercial Services (FCS) representatives to the MDBs, who are responsible for protecting and promoting American commercial interests at the MDBs.[36] Some in the business community are concerned about the impacts of possible budget cuts to the U.S. FCS, particularly if other countries are taking a stronger role in helping their businesses bid on projects financed by the MDBs.

There may also be interest in discussions about policy changes for procurement standards at the World Bank, who awards the largest number and highest volume of contracts each year. Currently, the World Bank has one centralized procurement system, including use of international best practice guidelines, for awarding World Bank contracts, regardless of which country the project is being implemented in. The World Bank has discussed moving towards a system that awards 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 argues that country systems will strengthen national institutions in developing countries for public expenditures, whether they come from World Bank funds, taxes, or other

[36] For more information, see: http://www.export.gov/advocacy/eg_main_022753.asp.

donors.[37] 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.[38] Opponents of country systems, particularly among the business community, argues that country systems would: (1) lower procurement standards from international best practices; (2) disadvantage small- and medium-sized businesses who do not have the resources to learn dozens of different procurement processes; and (3) increase the scope for corruption in World Bank projects. In contrast, they argue a better model is an initiative by the IDB. In this initiative, the IDB is helping to build the capacity of national authorities to implement international best practices in procurement.

The World Bank 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.[39]

Currently, the World Bank has plans to launch two-year pilot program of country systems,[40] although the business community has shown skepticism based on a lack of sufficient capacity building in developing countries for the program. Because World Bank policy often sets the benchmark for the other MDBs, Congress may have an interest in monitoring the next steps to be taken by the World Bank on procurement issues.

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[37] 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.

[38] 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.

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

[40] World Bank, *Expanding the Use of Country Systems in Bank-Supported Operations*, http://go.worldbank.org/RHRJVXDW60.